6 December 2012

MICRO FOCUS

Micro Focus International plc
Interim results for the six months ended 31 October 2012

Micro Focus International plc ("Micro Focus", "the Company" or "the Group", LSE: MCRO.L), announces unaudited interim results for the six months ended 31 October 2012.

Results at a glance	Six months ended 31 Oct 2012	Six months ended 31 Oct 2011	Change	Year ended 30 Apr 2012
Revenue				
Reported	$207.3m	$219.1m	-5.4%	$434.8m
Constant Currency				
- Licence	$85.3m	$85.0m	+0.4%	$173.1m
- Maintenance	$113.4m	$113.3m	+0.1%	$226.2m
- Consultancy	$8.6m	$13.4m	-35.8%	$25.5m
- Total	$207.3m	$211.7m	-2.1%	$424.8m
NON GAAP MEASURES				
Adjusted EBITDA*				
Reported	$92.2m	$89.2m	+3.4%	$179.8m
Constant Currency	$92.2m	$87.6m	+5.3%	$177.4m
Adjusted Operating Profit *				
Reported	$90.2m	$86.7m	+4.0%	$175.1m
Constant Currency	$90.2m	$85.1m	+6.0%	$172.7m
Adjusted Pre-tax profit *				
Reported	$87.5m	$83.9m	+4.4%	$168.6m
Constant Currency	$87.5m	$82.3m	+6.3%	$166.1m
STATUTORY MEASURES				
EBITDA				
Reported	$97.9m	$97.2m	+0.7%	$192.4m
Constant Currency	$97.9m	$95.9m	+2.1%	$190.2m
Operating Profit				
Reported	$79.1m	$78.7m	+0.5%	$155.8m
Constant Currency	$79.1m	$77.3m	+2.3%	$153.7m
Pre-tax profit				
Reported	$76.4m	$75.8m	+0.8%	$149.3m
Constant Currency	$76.4m	$74.5m	+2.6%	$147.1m
Earnings per share				
Basic	36.97c	32.13c	+15.1%	65.77c
Diluted	35.60c	31.42c	+13.3%	64.11c
Adjusted	41.58c	35.53c	+17.0%	73.07c
Adjusted diluted	40.04c	34.74c	+15.3%	71.22c
Dividend per share	11.90c	8.20c	+45.1%	31.60c
Net debt	$96.2m	$46.5m	+106.9%	$113.2m

Key highlights

- Interim dividend increased by 45.1% to 11.9 cents per share (2011: 8.2 cents per share) reflecting move to 2 times dividend cover on pre-exceptional earnings basis
- Adjusted EBITDA ahead of market expectations
- Revenue in line with market expectations and previous guidance
- Return of Value of 50 pence per share (equivalent to 78.8 cents per share) approved by shareholders and payment made on 12 November 2012 at total cost of $129.3m
- Strong cash conversion in the period
    - Cash generated from operations as a percentage of Adjusted EBITDA less exceptional items was 92.8% (2011: 99.8%)
    - Net debt at 31 October 2012 reduced to $96.2m (2011: $46.5m) from $113.2m at 30 April 2012 notwithstanding payment of the final dividend for the year ended 30 April 2012 of $39.7m during the period

- Net debt to the last twelve months Adjusted EBITDA multiple of 0.5x (2011: 0.3x) would have increased to 1.2x if the Return of Value had been paid by 31 October 2012.

* In assessing the performance of the business, the directors use non GAAP measures "Adjusted EBITDA", "Adjusted operating profit", "Adjusted pre-tax profit" and "Adjusted earnings per share", being the relevant statutory measures, prior to exceptional items, amortization of purchased intangibles and share based compensation. Exceptional items, share based compensation and amortization of purchased intangibles are detailed in note 9.

** EBITDA and Adjusted EBITDA are reconciled to operating profit in note 9.

*** Earnings per share are detailed in note 7.

Kevin Loosemore, Executive Chairman of Micro Focus, commented:

"Following the stabilization of last year, this half has been one of solid progress in a challenging market.

In the year ended 30 April 2012, much of our focus was on products and development with many new products and releases being planned. This year the focus has turned to channels to market, marketing effectiveness and sales execution. Our experience to date is that while many things are working well we still have significant room for improvement.

Revenues in the period at constant currency were down 2.1% compared with the prior period and were in line with market expectations and our guidance of down 3% to up 1% for the current financial year. Licence fee and maintenance fee revenues were the same as last year and together were ahead of market expectations whilst we made significant reductions in our lower margin consultancy fee revenue. It was particularly pleasing that maintenance revenues were flat with the comparable period. As a result of this mix of revenues and our continued management of costs as we streamline our processes, our Adjusted EBITDA was ahead of market expectations.

During the half we saw weak demand in southern Europe and in the second quarter a softening of business in Japan. Asia Pacific and Japan grew by over 16% benefitting from one large transaction that is unlikely to be repeated. Without this transaction the region would still have grown by approximately 2%. Despite the uncertain economic conditions in the Eurozone and reducing consultancy fee revenue, overall revenues in our International region were broadly the same as last year. North American revenues declined by 10%. A large single transaction in the first quarter of the year ended 30 April 2012 was not repeated and represented approximately 40% of the decline.

We believe that our sales productivity can be significantly improved across all regions. We have also concluded that we need to change our product launch process to cope with the volume of product introduction. In addition, a number of changes in our North American operation have caused a short-term deterioration in performance. We are taking actions to improve these areas during the second half of the year.

While we continue to work on improving the operation of the business, we also remain focused on delivering shareholder value. In the half-year shareholders approved the return of $129.3 million through a B and C share scheme and a further $39.7 million paid in normal dividends. This will bring our total returns to $313.9 million in the previous 12 months during which time our net debt will have increased by only $179.0 million (including the recent Return of Value) from $46.5 million to $225.5 million. This demonstrates the strong cash generative nature of the business. Absent a significant acquisition, share buy-back opportunity or unforeseen circumstances the Board's current intention would be to make further similar Returns of Value in November 2013 and November 2014, consistent with our intention of moving to a net debt to Adjusted EBITDA multiple of 1.5 times. Our three year plan assumes that we will deliver consistent returns in excess of Cost of Capital.

In June 2012 we announced a change in our dividend policy to 2 times cover on a pre-exceptional earnings basis with an expectation that one third would be paid at the interim and two thirds proposed as a final dividend. In line with the policy we are increasing our interim dividend by 45.1% to 11.9 cents per share (2011: 8.2 cents per share) reflecting our robust financial position and our confidence in the future prospects of the business.

We now anticipate that maintenance revenues will be stronger than originally expected and that the year-on-year decline will be nearer to 1% than our original guidance of down 2.3%. We have also made faster progress than anticipated in reducing our consultancy revenues and this will continue in the second half. As a result we are seeing an improved mix of revenues and stronger Adjusted EBITDA. We plan to take advantage of this and to accelerate changes in our go to market model in the second half of the year. We expect this to position us more strongly going forward. As a result and combined with the anticipated ongoing weakness in Spain, Italy and Japan we expect that second half revenues will be similar to the first half and we are adjusting our full-year revenue guidance to down between 2% and 4% from up 1% to down 3% on a constant currency basis. At the same time we are increasing our target range for Underlying Adjusted EBITDA to 40% to 45% from its previous range of 37% to 42%.

This leaves us well on track to deliver our planned financial model and significant shareholder returns over a sustained period."

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About Micro Focus

Micro Focus, a member of the FTSE 250, provides innovative software that helps companies to improve dramatically the business value of their enterprise applications. Micro Focus Enterprise Application Modernization, Testing and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk. For additional information please visit www.microfocus.com

Forward-looking statements

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

INTERIM MANAGEMENT REPORT

Overview and Corporate Developments

Micro Focus is a software product group with strong franchises and a robust and sustainable core. We make software products and we sell software products.

Our expectations for the current financial year were that on a constant currency basis overall revenue would be in the range of down 3% to up 1% when compared to the prior year. We anticipated that maintenance revenues would decline by 2.3% based on achieving a similar level of licence fee revenues, maintenance renewal and attach rates to those achieved in the year to 30 April 2012. We also expected to reduce our consultancy revenues, as a number of these contracts did not meet our target profile and these would be eliminated by 30 April 2013.

During the six months to 31 October 2012, Micro Focus delivered revenues of $207.3m (2011: $219.1m) which compared to constant currency ("CCY") revenue for the comparable period of $211.7m, a decline of 2.1%. Licence fees were $85.3m, (2011: CCY $85.0m); maintenance fees were $113.4m (2011: CCY $113.3m) and consultancy revenues were $8.6m (2011: CCY $13.4m). The sum of licence and maintenance fees delivered of $198.7m (2011: CCY $198.3m) was ahead of market expectations due to the better than expected performance of maintenance. The reduction in consultancy was consistent with our strategic objective of reducing consulting contracts that do not meet our target profile. Operating costs before exceptional items, share based payments and amortization of purchased intangibles ("Adjusted Operating Costs") were reduced to $117.1m down from $126.6m on a CCY basis. As a result Adjusted Operating Profit was $90.2m (2011: $86.7m). The largest reduction in our Adjusted Operating Costs is from those associated with delivery of consultancy revenues. In addition the prior year period had residual staff costs from the restructuring undertaken at the end of 2011 and costs associated with defending approaches to buy the Company. Adjusted EBITDA in the period was $92.2m (2011: $89.2m) at a margin of 44.5% (2011: 40.7%).

Asia Pacific and Japan grew by over 16% to $38.0m (2011: CCY $32.7m) and represented 18.3% of the Group's revenue (2011: 15.4%). The region benefitted from one large transaction that is unlikely to be repeated and represented marginally over 1% of last year's CCY revenue for the Group. Without this transaction the region would still have grown by approximately 2%. Despite the uncertain economic conditions in the Eurozone and reducing consultancy fee revenues, overall revenues in our International region increased by 0.6% on a CCY to $78.0m (2011: CCY $77.5m) and represented 37.6% of the revenue for the Group (2011: 36.6%).

North American revenues declined by 10% which was partly because the comparable period included a large single transaction representing 1% of last year's CCY revenues for the Group which was not repeated. Adjusting for this transaction the decline in revenues was approximately 6%. Changes were made to the sales organization in North America at the beginning of the year which resulted in a lack of focus and poor execution, particularly in the Borland product set. These are currently being addressed.

Product Portfolio and go-to-market

We look at our business as comprising four product offerings; COBOL Development (CD); Mainframe Solution (MS), Test and Niche. We refer to Test and Niche collectively as Borland.

COBOL Development (CD)

We have continued to invest in and strengthen our core product portfolio of CD. The CD portfolio delivers products that enable programmers to develop and deploy applications written in COBOL across distributed platforms including Windows, UNIX and Linux and the Cloud. We have seen further developments to Visual COBOL and have received a positive response from customers and the partner community. Visual COBOL V2.1, which was shipped in October 2012, extends coverage to 85% of existing COBOL applications and provides the fastest way for customers to move to Java Virtual Machine ("JVM"), .net or Cloud environments whilst protecting their investments and intellectual property. In the half-year we have seen a significant number of customers commit to Visual COBOL to take advantage of the opportunities provided by operating a modern language in an industry standard Integrated Development Environment ("IDE"). With Visual COBOL the perceived COBOL skill issues will be eliminated.

COBOL applications continue to be at the heart of the world's business transactions and power the majority of large organizations' key business operations. Maintaining our leadership position in CD is at the core of our value proposition. By embedding in industry standard IDE's and addressing the perceived skill issues, COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

Mainframe Solution (MS)

Our MS product set addresses application creation and then deployment on or off the mainframe. This approach provides a logical series of products which address a customer's need to get the most value out of their mainframe environment. The MS strategy was launched in the first half and is being supported by innovative marketing campaigns. Initial feedback from our customers and prospects has been very positive and emphasizes that the positioning is relevant to the current market place.

In May we announced general availability of Enterprise Developer Team Edition and in October we announced that ED Personal Edition would be available as a free download. For the first time this has made a world class COBOL development environment in a modern IDE available free of charge. The Team Edition provides outstanding capabilities for Enterprise customers to modernize their mainframe development environments.

Test and Niche (Borland)

The Borland brand has been re-launched and the new Borland website is now live. This provides relevant and helpful content and is targeted at the Developers and IT decision makers in customer organizations who use Borland's tools to support and manage the process of software development from beginning to end to accelerate delivery and improve quality. The re-launch of Borland has been supported by innovative marketing campaigns this summer.

Borland's Test products have a large addressable market and now have clear product roadmaps and differentiated customer propositions. Our Niche business comprises mature products that provide good margins and strong cash flow. The challenge for both revenue streams is the significant maintenance drag they suffer due to the balance between licence and maintenance in their overall revenues. We are fully aware of this dynamic and have begun to reduce this drag through increasing licence sales and clear communications of product roadmaps and business benefits to increase maintenance renewal rates.

In September we announced general availability of Agile for StarTeam. This innovative product allows customers to regain control of mixed waterfall and agile development environments and works seamlessly with products such as Subversion, Rally and Quality Centre from HP.

In November we released a further significant version of our requirements product Caliber, the first for a number of years responding to customer requests to integrate Caliber RM and RDM.

Having completed our product roadmaps in the year ended 30 April 2012 we have started adjusting our go to market structures. We continue to believe that we have significant room for improvement in sales productivity. In the half-year we have begun to shift the balance between direct and inside sales in favour of the latter, and have appointed more Enterprise Business Representatives ("EBR's") to improve our lead qualification. The number of EBR's has increased from an average of 7 during the year ended 30 April 2012 to 24 as at 31 October 2012, whilst direct sales representatives have reduced from an average of 131 in the year ended 30 April 2012 to 127 as at 31 October 2012 and the comparable numbers for inside sales representatives are an increase from 58 to 69. Through these investments we will be laying the foundations for further licence fee growth in 2014.

We aim to increase sales productivity and predictability further by continuing to improve Product Management and by generating closer interaction between Sales, Product Management and Product Development. In addition we have provided the Sales organization with increased levels of training, improved content from Product Management and coverage from Marketing.

In order to drive greater interaction with our partners we have created a Partner Relationship Management portal. This provides a single repository of information about our products for the benefit of our partners. We received positive engagement and feedback from our partners at our partner conferences in Dallas in May and Barcelona in June.

We continue to invest in Product Development and are excited by the new products that we will be releasing in the next year. Based on our experience in the past 6 months we still have significant work to do to ensure that we capitalize on the richness of our product offerings and generate additional revenues. Micro Focus will maintain its leadership position in CD by continuing to innovate products as is evidenced by Visual COBOL. We will work with our independent software vendors and customers to ensure that they can reap the benefits of this new development environment. MS revenue growth will be achieved by leveraging our partner relationships and ensuring that our direct sales force targets the right opportunities.

Our average employee headcount during the six months ended 31 October 2012 was 1,199 (2011: 1,191). We currently anticipate that our headcount will increase slightly in the second half of the year. Our employees are key to the success of the organization and we would like to thank them for their dedication, commitment and hard work in delivering the first half results. For the second year in succession the performance in the first half of the year means that half-year bonuses will be paid to those eligible staff below Executive and Senior Management.

Delivering value to shareholders

Our priority is improving the business to maximize the opportunity to return to growth. At the same time we have created flexibility to allow value creation to shareholders by buybacks or cash distributions as appropriate. We will do nothing that will constrain our ability to achieve organic growth. Our analysis of the business shows that we are currently investing approximately 8% of revenues on activities designed to enhance growth.

Whilst we continue to work on improving the operation of the business we remain focused on delivering shareholder value. During the last twelve months we have returned a total of $313.9m to shareholders. $258.9m was returned through two B and C share schemes and a further $55.0m in normal dividends. Once the second Return of Value is taken into account our net debt will have increased by only $179.0m from $46.5 m to $225.5m. This demonstrates the strongly cash generative nature of the business. Absent a significant acquisition, share buy-back opportunity or unforeseen circumstances the Board's current intention would be to make further similar Returns of Value in November 2013 and November 2014, consistent with our intention of moving to a net debt to Adjusted EBITDA multiple of 1.5 times.

Our $275m Revolving Credit Facility ("RCF") is provided by five banks and expires on 1 December 2014. Net debt to RCF EBITDA (being our Adjusted EBITDA before Amortization of Capitalized Development Costs) is limited to 2 times in the period to 30 April 2013 and 1.5 times thereafter. Taking the recent Return of Value into account as if it had been made as at 31 October 2012, then our gross borrowings under the facility would have been $258.3m and our net debt would have been $225.5m.

We have already commenced discussions with our banks about our options for a new financing arrangement that would enable us to deliver inter alia further Returns of Value to our shareholders. These conversations have been very positive to date and will continue over the coming months.

In June 2012 we announced a change in our dividend policy to 2 times cover on a pre-exceptional earnings basis with an expectation that one third would be paid at the interim and two thirds proposed as a final dividend. In line with the policy we are increasing our interim dividend by 45.1% to 11.9 cents per share (2011: 8.2 cents per share) reflecting our robust financial position and our confidence in the future prospects of the business. This will be paid in sterling equivalent to 7.4 pence per share, based on an exchange rate of £1 =$1.61, being the rate applicable on 5 December 2012, the date on which the Board resolved to pay the interim dividend.

Outlook

We now anticipate that Maintenance revenues will be stronger than originally expected and that year-on-year decline will be nearer to 1% than our original guidance of down 2.3%. We have also made faster progress than anticipated in reducing our consultancy revenues and this will continue in the second half. As a result we are seeing an improved mix of revenues and stronger Adjusted EBITDA. We plan to take advantage of this and accelerate changes in our go to market model in the second half of the year. We expect this to have a detrimental short-term effect on licence revenues but to position us more strongly going forward. As a result and combined with the anticipated ongoing weakness in Spain, Italy and Japan we expect that second half revenues will be similar to the first half and are adjusting our full year revenue guidance to down between 2% and 4% from up1% to down 3% on a CCY basis. At the same time we are increasing our target range for Underlying Adjusted EBITDA margin to 40% to 45% from its previous range of 37% to 42%.

This leaves us well on track to deliver our planned financial model and significant shareholder returns over a sustained period.

Kevin Loosemore
Executive Chairman

Operational and Financial review

Micro Focus' primary reporting segments are its three geographic regions (i) North America, (ii) International (comprising Europe, Middle East, Latin America and Africa) and (iii) Asia Pacific and Japan. Product sets are sold into these regions via a combination of direct sales, partners and independent software vendors.

Micro Focus discloses profitability by its operating segments upon which the regional presidents are incentivized to deliver their own portion of Adjusted EBITDA. They have directly controllable costs and are then allocated central costs. The segmental analysis is shown in note 5.

Revenue for the half-year by geographic region at actual reported US$ and CCY is shown in the table below:

	Six months ended 31 October 2012 $m	Six months ended 31 October 2011 as reported $m	Six months ended 31 October 2011 CCY $m	Year ended 30 April 2012 CCY $m
North America	91.3	101.5	101.5	200.3
International	78.0	84.5	77.5	159.7
Asia Pacific and Japan	38.0	33.1	32.7	64.8
Total revenue	**207.3**	**219.1**	**211.7**	**424.8**

As expected, on a CCY basis total revenues overall have declined by 2.1%. North America saw a decline of 10.0%, International grew by 0.6% and Asia Pacific and Japan increased by 16.2%.

In North America, the comparable period included a large transaction which represented 1% of last year's CCY revenue. Adjusting for this transaction, revenue declined by approximately 6%. There was decline in all three revenues lines compared to the prior period. All of the licence fee revenue decline was in the Borland product lines and over half of this decline was as a result of the large transaction last year. CDMS licence fee revenues were at the same level as last year.

In Asia Pacific and Japan one large transaction accounted for the majority of growth in licence fees in the period to 31 October 2012 and maintenance revenue also increased. Excluding the large transaction in the period CDMS licence fee revenues were flat year-on-year whilst Borland revenue showed growth.

For International, licence fee revenue increased over the prior year with both CDMS and Borland showing growth over the comparable period. Maintenance revenues increased year-on-year whilst consultancy revenues declined in the six months to 31 October 2012 as the managed exit of a non-strategic contract was completed ahead of plan.

Revenue for the half-year by category at actual reported US$ and CCY was as follows:

	Six months ended 31 October 2012 $m	Six months ended 31 October 2011 as reported $m	Six months ended 31 October 2011 CCY $m	Year ended 30 April 2012 CCY $m
Licence	85.3	87.5	85.0	173.1
Maintenance	113.4	117.0	113.3	226.2
Consultancy	8.6	14.6	13.4	25.5
Total revenue	**207.3**	**219.1**	**211.7**	424.8

Revenue by Product Portfolio on a CCY basis is shown:

	Six months ended 31 October 2012 $m	Six months ended 31 October 2011 $m	Change %	Year ended 30 April 2012 $m
CD				
Licence	55.1	50.5	9.1	106.2
Maintenance	59.2	55.4	6.9	112.5
Consultancy	0.7	1.7	-58.8	2.7
	115.0	107.6	6.9	221.4
MS				
Licence	13.5	12.3	9.8	24.5
Maintenance	20.4	21.1	-3.3	41.5
Consultancy	3.9	5.5	-29.1	10.5
	37.8	38.9	-2.8	76.5
CDMS				
Licence	68.6	62.8	9.2	130.7
Maintenance	79.6	76.5	4.1	154.0
Consultancy	4.6	7.2	-36.1	13.2
Sub-total	**152.8**	**146.5**	**4.3**	**297.9**
Test				
Licence	9.1	14.9	-38.9	26.2
Maintenance	24.4	26.2	-6.9	51.5
Consultancy	3.5	5.4	-35.2	10.8
	37.0	46.5	-20.4	88.5
Niche				
Licence	7.6	7.3	4.1	16.2
Maintenance	9.4	10.6	-11.3	20.7
Consultancy	0.5	0.8	-37.5	1.5
	17.5	18.7	-6.4	38.4
Borland				
Licence	16.7	22.2	-24.8	42.4
Maintenance	33.8	36.8	-8.2	72.2
Consultancy	4.0	6.2	-35.5	12.3
Sub-total	**54.5**	**65.2**	**-16.4**	**126.9**
Total revenue				
Licence	85.3	85.0	0.4	173.1
Maintenance	113.4	113.3	0.1	226.2
Consultancy	8.6	13.4	-35.8	25.5
Revenue at CCY	**207.3**	**211.7**	**-2.1**	**424.8**

Total licence fee revenues grew by 0.4% at CCY. CDMS licence fee revenues at CCY increased by 9.2% where MS licence fees benefited from the large transaction in Asia Pacific and Japan. Borland licence fee revenues increased in International and Asia Pacific and Japan but declined overall by 24.8%. Without the large transaction in North America in the first quarter last year the decline in Borland licence fee revenues was 7.2%, all in North America.

Maintenance revenues increased at CCY by 0.1%. The CDMS maintenance revenues increased by 4.1%, and Borland declined by 8.2% as a result of the maintenance revenue attached to new licence sales not compensating for maintenance lost due to the attrition rate. The renewal rates for CDMS have increased from 89.4% to 92.2% and for Borland there has been an increase from 80.6% to 83.1%.

The consultancy revenues have declined at CCY by 35.8% due to our decision to refer more consulting work to our global and local partners and to exit contracts which did not meet our target profile. We anticipate that this trend will continue in the second half.

Costs

All comments relate to costs at actual reported US$.

Cost of sales for the half-year decreased by 34.2% to $17.3m (2011: $26.3m). The costs in this category predominantly relate to our consulting and helpline support operations. The majority of the cost reduction came from decreased costs of delivering consulting revenues that had reduced by $6.0m.

Selling and distribution costs decreased by 2.8% to $62.6m (2011: $64.4m). This was mostly as a result of exchange rate movements.

Research and development expenses decreased by 10.8% to $24.7m (2011: $27.7m), equivalent to approximately 11.9% of revenue compared with 12.6% in the prior half-year. Our average headcount in Research and Development was 318 in the period (2011: 324) with the period end headcount being 319 (2011: 310). The reduction in costs consists of currency movements of $1.7m, an increase in net capitalization of development costs of $0.5m and a reduction in other operational costs of $0.8m. The charge to the income statement in the period is after taking account of the net capitalization of development costs in the period. Additions to capitalized development costs were $10.7m (2011: $9.5m) less amortization of previously capitalized development costs of $8.9m (2011: $8.2m) resulting in a net credit to the income statement of $1.8m (2011: $1.3m). The amount spent on research and development prior to the impact of net capitalization of development costs and exceptional items was $26.5m (2011: $29.0m) representing 31.2% of licence fee revenue (2011: 33.1%). At 31 October 2012 the net book value of capitalized development costs on the balance sheet was $31.6m (2011: $27.9m).

Administrative expenses, excluding a credit of exceptional items of $nil (2011: $1.8m), and share based compensation of $3.3m (2011: $2.0m) decreased by 6.9% to $20.3m (2011: $21.8m). The current period includes a gain of $0.8m (2011: $1.5m) in respect of mainly foreign exchange gains on intercompany balances denominated in Euros and Yen and before the impact of foreign exchange, administrative costs declined by 9.4%.

Currency impact

52.5% of our revenue is contracted in US dollars, 19.8% in Euros and 27.7% in other currencies. In comparison, 31.9% of our costs are US dollar denominated, 25.4% in sterling, 18.8% in Euros and 24.0% in other currencies.

This weighting of revenue and costs means that if the US$:Euro exchange rate moves during the year, the revenue impact is far greater than the cost impact, whilst if US$:sterling rate moves during the year the cost impact far exceeds the revenue impact. Consequently, reported US$ profit before tax can be impacted by significant movements in US$ to Euro and sterling exchange rates. The impact of these movements can be seen by the changes to prior year reported numbers when they are stated at CCY. For the six months ended 31 October 2011 CCY revenues are 3.4% lower at $211.7m and profit before tax and exchange gain of $1.5m is 2.0% lower than the reported numbers at $73.3m.

The greatest volatility in exchange rates continues to be in the US$ to Euro where the average US$:Euro exchange rate in 2012 was $1.2602:€1 which is 11.2% lower than the average for the six months to 31 October 2011 and 4.8% lower than the six months to 30 April 2012. Consequently, if this rate was maintained for the remainder of the year ending 30 April 2013 then reported revenues will be adversely impacted which would not be offset by the cost benefit.

Intercompany loan arrangements within the Group are denominated in the local currency of the subsidiary. Consequently, any movement in the respective local currency and US$ will have an impact on converted US$ value of the loans. This foreign exchange movement is taken to the income statement. In addition, we have an increasing UK Corporation tax creditor that is denominated in GBP. The US$:Euro exchange rate continues to be the most volatile and during the period there was a foreign exchange gain of approximately $0.8m (2011: $1.5m). In the full-year to 30 April 2012 there was an overall gain on these foreign exchange movements of approximately $3.6m.

Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the period was $92.2m (2011: $89.2m) and Underlying Adjusted EBITDA was $89.5m (2011: $86.4m) at a margin of 43.2% (2011: 39.4%).

In last year's Interim Results we started to provide guidance on our target margin for Underlying Adjusted EBITDA in the range of 37% to 42%. Having identified further opportunities to improve the efficiency of the business we are now raising this guidance to between 40% and 45%.

	Six months ended 31 October 2012 $m	Six months ended 31 October 2011 as reported $m	Year ended April 2012 as reported $m
Reported Revenue	207.3	219.1	434.8
Adjusted EBITDA	92.2	89.2	179.8
Foreign Exchange Credit	(0.8)	(1.5)	(3.6)
Net Capitalization of Development Costs	(1.8)	(1.3)	(3.3)
Underlying Adjusted EBITDA	**89.6**	**86.4**	**172.9**
Underlying Adjusted EBITDA Margin	**43.2%**	**39.4%**	**39.8%**

Operating profit

Operating profit was $79.1m (2011: $78.7m). Adjusted operating profit was $90.2m (2011: $86.7m).

Net finance costs

Net finance costs were $2.6m (2011: $2.9m), including the amortization of $1.1m of loan arrangement and facility fees incurred on the Group's RCF (2011: $2.1m), RCF interest of $1.1m (2011: $0.7m) and other interest costs of $0.5m (2011: $0.2m) offset by $0.1m of interest received (2011: $0.1m). The increase in the interest charge arose from utilizing a significant part of the RCF to make the Return of Value payment in January 2012 of $129.3m.

Exceptional items

There were no exceptional items in the six months to 31 October 2012 (2011: credit of $1.8m).

Taxation

Tax for the period was $15.8m (2011: $13.4m) with the Group's effective tax rate being 20.7% (2011: 17.7%).

In accordance with IAS 34 the tax expense recognized in the income statement for the half-year is calculated on the basis of the estimated effective full-year tax rate, with the exception of "discrete" items that are recognized in the period to which they relate. During the period the Group reviewed its deferred tax assets in respect of US losses acquired as part of the acquisitions made in prior periods. The directors concluded that due to increased certainty over the utilization of future losses it was appropriate to increase the value of losses recognized by $1.0m. The Group carries deferred tax assets in respect of ten years benefit of US tax losses being the period over which the Group feels able to forecast with reasonable certainty that these losses will be utilized. It is anticipated that a further $1.0m will be recognized in the second half of the year.

Changes to the UK Corporation tax system were included in Finance Act 2012 to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013. The effect of the change in tax rate to 23% was to reduce the deferred tax liability provided at 31 October 2012 by $0.5m. A further reduction of the rate to 22% is expected with effect from 1 April 2014. This change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements. The effect of this further reduction is not expected to be significant.

The effective tax rate for the full year to 30 April 2013 is expected to be between 21% and 22%. The Group's medium term effective tax rate is currently expected to be between 19% and 21%.

The Group has benefited from a lower cash rate of tax during the last two and a half years as a result of an ongoing claim with HMRC in the UK, based on tax legislation, impacting its tax returns for the year ended 30 April 2009 and subsequent years. The Group is one of a number of companies that have submitted similar claims and it is still anticipated that HMRC will choose a test case to establish the correct interpretation of the legislation. The Group has taken no benefit to the consolidated statement of comprehensive income during the periods affected and the potential tax liability is recognized on the Group's balance sheet, but has paid reduced cash tax payments in line with its claim. The cash tax benefit in the six months to 31 October 2012 is $2.4m (2011: $4.5m) and the total cash tax benefit to date is $17m based on the difference between the Group's claimed tax liability and the tax liability in the balance sheet. Due to the nature of the claim and the advice the Group has received, if HMRC were successful then it is unlikely that any penalties would be payable by the Group but there would be interest on any overdue tax.

When the tax position relating to the claim is agreed with HMRC then, to the extent that the tax liability is lower than that provided in the balance sheet, there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement. The current maximum benefit is $19.5m which equates to 11.45 cents per share on a fully diluted basis.

Profit after tax

Due to the higher effective tax rate in the six months to 31 October 2012, profit after tax decreased by 2.7% to $60.7m (2011: $62.4m).

Cash flow

The Group's operating cash flow from continuing operations was $85.6m (2011: $90.8m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 92.8% (2011: 101.8%). Our target is to achieve a cash conversion ratio in excess of 95% in the full-year. Cash generated from operations before changes in working capital has increased for the last four half-year periods. We experience a net working capital outflow in the first half of the year and a net working capital inflow in the second half of the year due to timing of maintenance billings.

At 31 October 2012, the Group's net borrowings balance was $96.2m (2011: $46.5m). During the half-year, the Group reduced net borrowings by $17.0m from $113.2m at 30 April 2012. The most significant cash outflow in the period was the payment of the final dividend for last year of $39.7m.

Group risk factors

As with all businesses, the Group is affected by certain risks, not wholly within our control, which could have a material impact on the Group's long-term performance and cause actual results to differ materially from forecast and historic results.

The principal risks and uncertainties facing the Group have not changed from those set out in the Annual Report and Accounts 2012. These include retention and recruitment of employees, successful 'go to market' models, continuing success of the Group's research and development activities, changes in market conditions and adequate investment in systems and infrastructure.

Please refer to pages 14 – 15 in the Annual Report and Accounts 2012 for more detailed analysis on the key risks relevant to the Group.

The key financial risks facing the Group have not changed from those set out in the Annual Report and Accounts 2012. These include changes in risk management, changes in foreign exchange rates and changes in capital risk management.

Please refer to pages 60 – 61 in the Annual Report and Accounts 2012, note 21, for more detailed analysis on the key financial risks relevant to the Group.

As well as the foregoing, the primary risk and uncertainty related to the Group's performance for the remainder of the year is the challenging macro-economic environment, which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause results to differ materially from expected and historic results.

Mike Phillips
Chief Financial Officer

Going concern

The directors, having made enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore it is appropriate to maintain the going concern basis in preparing the condensed consolidated interim financial statements.

Directors' responsibilities

The directors confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union. The interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Micro Focus International plc are as listed in the Micro Focus International plc Annual Report and Accounts 2012. A list of current directors is maintained on the Company's website: www.microfocus.com.

By order of the Board

Kevin Loosemore	**Mike Phillips**
Executive Chairman	**Chief Financial Officer**
6 December 2012	

Micro Focus International plc
Consolidated statement of comprehensive income (unaudited)

	Note	**Six months ended 31 October 2012 (unaudited) $'000**	Six months ended 31 October 2011 (unaudited) $'000	Year ended 30 April 2012 (audited) $'000
Revenue	**5,6**	**207,305**	219,102	434,838
Cost of sales		**(17,329)**	(26,341)	(49,267)
Gross profit		**189,976**	192,761	385,571
Selling and distribution costs		**(62,573)**	(64,447)	(127,253)
Research and development expense		**(24,715)**	(27,673)	(54,768)
Administrative expenses		**(23,638)**	(21,947)	(47,759)
Operating profit	**5**	**79,050**	78,694	155,791
Analyzed as:				
Operating profit before exceptional items		**79,050**	76,889	153,349
Exceptional items	**9**	**-**	1,805	2,442
Operating profit		**79,050**	78,694	155,791
Finance costs		**(2,702)**	(2,978)	(6,836)
Finance income		**96**	117	295
Profit before tax		**76,444**	75,833	149,250
Taxation	**10**	**(15,786)**	(13,420)	(28,630)
Profit for the period		**60,658**	62,413	120,620
Other comprehensive income				
Currency translation differences		**(2,630)**	(165)	1,045
Other comprehensive income for the period		**(2,630)**	(165)	1,045
Total comprehensive income for the period		**58,028**	62,248	121,665
Profit attributable to:				
Owners of the parent		**58,028**	62,248	121,665
Earnings per share expressed in cents per share		cents	cents	cents
- basic	**7**	**36.97**	32.13	65.77
- diluted	**7**	**35.60**	31.42	64.11
Earnings per share expressed in pence per share		pence	pence	pence
- basic	**7**	**23.00**	19.28	41.29
- diluted	**7**	**22.15**	18.85	40.25

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Micro Focus International plc
Consolidated statement of financial position (unaudited)

	Note	**31 October 2012 (unaudited)**	31 October 2011 (unaudited) restated	30 April 2012 (audited)
		$'000	$'000	$'000
ASSETS				
Non-current assets				
Goodwill	**11**	**274,270**	274,415	274,340
Other intangible assets	**12**	**91,383**	104,338	97,811
Property, plant and equipment	**13**	**22,384**	21,762	22,302
Deferred tax assets		**36,375**	42,741	39,782
		424,412	443,256	434,235
Current assets				
Inventories		**801**	961	460
Trade and other receivables	**14**	**78,199**	82,972	91,856
Derivative financial instruments	**19**	**2,393**	-	-
Cash and cash equivalents		**30,558**	30,436	30,410
		111,951	114,369	122,726
Total assets		**536,363**	557,625	556,961
Liabilities				
Current liabilities				
Trade and other payables	**15**	**187,181**	60,780	61,164
Borrowings	**16**	**126,742**	76,899	143,613
Provisions	**17**	**2,708**	5,821	3,721
Current tax liabilities		**36,277**	33,315	35,438
Deferred income		**118,423**	121,520	136,135
		471,331	298,335	380,071
Non-current liabilities				
Deferred income		**10,265**	13,642	12,611
Long-term provisions	**17**	**6,358**	4,176	6,794
Deferred tax liabilities		**38,920**	41,429	39,939
		55,543	59,247	59,344
Total liabilities		**526,874**	357,582	439,415
Net assets		**9,489**	200,043	117,546
EQUITY				
Equity attributable to owners of the parent				
Ordinary shares		**37,797**	37,760	37,787
Share premium account		**15,061**	116,700	61,311
Retained earnings		**(112,976)**	78,795	(6,480)
Foreign currency translation reserve (deficit)		**(7,521)**	(6,127)	(4,891)
Other reserves (deficit)		**77,128**	(27,085)	29,819
Total equity attributable to owners of the parent		**9,489**	200,043	117,546

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
The balance sheet as at 31 October 2011 has been restated to present borrowings net of unamortized prepaid facility arrangement fees ($1,101,000).

Micro Focus International plc
Consolidated statement of cash flow (unaudited)

	Note	**Six months ended 31 October 2012 (unaudited) $'000**	Six months ended 31 October 2011 (unaudited) $'000	Year ended 30 April 2012 (audited) $'000
Cash flows from operating activities				
Net profit for the period		**60,658**	62,413	120,620
Adjustments for				
Net interest payable		**2,606**	2,863	6,541
Taxation		**15,786**	13,420	28,630
Depreciation		**1,669**	1,962	3,810
(Profit) / loss on disposal of property, plant and equipment		**(428)**	3	146
Amortization of intangibles		**17,192**	16,548	32,840
Share-based compensation		**3,251**	1,980	6,056
Exchange movements		**2,689**	(268)	766
Provisions		**(115)**	(1,198)	2,897
Changes in working capital:				
Inventories		**(341)**	658	1,158
Trade and other receivables		**13,608**	24,195	13,697
Payables and other liabilities		**(30,985)**	(31,800)	(19,867)
Net cash generated from operating activities		**85,590**	90,776	197,294
Interest paid		**(1,588)**	(894)	(2,545)
Tax paid		**(11,836)**	(419)	(11,936)
Net cash from operating activities		**72,166**	89,463	182,813
Cash flows from investing activities				
Payments for intangible assets	**12**	**(10,745)**	(10,963)	(20,946)
Purchase of property, plant and equipment	**13**	**(1,522)**	(15,290)	(18,273)
Interest received		**96**	117	295
Net cash used in investing activities		**(12,171)**	(26,136)	(38,924)
Cash flows from financing activities				
Payments for repurchase of shares		**-**	(62,498)	(62,498)
Proceeds from issue of ordinary share capital		**730**	535	1,253
Proceeds from bank borrowings	**16**	**36,000**	37,000	308,000
Repayment of bank borrowings	**16**	**(53,000)**	-	(203,000)
Bank loan costs		**(1,114)**	(2,087)	(4,293)
Costs associated with the Return of Value		**(281)**	-	(1,116)
Return of Value paid to shareholders		**-**	-	(129,604)
Proceeds from sale of fractional shares		**1**	-	2
Dividends paid to owners	**8**	**(39,665)**	(30,920)	(46,262)
Net cash used in financing activities		**(57,329)**	(57,970)	(137,518)
Effects of exchange rate changes		**(2,518)**	(1,001)	(2,041)
Net increase in cash and cash equivalents		**148**	4,356	4,330
Cash and cash equivalents at beginning of period		**30,410**	26,080	26,080
Cash and cash equivalents at end of period		**30,558**	30,436	30,410

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Micro Focus International plc
Consolidated statement of changes in equity (unaudited)

	Ordinary shares	Share premium account	Foreign currency translation reserve (deficit)	Other reserves (deficit)	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 May 2011	**37,713**	**115,789**	**(5,936)**	**(27,085)**	**108,217**	**228,698**
Currency translation differences	20	2	(191)	-	4	(165)
Profit for the period	-	-	-	-	62,413	62,413
Total comprehensive income	20	2	(191)	-	62,417	62,248
Transactions with owners:						
Dividends	-	-	-	-	(30,920)	(30,920)
Issue of share capital	27	909	-	-	(401)	535
Movement in relation to share options	-	-	-	-	1,980	1,980
Repurchase of shares	-	-	-	-	(62,498)	(62,498)
	27	909	-	-	(91,839)	(91,939)
Balance as at 31 October 2011	**37,760**	**116,700**	**(6,127)**	**(27,085)**	**78,795**	**200,043**
Balance as at 1 May 2012	**37,787**	**61,311**	**(4,891)**	**29,819**	**(6,480)**	**117,546**
Currency translation differences	**-**	**-**	**(2,630)**	**-**	**-**	**(2,630)**
Profit for the period	**-**	**-**	**-**	**-**	**60,658**	**60,658**
Total comprehensive income	**-**	**-**	**(2,630)**	**-**	**60,658**	**58,028**
Transactions with owners:						
Dividends	**-**	**-**	**-**	**-**	**(39,665)**	**(39,665)**
Issue of share capital	**10**	**1,861**	**-**	**-**	**(1,141)**	**730**
Return of Value to shareholders – C shares dividend	**-**	**-**	**-**	**-**	**(84,402)**	**(84,402)**
Return of Value to shareholders - Issue of B Shares	**-**	**(47,309)**	**-**	**47,309**	**(47,309)**	**(47,309)**
Sales of fractional shares	**-**	**3**	**-**	**-**	**-**	**3**
Expenses and foreign exchange relating to Return of Value	**-**	**-**	**-**	**-**	**2,112**	**2,112**
Movement in relation to share options	**-**	**(805)**	**-**	**-**	**3,251**	**2,446**
	10	**(46,250)**	**-**	**47,309**	**(167,154)**	**(166,085)**
Balance as at 31 October 2012	**37,797**	**15,061**	**(7,521)**	**77,128**	**(112,976)**	**9,489**

The accompanying notes are an integral part of these condensed consolidated interim financial statements. Other reserves includes a capital redemption reserve of $104.2m (2011 nil) and a merger deficit reserve of $27.1m (2011 $27.1m).

1. General

Micro Focus International plc is a limited liability company incorporated, domiciled and registered in the United Kingdom. The registered office address is The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN.

The Company has its listing on the London Stock Exchange.

These condensed consolidated interim financial statements were approved by the Board on 5 December 2012 for issue on 6 December 2012.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 April 2012 were approved by the board of directors on 20 June 2012 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

These condensed interim consolidated financial statements have been reviewed, not audited.

2. Basis of preparation

These condensed consolidated interim financial statements for the half-year ended 31 October 2012 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The condensed consolidated interim financial statements should be read in conjunction with the Annual Report and Accounts for the year ended 30 April 2012, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Accounting policies

Other than as described below, the accounting policies adopted are consistent with those of the Annual Report and Accounts for the year ended 30 April 2012, as described in those financial statements.

(a) The following standards, interpretations and amendments to existing standards are now effective and have been adopted by the Group:

- Amendments to IFRS 7, "Financial instruments: Disclosures on Derecognition" for periods beginning on or after 1 July 2011. These amendments arise from the IASB's review of off-balance sheet activities and will promote transparency in the reporting of transfer transactions.

(b) The following standards, interpretations and amendments to existing standards are not yet effective, have not yet been endorsed by the EU and have not been adopted early by the Group:

- IFRS 9, "Financial Instruments", for periods beginning on or after 1 January 2013 - will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets.
- Amendment to IAS 12, "Income Taxes" applies for periods beginning on or after 1 January 2012. Currently IAS 12, "Income Taxes", requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. This amendment is not yet endorsed.
- Amendment to IAS 19, "Employee Benefits", for periods beginning on or after 1 January 2013. The amendment eliminates the corridor approach and calculates finance costs on a net funding basis.
- Amendment to IAS 1 "Financial Statement Presentation" applies for periods beginning on or after 1 July 2012. The main change resulting from this is a requirement for entities to group items presented in Other Comprehensive Income on the basis of whether they are potentially recycled to profit or loss.
- IFRS 10, "Consolidated Financial Statements" applies for periods beginning on or after 1 January 2013 and provides additional guidance to assist in determining control where this is difficult to assess. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.
- IFRS 11, "Joint Arrangements" applies for periods beginning on or after 1 January 2013 and provides for a reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form.

Notes to the consolidated interim financial information

3. Accounting policies continued

- IFRS 12, "Disclosures of Interests in Other Entities" applies for periods beginning on or after 1 January 2013. The standard includes the disclosure requirements for all forms of interests in other entities.
- IFRS 13, "Fair Value Measurement", applies for periods beginning on or after 1 January 2013. The standard aims to improve the consistency and reduce complexity by providing a precise definition of fair value and a source of fair value measurement and disclosure requirements. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied.
- IAS 27 (Revised 2011), "Separate Financial Statements", applies for periods beginning on or after 1 January 2013. The standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (Revised 2011), "Associates and Joint Ventures" applies for periods beginning on or after 1 January 2013. The standard includes the requirements for joint ventures, as well as associates to be equity accounted following the issue of IFRS 11.
- Amendment to IAS 32, "Financial Instruments: Presentation" applies to periods beginning on or after 1 January 2012. This amendment updates the application guidelines in IAS 32 2 Financial instruments: Presentation" to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

The directors anticipate that the future introduction of these standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

4. Functional currency

The presentational currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity.

5. Segmental reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ('the Executive Committee'). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the adjusted operating profit for the Group as a whole as set out in note 9.

Operating segments for the half-year ended 31 October 2012:

	North America	International	Asia Pacific and Japan	Total
	$'000	$'000	$'000	$'000
Segment revenue	**91,295**	**77,961**	**38,049**	**207,305**
Directly managed costs	(15,787)	(25,217)	(9,251)	(50,255)
Allocation of centrally managed costs	(32,687)	(25,855)	(8,356)	(66,898)
Total segment costs	**(48,474)**	**(51,072)**	**(17,607)**	**(117,153)**
Adjusted operating profit (note 9)	42,821	26,889	20,442	90,152
Share based compensation charge				(3,251)
Amortization of purchased intangibles				(7,851)
Operating profit				**79,050**
Total assets				**536,363**
Total liabilities				**526,874**

Notes to the consolidated interim financial information

5. Segmental reporting continued

Operating segments for the half-year ended 31 October 2011:

	North America	International	Asia Pacific and Japan	Total
	$'000	$'000	$'000	$'000
Segment revenue	**101,475**	**84,555**	**33,072**	**219,102**
Directly managed costs	(18,842)	(33,594)	(7,881)	(60,317)
Allocation of centrally managed costs	(34,838)	(28,926)	(8,301)	(72,065)
Total segment costs	**(53,680)**	**(62,520)**	**(16,182)**	**(132,382)**
Adjusted operating profit (note 9)	47,795	22,035	16,890	86,720
Exceptional items				1,805
Share based compensation charge				(1,980)
Amortization of purchased intangibles				(7,851)
Operating profit				**78,694**
Total assets				**557,625**
Total liabilities				**357,582**

6. Analysis of revenue by product

Set out below is an analysis of revenue recognized between the principal product categories for the half-year ended 31 October 2012.

	CD	MS	Test	Niche	Total
	$'000	$'000	$'000	$'000	$'000
Licence	**55,058**	**13,507**	**9,160**	**7,596**	**85,321**
Maintenance	**59,196**	**20,463**	**24,372**	**9,412**	**113,443**
Consulting	**710**	**3,852**	**3,494**	**485**	**8,541**
Total	**114,964**	**37,822**	**37,026**	**17,493**	**207,305**

Set out below is an analysis of revenue recognized between the principal product categories for the half-year ended 31 October 2011.

	CD	MS	Test	Niche	Total
	$'000	$'000	$'000	$'000	$'000
Licence	52,153	12,766	15,207	7,419	87,545
Maintenance	57,197	21,851	26,956	10,942	116,946
Consulting	1,775	5,679	6,210	947	14,611
Total	**111,125**	**40,296**	**48,373**	**19,308**	**219,102**

Notes to the consolidated interim financial information

7. Earnings per share

The calculation of the basic earnings per share has been based on the earnings attributable to ordinary shareholders and the weighted average number of shares for each period.

	Six months ended 31 October 2012 (unaudited)				Six months ended 31 October 2011 (unaudited)			
	Earnings $'000	**Weighted average number of shares '000**	**Per share amount cents**	**Per share amount pence**	Earnings $'000	Weighted average number of shares '000	Per share amount cents	Per share amount pence
Basic EPS								
Earnings attributable to ordinary shareholders	**60,658**	**164,067**	**36.97**	**23.00**	62,413	194,256	32.13	19.28
Effect of dilutive securities								
Options		**6,303**				4,412		
Diluted EPS								
Earnings attributable to ordinary shareholders	**60,658**	**170,370**	**35.60**	**22.15**	62,413	198,668	31.42	18.85
Supplementary adjusted EPS								
Basic EPS	**60,658**	**164,067**	**36.97**	**23.00**	62,413	194,256	32.13	19.28
Adjusted items[1]	**11,102**				8,026			
Tax relating to above items	**(3,544)**				(1,421)			
Basic EPS – adjusted	**68,216**	**164,067**	**41.58**	**25.86**	69,018	194,256	35.53	21.32
Diluted EPS	**60,658**	**170,370**	**35.60**	**22.15**	62,413	198,668	31.42	18.85
Adjusted items[1]	**11,102**				8,026			
Tax relating to above items	**(3,544)**				(1,421)			
Diluted EPS – adjusted	**68,216**	**170,370**	**40.04**	**24.90**	69,018	198,668	34.74	20.85

[1] Adjusted items comprise amortization of acquired intangibles, share-based compensation and exceptional costs. Estimated tax relief on these items is as shown above.

Earnings per share expressed in pence has used the average exchange rate for the period of $1.61 to £1 (2011: $1.67 to £1).

8. Dividends

A dividend of $39.7m was paid during the period to 31 October 2012 of 23.4 cents per share (2011: $30.9m or 16.2 cents per share).

The directors announce an interim dividend of 11.9 cents per share (2011: 8.2 cents per share) payable on 25 January 2013 to shareholders who are on the register at 4 January 2013. This interim dividend, amounting to $17.8m (2011: $15.2m) has not been recognized as a liability in this half-yearly report.

Notes to the consolidated interim financial information

9. Reconciliation of operating profit to EBITDA

	Six months ended 31 October 2012 (unaudited)	Six months ended 31 October 2011 (unaudited)	Year ended 30 April 2012 (audited)
	$'000	$'000	$'000
Operating profit	**79,050**	78,694	155,791
Exceptional items – reorganization and property rationalization	**-**	(1,805)	(2,442)
Share-based compensation charge	**3,251**	1,980	6,056
Amortization of purchased intangibles	**7,851**	7,851	15,702
Adjusted operating profit	**90,152**	86,720	175,107
Depreciation	**1,669**	1,962	3,810
Amortization of software	**387**	484	921
Adjusted EBITDA	**92,208**	89,166	179,838
Operating Profit	**79,050**	78,694	155,791
Amortization of intangible assets	**17,192**	16,548	32,840
Depreciation of property, plant and equipment	**1,669**	1,962	3,810
EBITDA	**97,911**	97,204	192,441
Amortization of capitalized development costs	**(8,954)**	(8,213)	(16,217)
Exceptional items – reorganization costs	**-**	(1,805)	(2,442)
Share-based compensation charge	**3,251**	1,980	6,056
Adjusted EBITDA	**92,208**	89,166	179,838

The directors use EBITDA and EBITDA before exceptional items and share based compensation charge ("Adjusted EBITDA") as key performance measures of the business.

10. Taxation

Tax for the period was $15.8m (2011: $13.4m) resulting in the Group's effective tax rate being 20.7% (2011: 17.7%).

In accordance with IAS 34 the tax expense recognized in the income statement for the half-year is calculated on the basis of the estimated effective full-year tax rate, with the exception that "discrete" items are recognized in the period to which they relate. During the period the Group reviewed its deferred tax assets in respect of US losses acquired as part of the acquisitions made in prior periods. The directors concluded that due to increased certainty over the utilization of future losses it was appropriate to increase the value of losses recognized by $1.0m. The Group carries deferred tax assets in respect of ten years benefit of US tax losses being the period over which the Group feels able to forecast with reasonable certainty that these losses will be utilized. It is anticipated that a further $1.0m will be recognized in the second half of the year.

Changes to the UK Corporation tax system were included in Finance Act 2012 to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013. The effect of the change in tax rate to 23% was to reduce the deferred tax liability provided at 31 October 2012 by $0.5m. A further reduction of the rate to 22 % is expected with effect from 1 April 2014. This change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements. The effect of this further reduction is not expected to be significant.

The effective tax rate for the full year to 30 April 2013 is expected to be between 21% and 22%. The Group's medium term effective tax rate is currently expected to be between 19% and 21%.

11. Goodwill

The movement in goodwill in the period is the exchange adjustment on the opening balances.

Notes to the consolidated interim financial information

12. Other intangible assets

Expenditure totaling $10.7m (2011: $11.0m) was made in the period, which consisted of $10.7m in respect of development costs.

13. Property, plant and equipment

Capital expenditure of $1.5m (2011: $15.3m) was made in the period. The majority of the capital expenditure in 2011 related to the purchase of the freehold of the Group's Headquarters in Newbury, which was purchased for a total consideration of $14.7m.

14. Trade and other receivables

	31 October 2012 (unaudited)	31 October 2011 (unaudited) restated	30 April 2012 (audited)
	$'000	$'000	$'000
Trade receivables	**69,665**	73,797	81,278
Prepayments	**8,291**	9,175	10,481
Other receivables	**226**	-	64
Accrued income	**17**	-	33
Total	**78,199**	82,972	91,856

Prepayments as at 31 October 2011 have been restated to present borrowings net of unamortized prepaid facility arrangement fees ($1,101,000).

15. Trade and other payables - current

	31 October 2012 (unaudited)	31 October 2011 (unaudited)	30 April 2012 (audited)
	$'000	$'000	$'000
Trade payables	**5,212**	7,724	6,168
Other tax and social security payable	**7,376**	7,828	8,391
Accruals	**42,882**	45,228	46,605
Return of Value – C shares (note 19)	**84,402**	-	-
Return of Value – B Shares(note 19)	**47,309**	-	-
Total	**187,181**	60,780	61,164

16. Borrowings

	31 October 2012 (unaudited)	31 October 2011 (unaudited) restated	30 April 2012 (audited)
	$'000	$'000	$'000
Bank loan unsecured	**129,000**	78,000	146,000
Unamortized prepaid facility arrangement fees	**(2,258)**	(1,101)	(2,387)
	126,742	76,899	143,613

At 31 October 2012, the Group had a three year unsecured revolving credit facility which was entered into on 1 December 2011 with a three year term and a limit of up to $275m. Consistent with the presentation in the Annual Report for the year ended 30 April 2012, borrowings as at 31 October 2011 have been restated to present borrowings net of unamortized prepaid facility arrangement fees.

Notes to the consolidated interim financial information

17. Provisions

	31 October 2012 (unaudited)	31 October 2011 (unaudited)	30 April 2012 (audited)
	$'000	$'000	$'000
Onerous leases and dilapidations	**3,715**	4,518	4,128
Restructuring	**1,333**	5,079	2,369
Other	**4,018**	400	4,018
Total	**9,066**	9,997	10,515
Current	**2,708**	5,821	3,721
Non-current	**6,358**	4,176	6,794
Total	**9,066**	9,997	10,515

	Onerous leases and dilapidations $'000	**Restructuring $'000**	**Other $'000**	**Total $'000**
At 1 May 2012	**4,128**	**2,369**	**4,018**	**10,515**
Additional provision in the period	**22**	**-**	**-**	**22**
Utilization of provision	**(482)**	**(853)**	**-**	**(1,335)**
Released	**-**	**(164)**	**-**	**(164)**
Unwinding of discount	**62**	**(2)**	**-**	**60**
Exchange adjustments	**(15)**	**(17)**	**-**	**(32)**
At 31 October 2012	**3,715**	**1,333**	**4,018**	**9,066**

	Onerous leases and dilapidations $'000	**Restructuring $'000**	**Other $'000**	**Total $'000**
At 1 May 2011	5,708	19,164	-	24,872
Additional provision in the period	128	415	400	943
Utilization of provision	(1,312)	(12,337)	-	(13,649)
Released	(67)	(1,805)	-	(1,872)
Unwinding of discount	97	43	-	140
Exchange adjustments	(36)	(401)	-	(437)
At 31 October 2011	4,518	5,079	400	9,997

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilized within six years.

Restructuring provisions relates to the restructuring and property rationalization that was undertaken during the year ended 30 April 2011. Included within this is $1.2m for property costs incurred as part of the restructuring and $0.1m for other miscellaneous costs associated with the restructuring.

Restructuring provisions as at 31 October 2011 included $0.6m of legal costs associated with the restructuring, $1.6m for redundancy, $2.7m for property costs incurred as part of the restructuring and $0.2m for other miscellaneous costs associated with the restructuring.

Other provisions include $0.1m of costs relating to a rationalization of non-trading subsidiaries and $3.9m relating to our subsidiary in Brazil. Of this $3.1m relates to taxes potentially due for pensions and bonus payments between July 2006 and July 2011, $0.3m for potential claims from third party contractors for unpaid benefits in prior years and $0.6m for potential claims from other third parties. The timing of these provisions is uncertain but is expected to be over twelve months before the provisions are fully utilized.

18. Related party transactions

The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings. There are no other external related parties.

19. Return of value to shareholders

During the period, the Group announced a Return of Value to shareholders of 50 pence per ordinary share amounting to £82.0m, by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 26 September 2012.

The group entered into forward exchange contracts to hedge the US dollar amount of the liability, which was paid to shareholders on 12 November 2012 at a total cost of $129.3m. The liability in respect of the Return of Value is recorded in the balance sheet at 31 October 2012, comprising a liability in respect of the return payable of $131.7m, offset by a net receivable balance of $2.4m in respect of the forward exchange contracts.

The Return of Value was accompanied by a 10 for 11 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares.

Notes to the consolidated interim financial information

Independent review report to Micro Focus International plc

Introduction

We have been engaged by the Company to review the condensed consolidated interim financial statements in the interim financial report for the six months ended 31 October 2012, which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flow, consolidated statement of changes in equity and related notes. We have read the other information contained in the condensed consolidated interim financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The consolidated financial statements included in this interim financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the interim financial report for the six months ended 31 October 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading

5 December 2012

Notes:

(a) The maintenance and integrity of Micro Focus International plc's 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 financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.