



Contents

- 2 Financial highlights**
- 3 Chairman's statement**
- 4 Chief Executive Officer's statement**
- 7 Chief Financial Officer's review**
- 11 Consolidated income statement**
- 12 Consolidated balance sheet**
- 13 Consolidated cash flow statements**
- 14 Statement of changes in shareholders' equity**
- 15 Notes to the financial statements**
- 20 Independent review report to Micro Focus International Plc**

Micro Focus provides innovative software that helps companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernisation software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk.

We serve more than 5,000 customers and one million licensed users. Our corporate customers provide service to hundreds of millions of consumers and business users in all the major economies of the world, especially North America, Japan and Europe. We also work with a variety of partners, including systems integrators, platform providers, resellers and other technology companies, to extend our capabilities.

Our ability to deliver evolutionary and cost-effective solutions is sustained by our commitment to remaining at the forefront of technology and product development.



Micro Focus International Plc
Financial highlights

- Turnover up 8% to \$79.0 million (2005: \$72.9 million)
- Operating profit before exceptional items* up 55% to \$30.4 million (2005: \$19.6 million)
- EBITDA** before exceptional items* up 53% to \$31.3 million (2005: \$20.5 million)
- Profit before tax up 143% to \$31.4 million (2005: \$12.9 million)
- Basic earnings per share 12.03 cents (2005: 4.66 cents)
- Net cash balance as at 31 October 2006, \$68.1 million (31 October 2005: \$38.6 million)
- Interim dividend increased 50% to 3 cents per share (2005: 2 cents per share)
- Operating profit \$30.0 million (2005: \$13.7 million)
- EBITDA** \$30.9 million (2005: \$14.6 million)

* Exceptional items are detailed in note 5

** EBITDA is reconciled to operating profit in note 5

Chairman's statement

I am encouraged by the performance achieved over the past six months. We have returned to revenue growth and have significantly increased our profitability.

Most importantly, we have been establishing a new management team which has the depth and skills necessary to drive this business forward. It is pleasing to see that Stephen Kelly (CEO, appointed 1 May 2006), Nick Bray (CFO, appointed 3 January 2006) and Mike Shinya (COO, appointed 1 August 2006) have established themselves so quickly.

On 6 April 2006 the Company announced a cost reduction programme to improve overall returns while maintaining the fabric of the business and the Company's sales capability. Since then, revenue growth combined with a firm control of expenses has resulted in a significant increase in profitability and we continue to invest to support future growth. I am pleased to announce a 50% increase in the interim dividend to 3 cents per share.

The board would like to thank all of Micro Focus' employees for their continued hard work and commitment throughout the past six months. We have experienced significant change but we emerge much stronger as a result.

The first half-year results are encouraging and Micro Focus remains focused on growth. I remain confident in the Company's ability to deliver value to all of its stakeholders.

Kevin Loosemore *Chairman*

Chief Executive Officer's statement

Execution

Over the past six months we have strengthened the management team, completed a strategy review and delivered a solid set of financial results. Whilst we still have many areas on which to improve, we have successfully executed on stabilising the business and have executed ahead of our initial expectations.

Poor sales execution was, as has already been identified and highlighted, the root cause of the fall in revenues in the year to 30 April 2006. The sales team has been strengthened and significant emphasis has been placed on refining our go-to-market strategy and our direct sales execution capability. Appropriate focus is also being applied to all other functions within the business to ensure objectives are aligned to drive future revenue growth.

The Company continues to have an enviable customer base with approximately 50% of turnover derived from secure and predictable maintenance revenues. The growth achieved in maintenance over the past six months has been encouraging.

The combination of revenue growth and cost reductions has produced a material improvement in net profits during the period.

We acquired HAL Knowledge Solutions SPA following the period end. This acquisition expands our existing APM solution and we believe it now provides us with a market-leading position from which to take advantage of the rapidly evolving APM space.

Our Company now has firm financial foundations to support a platform for growth. The net cash balance at 31 October 2006 was \$68.1 million, up from \$38.6 million as at 31 October 2005 as a result of improvements in the underlying trading performance.

Strategy review

The strategy review was undertaken by a combined external and internal team with extensive external data, analysis and input. I am pleased to report that the review confirmed and further clarified the board's view of our business.

- A firm market exists for all four of our solution areas; COBOL tools, modernisation (leverage and extend), migrations (lift and shift) and Application Portfolio Management ("APM").
- Whilst growth rates may vary, in aggregate all four solution areas combined can support growth over the long term.
- Our core business remains predominantly based around the sale of COBOL tools. We are the leading worldwide player in this market and we will continue to invest to maintain this position.

- Our opportunity, and at the same time our key challenge, is to expand our enterprise solution sales capability. Over the past two years in both our modernisation and migration solutions, we believe we have established both market awareness and a leading position. We will focus firmly on the go-to-market strategy in these areas to capitalise on this.
- Micro Focus will continue to focus on direct sales with support from aligned system integrator partners.
- Whilst still in its infancy, the APM market provides both significant growth potential and the ability to leverage our other solutions into senior executives at key corporate clients. APM allows management to better understand the Enterprise Applications developed by their organisations over many decades and thereby allows them to determine the appropriate option to deploy on an ongoing basis – be that modernising into Service Oriented Architecture (“SOA”), enhancing and extending valuable applications to address new business requirements, migrating applications to lower-cost platforms, or making better use of COBOL and other tools. The acquisition of HAL Knowledge Solutions SPA significantly enhances our execution capability in this space.

Micro Focus intends to host an event for analysts in early 2007 to provide more detail around the strategy review.

To ensure sustainable growth, we are focused on linking our strategy to specific actions for executives and establishing the right cultures and values to help drive effective execution.

Outlook

The outlook for the core business excluding the impact of the acquisition of HAL Knowledge Solutions (“HAL KS”) is detailed below. Our expectations with regard to HAL KS are discussed in the Chief Financial Officer’s review.

Future revenue growth will be largely dependent on driving licence sales. It was therefore particularly pleasing to see the level of first half-year licence fees, achieved with minimal contribution from large transactions. Our largest licence contract during the first half year was \$0.7 million. In prior periods, the Company had benefited from contracts significantly in excess of this value. A number of large contracts remain in our pipeline although by their very nature, they are unpredictable.

As reported in the preliminary results, we had expected maintenance revenues to be broadly flat year on year. However, the solid first half of licence fees combined with an encouraging renewal rate, price increases and a focus on closing contracts in negotiation has resulted in positive growth.

The smallest proportion of our revenues is derived from our consultancy services and it is intended that these revenues will remain a similar proportion of total revenues for the year ahead.

Chief Executive Officer's statement

As a result of the above, we expect full-year total revenue growth in the range of 7% to 10% as compared to the prior year.

Sustainable and profitable revenue growth is the key factor that will determine the long-term success of the Company. Management's emphasis will continue to be on licence fee sales to drive growth.

As a business, we have made positive progress over the past six months. We have developed a clearly scoped out strategy to work to and a firm focus on execution and tight cost control. The revenue outcome for the year will be determined primarily by the licence fee performance in the second half. Sales and marketing costs are expected to be slightly higher in the second half year as we look to further strengthen our go to market execution capability.

We are encouraged by the progress to date but are conscious that there is further work to do.

Stephen Kelly *Chief Executive*

Micro Focus International Plc
Chief Financial Officer's review

Turnover for the half year ended 31 October 2006 increased to \$79.0 million (2005: \$72.9 million).

Turnover for the half year by geographic region was as follows:

	31 October 2006		30 April 2006		31 October 2005	
	\$'m	%	\$'m	%	\$'m	%
North America	35.7	45.2	33.8	47.7	35.1	48.1
Europe and the Middle East	30.2	38.2	28.3	40.0	25.7	35.3
Rest of the world	13.1	16.6	8.7	12.3	12.1	16.6
Total turnover	79.0	100.0	70.8	100.0	72.9	100.0

Whilst revenue growth was achieved across all areas, as compared to the prior half year period to 31 October 2005, growth was primarily driven from our European operations, notably our smaller territories in Benelux, France and Italy along with our distributor channel. Our UK and North America operations produced results below the performance levels expected from geographic territories with such a high concentration of resource, existing customers and market potential. However, it should be noted that during the six-month period to 31 October 2005, the North American operation closed a licence fee deal for \$3.0 million.

Similarly, it is encouraging to see the improvement in our rest of the world operations, highlighted by a weak third quarter in the prior year to 30 April 2006.

Turnover for the half year by category was as follows:

	31 October 2006		30 April 2006		31 October 2005	
	\$'m	%	\$'m	%	\$'m	%
Licence fees	37.7	47.7	32.8	46.3	35.2	48.3
Maintenance fees	39.1	49.5	36.5	51.6	35.4	48.6
Consultancy fees	2.2	2.8	1.5	2.1	2.3	3.1
Total turnover	79.0	100.0	70.8	100.0	72.9	100.0

It can be seen that the increase in total revenues for the half year related to the improvement in both licence and maintenance revenues. Licence fees increased by \$2.5 million or 7.1% to \$37.7 million for the half year ended 31 October 2006 (2005: \$35.2 million). Encouragingly, the growth in licence fee revenues was achieved by an increased volume of lower value orders. A number of large contracts remain in our pipeline although by their very nature, they are unpredictable.

Maintenance revenues increased by \$3.7 million or 10.5% to \$39.1 million for the half year ended 31 October 2006 (2005: \$35.4 million).

Chief Financial Officer's review

Maintenance revenues are recognised evenly over the life of each contract, which is typically 12 months. As such, the profit and loss recognition of maintenance revenue lags the initial licence fee sale. Thus, it was encouraging to see the increase in maintenance revenues following the disappointing licence fee performance in the second half of the year to 30 April 2006. Whilst the solid first half year of licence fees is encouraging, the major factors driving growth in the six months to 31 October 2006 are as follows:

- An improvement in the renewal rate of existing customers.
- Modest annual price increases to existing customers.
- A focus on closing "contracts in negotiation" and the introduction of an automatic renewal process for our customers.

Consulting revenues showed a modest decline against the comparative first half year but represent only a minor proportion of total revenues.

Costs

It has been pleasing to see the reduction in costs following the restructuring of the business announced on 6 April 2006. A firm control of expenses has been established and will be maintained on an ongoing basis. The cost reduction programme was designed to improve overall returns while maintaining the fabric of the business.

Cost of sales for the half year ended 31 October 2006 reduced by 12.9% to \$8.1 million (2005: \$9.3 million). The costs in this category predominantly relate to our consulting and helpline support operations. Costs within the consulting organisation have been reduced and its performance has improved substantially.

Selling and distribution costs reduced to \$19.9 million for the half year ended 31 October 2006 (2005: \$24.4 million). Headcount levels are broadly consistent year on year and the reduction reflects lower travel and entertainment, marketing expense and commission payments.

Research and development expenses for the half year were broadly consistent at \$10.8 million (2005: \$11.2 million).

Underlying administrative expenses, excluding exceptional items of \$0.4 million (2005: \$6.0 million), increased to \$9.7 million (2005: \$8.3 million). This cost category contains \$0.8 million in relation to exchange losses in the period to 31 October 2006. In the prior period, costs were reduced by exchange gains of \$0.3 million. As such, underlying administrative expenses have increased by \$0.3 million or 3%.

Operating profit

Operating profit for the period was \$30.0 million (2005: \$13.7 million). Operating profit before exceptional items was \$30.4 million (2005: \$19.6 million), the improvement being driven by the combination of improved revenues and reduced costs.

EBITDA

EBITDA before exceptional items increased by 52.7% to \$31.3 million (2005: \$20.5 million) for the half year ended 31 October 2006.

Net interest income

The IPO proceeds in May 2005 allowed the Company to repay all its outstanding loan balances. Since this time, interest has been generated on the available net cash balance. Interest income of \$1.4 million was achieved in the half year to 31 October 2006 as compared to a net interest expense of \$0.8 million in the first half of the prior period. During the prior first half year, \$0.7 million of the expense related to penalties on the early repayment of debt which the Company deemed appropriate to avoid higher interest charges.

Taxation

Tax for the half year ended 31 October 2006 was \$7.4 million (2005: \$3.9 million) based on increased profits. The Group's effective tax rate is 23.5% (2005: 30%). As a result of the significant increase in the share price in the six-month period to 31 October 2006, a tax deduction has arisen on the stock options in issue. Excluding the effects of this beneficial tax deduction, the underlying effective tax rate was 26.8%.

Profit for the period

Profit after tax for the period ended 31 October 2006 increased by 167% to \$24.0 million (2005: \$9.0 million) driven by a significant improvement in operating performance combined with lower exceptional charges.

Cash flow

For the half year ended 31 October 2006, the Company generated a net cash inflow from operating activities of \$22.2 million (2005: \$10.3 million). At 31 October 2006, the Company's net cash balance was \$68.1 million (2005: \$38.6 million). Dividends of \$8.0 million were paid in the period.

Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus whilst targeting a level of dividend cover for the financial year ending 30 April 2007 of approximately 2.5 times on a pre-exceptional earnings basis. In line with the above policy, the directors recommend payment of an interim dividend in respect of the half year to 31 October 2007 of 3 cents per share, an increase of 50% above the interim dividend of 2 cents per share for the half year to 31 October 2005. The interim dividend will be paid on 31 January 2007 to shareholders on the register on 5 January 2007.

Chief Financial Officer's review

Whilst the Group as a whole has a deficit in its profit and loss reserve, the directors of Micro Focus International Plc have concluded that the Company has sufficient reserves to enable the payment of the interim dividend.

Dividends will be paid in sterling based on an exchange rate of £ = \$1.96, equivalent to approximately 1.53 pence per share, being the rate applicable on 7 December 2006, the date of recommendation of the dividend by the board.

Acquisition of HAL Knowledge Solutions SPA

On 2 November 2006, Micro Focus announced that it had agreed to acquire HAL Knowledge Solutions SPA ("HAL KS"), a leading provider of Application Portfolio Management software in order to enhance the Company's enterprise application modernisation capabilities. The transaction successfully closed on 10 November 2006. HAL KS has been acquired by Micro Focus for a total consideration of \$3.5 million in cash, subject to a net asset adjustment.

In the year to 31 December 2005, HAL KS reported a net loss before tax of \$4.5 million and its gross assets as at 31 December 2005 were \$9.5 million. Following the acquisition, we are now restructuring the business to reduce costs, with an expected restructuring charge of approximately \$4.0 million, falling in the current financial year. HAL KS was acquired with net balance sheet liabilities of approximately \$4.5 million.

For the six-month period to 30 April 2007, revenues are expected to be in the range of \$4.0 million to \$5.0 million. Excluding the associated restructuring charge, the business is expected to break even in the six-month period to April 2007.

Nick Bray *Chief Financial Officer*

Consolidated income statement

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Turnover	78,966	72,859	143,688
Cost of sales	(8,052)	(9,302)*	(17,552)*
Gross profit	70,914	63,557	126,136
Selling and distribution costs	(19,948)	(24,374)	(48,500)
Research and development	(10,811)	(11,225)*	(21,714)*
Administrative expenses	(10,133)	(14,301)*	(33,189)*
Operating profit	30,022	13,657	22,733
Analysed as:			
Operating profit before exceptional items	30,412	19,615	36,946
Exceptional items	(390)	(5,958)	(14,213)
Operating profit	30,022	13,657	22,733
Interest payable and similar charges	(5)	(1,158)	(1,137)
Interest receivable and similar income	1,370	362	962
Profit before tax	31,387	12,861	22,558
Taxation	(7,377)	(3,858)	(6,332)
Profit for the period	24,010	9,003	16,226
Earnings per share expressed in cents per share			
– basic	12.03	4.66	8.25
– diluted	11.89	4.61	8.17
Earnings per share expressed in pence per share			
– basic	6.43	2.61	4.68
– diluted	6.36	2.58	4.63

Note:

Dividends recognised in the period amounted to \$7,983,000 (six months ended 31 October 2005: nil), or 4 cents per share. The interim dividend proposed but not recognised in these interim financial statements amounted to \$5,994,000 (six months ended 31 October 2005: \$3,987,000), or 3 cents per share (six months ended 31 October 2005: 2 cents per share).

* Certain costs have been reclassified between cost of sales, research and development and administrative expenses as disclosed in note 2.

Micro Focus International Plc
Consolidated balance sheet

	31 October 2006 (unaudited) \$'000	31 October 2005 (unaudited) \$'000	30 April 2006 (audited) \$'000
Assets			
Non-current assets			
Goodwill	42,404	42,404	42,404
Intangible assets	7,289	7,753	7,637
Property, plant and equipment	2,154	2,236	2,386
Deferred tax assets	7,993	7,748	7,718
	59,840	60,141	60,145
Current assets			
Inventories	305	259	331
Trade and other receivables	42,342	36,321	37,629
Cash and cash equivalents	68,223	38,846	56,066
	110,870	75,426	94,026
Total assets	170,710	135,567	154,171
Liabilities			
Current liabilities			
Trade and other payables	62,864	53,168	70,516
Current tax liabilities	18,156	14,299	10,777
Financial liabilities – borrowings	118	118	117
	81,138	67,585	81,410
Non-current liabilities			
Non-current deferred income	6,585	5,915	6,720
Deferred tax liabilities	8,353	7,748	8,446
Financial liabilities – borrowings	41	154	94
	14,979	13,817	15,260
Net assets (liabilities)	74,593	54,165	57,501
Shareholders' equity			
Capital and reserves			
Called up share capital	36,712	36,595	36,644
Share premium	103,644	104,475	103,641
Profit and loss reserve	(38,895)	(58,838)	(55,267)
Foreign currency translation reserve	217	(982)	(432)
Other reserves	(27,085)	(27,085)	(27,085)
Total shareholders' equity	74,593	54,165	57,501

Consolidated cash flow statements

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Cash flows from operating activities			
Profit for the period	24,010	9,003	16,226
Adjustments for:			
Net interest	(1,365)	796	175
Taxation	7,377	3,858	6,332
Depreciation	514	480	1,006
Loss on disposal of property	2	–	17
Amortisation of intangibles	2,834	2,934	5,433
Share-based compensation	390	(500)	(224)
Changes in working capital:			
Inventories	26	91	19
Trade and other receivables	(4,666)	13,923	12,615
Payables and other non-current liabilities	(7,883)	(17,752)	371
Cash generated from continuing operations	21,239	12,833	41,970
Interest received	1,321	365	666
Interest paid	(5)	(1,829)	(1,551)
Tax paid	(365)	(1,074)	(6,103)
Net cash from operating activities	22,190	10,295	34,982
Cash flows from investing activities			
Purchase of intangible assets	(2,486)	(2,604)	(4,986)
Purchase of tangible fixed assets	(286)	(440)	(1,123)
Net cash used in investing activities	(2,772)	(3,044)	(6,109)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	71	110,500	109,823
Repayment of borrowings	–	(111,250)	(111,250)
Dividends paid to shareholders	(7,983)	–	(3,987)
Net cash used in financing activities	(7,912)	(750)	(5,414)
Effects of changes in exchange rates	651	(525)	(263)
Net increase in cash and cash equivalents	12,157	5,976	23,196
Cash and cash equivalents at beginning of period	56,066	32,870	32,870
Cash and cash equivalents at end of period	68,223	38,846	56,066

Statement of changes in shareholders' equity (unaudited)

	Share capital \$'000	Share premium \$'000	Profit and loss reserve (deficit) \$'000	Foreign currency translation reserve \$'000	Other reserves \$'000	Total equity \$'000
Balance as at 1 May 2005	1	3,376	(67,869)	(169)	–	(64,661)
Currency translation differences	–	–	–	(813)	–	(813)
Profit for the period	–	–	9,003	–	–	9,003
Value of share options issued under Employee Option Plan	–	–	28	–	–	28
Share-for-share exchange	27,085	–	–	–	(27,085)	–
Issue of share capital	9,509	101,099	–	–	–	110,608
Balance as at 31 October 2005	36,595	104,475	(58,838)	(982)	(27,085)	54,165
Currency translation differences	–	–	–	550	–	550
Profit for the period	–	–	7,223	–	–	7,223
Dividends	–	–	(3,987)	–	–	(3,987)
Value of share options issued under Employee Option Plan	–	–	335	–	–	335
Issue of share capital	49	(834)	–	–	–	(785)
Balance as at 30 April 2006	36,644	103,641	(55,267)	(432)	(27,085)	57,501
Currency translation differences	–	–	–	649	–	649
Profit for the period	–	–	24,010	–	–	24,010
Dividends	–	–	(7,983)	–	–	(7,983)
Value of share options issued under Employee Option Plan	–	–	345	–	–	345
Issue of share capital	68	3	–	–	–	71
Balance as of 31 October 2006	36,712	103,644	(38,895)	217	(27,085)	74,593

Notes to the financial statements

1 Basis of preparation

These financial statements comprise the consolidated interim balance sheets as of 31 October 2006 and 31 October 2005 and related consolidated interim statements of income and cash flows for the six months then ended of Micro Focus International Plc (hereinafter referred to as “the interim financial statements”). These interim financial statements have been prepared on a basis consistent with the accounting policies set out in Micro Focus International Plc’s annual report for the year ended 30 April 2006. The interim financial statements should therefore be read in conjunction with the 2006 annual report. The interim financial statements have been issued in accordance with the Listing Rules of the Financial Services Authority. The Group has chosen not to adopt IAS 34 “Interim financial statements” in preparing these interim financial statements.

These interim financial statements have been prepared under the historical cost convention.

The preparation of financial statements require estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the estimates are based on management’s best knowledge of the amounts, events or actions, actual results may differ from those estimates.

Copies of the interim results for the six months ended 31 October 2006 will be sent to all shareholders. Details can also be found on the Company’s website at www.microfocus.com. Further copies of the interim results and copies of the accounts for the year ended 30 April 2006 can be obtained by writing to the Company Secretary, Micro Focus International Plc, Old Bath Road, Newbury, Berkshire RG14 1QN.

This announcement was approved by the board of Micro Focus International Plc on 7 December 2006.

2 Reclassification of expenditure

The directors have reviewed the classification of certain expenditure within the income statement and believe, to be consistent with software industry accounting practices, in order to aid comparison, it is more appropriate to classify the following costs differently than was reported in prior periods.

a) *Cost of customer support* – these costs were previously included within administrative expenses and have been reclassified as cost of sales. The impact of the change is to increase cost of sales by \$4,651,000 (H1 2006: \$5,302,000, FY 2006: \$10,074,000) and decrease administrative expenses by a corresponding amount.

Notes to the financial statements

b) *Amortisation of research and development* – these costs relating to capitalised salaries were previously amortised through cost of sales. The amortisation has been reclassified as research and development expenditure. The impact of the change is to decrease cost of sales by \$2,470,000 (H1 2006: \$2,508,000, FY 2006: \$4,626,000) and increase research and development expenditure by a corresponding amount.

3 Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US Dollars, which is the Company's functional currency.

4 Earnings per share

The calculation of basic earnings per share has been based on the earnings attributable to ordinary shareholders of the Company and the weighted average number of shares for each period. The weighted average number of shares used in the calculation was 199,558,000 (31 October 2005: 192,990,000; 30 April 2006: 196,709,000).

The diluted earnings per share has been calculated after taking account of the share options. The weighted average number of shares used in the calculation was 201,889,000 (31 October 2005: 195,394,825; 30 April 2006: 198,711,000).

Diluted earnings per share excluding exceptional items was 11.18 cents (H1 2006: 7.20 cents, FY 2006: 14.23 cents). Diluted earnings per share is calculated after adjusting for the post-tax effect of exceptional items of \$277,000 (H1 2006: \$5,064,000, FY 2006: \$12,059,000).

5 Reconciliation of operating profit to EBITDA

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Operating profit	30,022	13,657	22,733
Depreciation	514	475	1,006
Amortisation of software	364	426	806
EBITDA	30,900	14,558	24,545
Exceptional items:			
IPO-related costs	–	6,458	6,909
Reorganisation costs	–	–	7,403
Share-based compensation	390	(500)	(224)
Management charges	–	–	125
EBITDA before exceptional items	31,290	20,516	38,758

In calculating EBITDA the amortisation of research and development expenditure is not added back to operating profit, as the directors believe by doing so EBITDA provides a better measure of the cash generation of the business. Amortisation of research and development expenditure in the current period was \$2,470,000 (H1 2006: \$2,508,000, FY 2006: \$4,626,000).

6 Segmental information

	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Geographical analysis of turnover			
North America	35,704	35,023	68,847
Europe and the Middle East	30,167	25,740	54,038
Rest of the world	13,095	12,096	20,803
Total	78,966	72,859	143,688

There is no material difference between turnover by origin above and turnover by destination. All turnover is derived from external customers.

Micro Focus International Plc
Notes to the financial statements

7 Supplemental information

Set out below is an analysis of turnover recognised between the principal product categories, which the directors use to assess the future revenue flows from the current portfolio of customers.

Turnover	Six months ended 31 October 2006 (unaudited) \$'000	Six months ended 31 October 2005 (unaudited) \$'000	Year ended 30 April 2006 (audited) \$'000
Licence fees	37,675	35,160	67,985
Maintenance fees	39,115	35,388	71,860
Consultancy fees	2,176	2,311	3,843
Total	78,966	72,859	143,688

8 Taxation

Tax for the half year ended 31 October 2006 was \$7.4 million (2005: \$3.9 million) based on increased profits. The Group's effective tax rate is 23.5% (2005: 30%). As a result of the significant increase in the share price in the six-month period to 31 October 2006, a tax deduction has arisen on the stock options in issue. Excluding the effects of this beneficial tax deduction, the underlying effective tax rate was 26.8%.

9 Trade and other receivables

	31 October 2006 (unaudited) \$'000	31 October 2005 (unaudited) \$'000	30 April 2006 (audited) \$'000
Trade debtors	34,500	27,596	29,377
Prepayments	3,213	3,089	3,959
Accrued income	4,629	5,636	4,293
Total	42,342	36,321	37,629

10 Trade and other payables

	31 October 2006 (unaudited) \$'000	31 October 2005 (unaudited) \$'000	30 April 2006 (audited) \$'000
Trade payables	1,762	2,058	1,944
Other tax and social security payable	2,720	2,593	2,468
Accruals	15,456	10,010	20,511
Deferred income	42,926	38,507	45,593
Total	62,864	53,168	70,516

11 Post balance sheet events

On 2 November 2006, Micro Focus announced that it had agreed to acquire HAL Knowledge Solutions SPA ("HAL KS"), a leading provider of Application Portfolio Management software in order to enhance the Company's enterprise application modernisation capabilities. The deal successfully closed on 10 November 2006. HAL KS has been acquired by Micro Focus for a total consideration of \$3.5 million in cash, subject to a net asset adjustment.

In the year to 31 December 2005, HAL KS reported a net loss before tax of \$4.5 million and its gross assets as at 31 December 2005 were \$9.5 million. Following the acquisition, we are now restructuring the business to reduce costs, with an expected restructuring charge of approximately \$4.0 million, falling in the current financial year. HAL KS was acquired with net balance sheet liabilities of approximately \$4.5 million.

Independent review report to Micro Focus International Plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 October 2006 which comprises the consolidated interim balance sheet as at 31 October 2006 and the related consolidated interim statements of income, cash flows and changes in shareholders' equity for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in note 1.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2006.

PricewaterhouseCoopers

Chartered Accountants

Reading

7 December 2006

Note:

The maintenance and integrity of the Micro Focus International Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

Micro Focus International Plc

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