7 December 2011

MICRO FOCUS

Micro Focus International plc
Interim results for the half-year to 31 October 2011
and proposed return of 45 pence per share in cash to shareholders

Micro Focus International plc ("Micro Focus", "the Company" or "the Group", LSE: MCRO.L), announces unaudited interim results for the half-year to 31 October 2011.

Results at a glance	H1 2011	H1 2010	Change
Revenue			
Reported	$219.1m	$215.6m	+1.6%
Constant Currency	$219.1m	$225.0m	-2.6%
Adjusted EBITDA			
Reported	$89.2m	$79.0m	+12.9%
Constant Currency	$89.2m	$82.2m	+8.5%
Pre-tax profit			
Reported	$75.8m	$63.2m	+19.9%
Constant Currency	$75.8m	$66.4m	+14.2%
Earnings per share			
Adjusted	35.53c	26.60c	+33.6%
Diluted	31.42c	26.27c	+19.6%
Adjusted diluted	34.74c	25.97c	+33.8%
Interim dividend per share	8.2c	7.2c	+13.9%
Net debt	$47.6m	$40.4m	+17.8%

Key highlights

- Proposed return of 45 pence per share in cash to shareholders (equivalent to 70.2 cents per share at a cost of approximately $130.4m) (the "Return of Value"), subject to shareholder approval
- Results ahead of market expectations at both Revenue and Adjusted EBITDA levels
- Strong cash conversion in the period
  - Cash generated from operations as a percentage of Adjusted EBITDA less exceptional items was 101.8% (2010: 98.6%)
  - Net debt at 31 October 2011 increased to $47.6m from $14.9m at 30 April 2011 following share buyback programme of $62.5m, purchase of head office $14.7m and payment of final dividend of $30.9m (2010: $40.4m net debt balance)
- New Revolving Credit Facility of up to $275m
- Interim dividend increased by 13.9% to 8.2 cents per share (2010: 7.2 cents per share)

Statutory results

- Operating profit $78.7m (2010: $66.7m)
- Profit before tax $75.8m (2010: $63.2m)
- Basic earnings per share 32.13 cents (2010: 26.92 cents) increased by 19.4%***

* In assessing the performance of the business, the directors use non GAAP measures "Adjusted EBITDA", "Adjusted operating profit" and "Adjusted earnings per share", being the relevant statutory measures, prior to exceptional items, amortisation of purchased intangibles and share based compensation. Exceptional items, share based compensation and amortisation 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:

"At the beginning of the year we identified a number of challenges within the business which needed to be addressed to correct the poor execution in the last financial year. These were particularly around Product Management and Sales Execution. Our focus remains on delivering shareholder value and returning the business to a forward trajectory.

As announced in our pre-close statement, the results for the period ended 31 October 2011 are ahead of market expectations at Revenue and Adjusted EBITDA levels. Reported revenues are marginally ahead of the prior year period however, once exchange rate movements are taken into account revenues declined slightly. Adjusted EBITDA margin was approximately 40.7%, reflecting lower costs as a result of restructuring activity in the previous financial year, as well as some benefit from exchange rate movements.

We have established a clear vision for the company, re-organised Product Management and Development and are working to improved Sales Execution. We have also made some progress in the other areas of change within the business that were required. This is an important start and we are pleased with progress, whilst at the same time recognising that these changes will take time to flow through into further improvement in results.

We announced on 2 December 2011 our new $275m Revolving Credit Facility from a group of five banks which expires on 1 December 2014. The terms of this facility are an improvement on the previous facility which was due to expire on 6 May 2012. I am pleased to announce today that we intend to use part of this new facility to return approximately $130.4m in cash (45 pence per share, equivalent to approximately 70.2 cents per share), to our shareholders, subject to their approval by way of a B and C share scheme, which gives shareholders a choice between receiving the cash in the form of income or capital. The Return of Value will be accompanied by a proportional 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. A Circular will be sent to shareholders shortly outlining the terms of the Return of Value, and we anticipate that if shareholder approval is obtained then the Return of Value will be completed towards the end of January 2012.

In addition to the Return of Value, we are increasing our normal interim dividend by 13.9% to 8.2 cents per share, (2010: 7.2 cents per share) reflecting our robust financial position and our confidence in the future prospects of the business."

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About Micro Focus
Micro Focus, a member of the FTSE 250, provides innovative software that helps companies to dramatically improve 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.

INTERIM MANAGEMENT REPORT

Overview and Corporate Developments

Micro Focus is a software product group. We make software products and we sell software products. Everything within the organisation must be focused on either making or selling our software products.

Our expectations for the current financial year were that on a constant currency basis overall revenue was likely to decline compared to the prior period. Growth in licence fee revenue would offset the anticipated decline in maintenance fee and consulting revenue would decline due to increased focus and a reduction in loss making revenues. Growth in licence fee revenue would be against a backdrop of a 15.2% decline in the prior period. Against this revenue scenario management are taking the necessary steps to achieve appropriate margins and cash generation through a clear focus on sound business operation throughout the Group. All of our actions are consistent with the objective of setting the business to return to growth whilst maintaining all options to deliver shareholder value.

During the six months to 31 October 2011, Micro Focus delivered revenues of $219.1m (2010: $215.6m) which compared to constant currency ("CCY") revenue for the comparable period of £225.0m, a decline of 2.6%. Licence fees were $87.5m, (2010: CCY $86.2m), maintenance fees were $117.0 (2010: CCY $121.3m) and consultancy revenues were $14.6m (2010: CCY $17.5m). Operating costs before exceptional items, share based payments and amortisation of purchased intangibles ("Adjusted Operating Costs") were reduced at $132.4m (2010: $139.4m) resulting in Adjusted Operating Profit of $86.7m (2010: $76.2m). On a CCY basis, Adjusted Operating Costs fell more sharply from $145.7m to $132.4m, with the largest reduction coming from personnel costs. Adjusted EBITDA in the period was $89.2m (2010: $79.0m) at a margin of 40.7% (2010: 36.6%).

This year our three regional presidents are largely being rewarded on Adjusted EBITDA as opposed to only revenues in the prior year. We have already seen some benefit of this approach, particularly around the choice of consultancy projects and with regard to cash collections. Our International region includes the Eurozone and the macro-economic factors affecting that region are well known. North America is our largest region and despite mixed economic indicators there we achieved strong sequential revenue growth, driven by improved licence sales. Our Asia Pacific region benefited from a strong performance in the half-year from Japan after very difficult conditions following the Tsunami and Earthquake earlier in the calendar year.

Within each of these three regions our sales force is focused around software product lines grouped into four areas: COBOL Development (CD), Modernisation & Migration (MM), Test and Niche. Test and Niche are branded as Borland. The CD portfolio delivers products that enable programmers to develop and deploy applications written in COBOL across distributed platforms including Windows, UNIX and Linux. MM provides IBM mainframe compatibility on distributed platforms. Together these allow mainframe applications to be developed and maintained on the Windows platform and then moved back to the mainframe for deployment, or as a migration project deployed on alternative distributed systems. Our Test portfolio comprises our Testing, Requirements, Source and Change Management products. These are tools used by programmers to support and manage the process of software development from beginning to end to accelerate delivery and improve quality. Finally, the Niche portfolio contains technologies that relate to application development across a set of niche markets.

Each of these areas has different revenue characteristics. Maintaining our leadership position in CD is at the core of our value proposition and it will provide a stable base and strong cash flows for the Group. MM had seen strong growth rates in the period up to 30 April 2010 but saw a decline in overall revenues in the year ended 30 April 2011 with a significant decline in licence fee revenue. This decline in overall revenues has continued in the current period because we have refocused on our target customers in this segment and we have reduced the sales emphasis on large projects and prime contracting. We have refocused the sales teams and implemented a bid review process to ensure that there is proper control over the services engagement. In addition, we have been harvesting the learning from over 500 completed migrations to improve our offer and make it more accessible to our business partners. We believe that with proper targeting and execution MM will return to growth. Test has a large addressable market but experienced significant Sales Execution issues during the last financial year. Overall the Test revenues were at a similar level to the comparable period last year. Our Niche business comprises mature products that provide good margins and strong cashflow.

The operational changes made at the beginning of the financial period are starting to make progress but have also demonstrated that we have further improvement to make. Product Management has made changes to the way in which our products are priced and packaged but have also identified areas where product functionality needs to be improved. This interaction between Product Management and Development with the input and feedback from the Sales organisation has improved and it is clear that there was not sufficient linkage between these functions in the past. We have great technology which should be valued by our customers but we have to be bold and imaginative in the ways in which we offer our products.

During the period we launched the first phase of our web store. This had been identified as a channel to market we had not exploited in the past. A small number of products have been made available and some sales have been made. We are still exploring how best to use this channel to market and which of our products are best suited to delivery in this way. We are not expecting significant revenue through this channel this year but believe that this is an important capability to build for the future.

We are looking to increase sales productivity and predictability by continuing the improvement in Product Management and providing a closer interaction between Sales, Product Management and Product Development. Sales productivity has increased during the period although it is still below industry norms meaning there is capacity within the sales organisation to deliver improved performance in future. However, we recognise that we need to ensure that we provide our sales people with the right tools and assistance to be as productive as possible whilst ensuring that they are focused on selling what is available now.

We continue to invest in Product Development and are excited by the new products that we will be releasing in the next year. Micro Focus will maintain its leadership position in CD by continuing to innovate products as is evidenced by COBOL Visual Studio. This will include working with our independent software vendors and customers to ensure that they can reap the benefits of this new development environment. We will reverse the decline in MM revenues by leveraging our partner relationships and ensuring that our direct sales force targets the right size of opportunity. We are increasing the product focus on our Test and Niche business whilst integrating the channels into the three geographic regions to capitalise on opportunities for the wider portfolio of products to be sold to our customers.

We undertook a significant restructuring exercise at the end of the last financial year in order to align the cost base with the anticipated revenues. This led to restructuring charges of $22.1m in the final quarter of the year offset by $7.6m of releases from onerous lease provisions. In the current period we have released $1.8m of the provisions made last year back to the income statement as these are no longer required. This figure is separately identified as an exceptional item. Of the provisions made last year, $5.1m remains in the balance sheet at 31 October 2011 the majority of which relates to redundancy and onerous lease provisions.

As a result of the restructuring exercise, the average employee headcount during the six months ended 31 October 2011 was 1,191 (2010: 1,453). 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 organisation and we would like to thank them for their dedication, commitment and hard work in delivering the first half results. Last year minimal bonuses were paid to non-commissioned and quota bearing staff due to the results being significantly below the required level of performance. 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

The Company was in an offer period from 26 April 2011 to 22 August 2011 and explored a number of alternative structures to deliver value to shareholders. No firm offers were forthcoming and therefore the company terminated all offer discussions.

Our priority is improving the business to maximise the opportunity to return to growth. At the same time we are creating flexibility to allow value creation to shareholders by buybacks or cash distribution as appropriate. We will do nothing that will constrain our ability to achieve organic growth.

We have also reviewed the options for achieving a more efficient capital structure for Micro Focus and have consulted with major institutional shareholders. In the period from 28 March 2011 to 21 September 2011 we completed a 10% share buyback programme using market purchases under an authority granted at our 2010 Annual General Meeting, at a total cost of $104.5m. The average share price paid was 319p. At our AGM in September 2011 we renewed our buyback authority and we have not yet utilised that authority to make on market purchases.

On 2 December 2011 we announced that we had entered into a new three year Revolving Credit Facility ("RCF") of up to $275m with a group of five Banks. The existing banks, Barclays, HSBC, Lloyds and Royal Bank of Scotland, have been joined by Clydesdale Bank in the new facility. This increased facility is on better terms than the previous facility and has greater flexibility for its use including the ability to add value through suitable acquisitions should appropriate opportunities arise. No significant acquisition is contemplated until further operational progress has been achieved but opportunities may arise to consider bolt on acquisitions that would enhance or accelerate the operational improvements being made.

The Board is confident in the ability of the business to support borrowings under the new facility. Consequently, it is proposed to make a Return of Value to all shareholders amounting to approximately $130.4m in cash (45 pence per share, equivalent to approximately 70.2 cents per share), by way of a B and C share scheme, which gives shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value will be accompanied by a proportional 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. A Circular will be sent to shareholders shortly outlining the terms of the return, and we anticipate that if shareholder approval is obtained then the Return of Value will be completed towards the end of January 2012.

Net debt to RCF EBITDA (being our Adjusted EBITDA before Amortisation of Capitalised Development Costs) is limited to 2 times in the period to 30 April 2013 and 1.5 times thereafter. If a $130.4m return of capital had been made as at 31 October 2011 then our gross borrowings under the facility would have been $208.4m and our net debt would have been $178.4m. Based on our reported RCF EBITDA in the twelve months to 31 October 2011 of $184.2m this would have represented a net debt to RCF EBITDA multiple of 0.97.

In addition to the Return of Value, we are increasing our normal interim dividend by 13.9% to 8.2 cents per share, (2010: 7.2 cents per share) reflecting our robust financial position. This will be paid in sterling equivalent to 5.26 pence per share, based on an exchange rate of £ = $1.56, being the rate applicable on 6 December 2011, the date on which the Board resolved to pay the interim dividend.

Outlook

Following a year of significant licence sales decline we are pleased to see some stabilization in the first half of the current year; however, there is still much to correct within the business. We are focused on demonstrating that the business can execute consistently following the actions taken in the first half. and to that end we will continue to drive efficiency and sales productivity across the Group. Despite the growing macro-economic headwinds, in Europe especially, the impact of which is difficult to assess, our aim is to maintain the momentum of the first half performance.

Corporate Broker

The relationship with UBS as joint broker has been terminated by mutual agreement and the Board has appointed Numis Securities as sole broker to the Company. The Board would like to thank UBS for the support and advice that has been provided as part of the IPO in 2005 and in the period since the IPO.

Operational and Financial review

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

In previous years Micro Focus did not provide profitability by its operating segments as it controlled all costs globally. At the start of this financial year Adjusted EBITDA was delegated to the regional vice presidents. They have directly controllable costs and then allocated central costs. Their variable reward is now heavily weighted towards delivery of profitability in their region.

Revenue for the half-year by geographic region at actual reported and constant currency is shown in the table below:

	Six months ended 31 October 2011 $m	Six months ended 31 October 2010 as reported $m	Six months ended 31 October 2010 at constant currency $m	Year ended 30 April 2011 at constant currency $m
North America	101.5	103.6	103.3	197.9
International	84.5	81.5	88.5	186.8
Asia Pacific	33.1	30.5	33.2	63.4
Total revenue	**219.1**	**215.6**	**225.0**	**448.1**

As expected, on a constant currency basis total revenues overall have declined by 2.6%. North America saw a decline of 1.7%, International declined by 4.5% and Asia Pacific declined by 0.3%. The decline in International is 6.7% after adjusting for the credit note issued in Brazil in the first half of last year.

In North America, licence fee revenue grew compared with the six months to 31 October 2010 but not by enough to offset the anticipated decline in maintenance and consultancy was also reduced. The licence fee performance in the six months to 31 October 2011 showed significant growth over the previous six months to 30 April 2011 more than making up for the decline in maintenance and consultancy with overall revenue up by 7.3%.

In Asia Pacific licence fee growth in the period to 31 October 2011 more than offset the decline in maintenance with the small reduction in overall revenue lower due to lower consulting revenues. Again licence fee revenue in the period showed strong growth over the six months to 30 April 2011 and overall revenues have improved by 9.8% predominantly due to the strong performance in Japan.

For International, licence fee revenue and consultancy declined in the six months to 31 October 2011 whilst maintenance revenues remained flat. When compared to the six months to 30 April 2011, both licence fee and consultancy have declined with maintenance at the same level, resulting in a sequential six month revenue decline of 14.0%.

Both North America and Asia Pacific achieved the sales budgets in the six months to 31 October 2011, with the shortfall against sales budgets coming in the International region. Whilst the issues in the Euro Zone have been documented at length in the press in recent months and have impacted our business here to a degree there have also been some Sales Execution issues that need to be addressed.

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

	Six months ended 31 October 2011	Six months ended 31 October 2010 as reported	Six months ended 31 October 2010 at constant currency	Year ended 30 April 2011 at constant currency
	$m	$m	$m	$m
Licence	87.5	82.7	86.2	170.2
Maintenance	117.0	116.1	121.3	240.4
Consultancy	14.6	16.8	17.5	37.5
Total revenue	**219.1**	**215.6**	**225.0**	**448.1**

Revenue by Product Portfolio on a constant currency basis is shown:

	Six months ended 31 October 2011	Six months ended 31 October 2010	Year ended 30 April 2011
CD	$m	$m	$m
Licence	52.1	51.4	98.2
Maintenance	57.2	57.5	114.3
Consultancy	1.8	0.2	2.1
	111.1	109.1	214.6
MM			
Licence	12.8	14.3	30.7
Maintenance	21.9	20.5	41.2
Consultancy	5.7	7.8	16.5
	40.4	42.6	88.4
CDMM			
Licence	64.9	65.7	128.9
Maintenance	79.1	78.0	155.5
Consultancy	7.5	8.0	18.6
Sub-total	**151.5**	**151.7**	**303.0**
Test			
Licence	15.2	10.0	22.7
Maintenance	27.0	29.9	58.8
Consultancy	6.2	8.6	16.9
	48.4	48.5	98.4
Niche			
Licence	7.4	10.5	18.6
Maintenance	10.9	13.4	26.1
Consultancy	0.9	0.9	2.0
	19.2	24.8	46.7
Borland			
Licence	22.6	20.5	41.3
Maintenance	37.9	43.3	84.9
Consultancy	7.1	9.5	18.9
Sub-total	**67.6**	**73.3**	**145.1**
Total revenue			
Licence	87.5	86.2	170.2
Maintenance	117.0	121.3	240.4
Consultancy	14.6	17.5	37.5
Revenue at constant currency	**219.1**	**225.0**	**448.1**

Total licence fee revenues grew by 1.5% at constant currencies. The comparable period licence fees included

the impact of a credit note for $2.1m issued in Brazil. Adjusting for the impact of this credit note, total licence revenue declined by 0.9%. CDMM licence fee revenues at constant currencies declined by 1.2%, due to the disappointing licence sales in our migration business. Borland licence fee revenues increased by 10.2%.

Maintenance revenues declined at constant currencies by 3.5%. The CDMM maintenance revenues increased by 1.4%, and Borland declined by 12.5%, as a result of the maintenance attached to new licence fee sales not compensating for the attrition rates. The renewal rates for CDMM have declined slightly from 90.5% to 89.4% and for Borland there has also been a decline from 82.7% to 80.6% with both reductions being a sign of the tough economic climate that many of our customers are experiencing.

The consultancy revenues have declined at constant currency by 16.6% due to our decision to refer more consulting work to our global and local partners and the impact of lower licence revenues in our migration business.

Foreign exchange on intercompany balances

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. During the period there was a significant movement on Euro:US$ and Yen:US$ exchange rates that gave rise to the majority of the foreign exchange gain of approximately $1.5m (2010: loss of $3.6m). In the full year to 30 April 2011 there was an overall loss on this foreign exchange movement of approximately $5.4m.

Costs

All comments relate to costs at actual reported $.

Cost of sales for the half-year decreased by 13.2% to $26.3m (2010: $30.3m). The costs in this category predominantly relate to our consulting and helpline support operations. The majority of the cost reduction came from decreased consulting revenues and the impact of the restructuring undertaken during the year ended 30 April 2011.

Selling and distribution costs increased by 2.9% to $64.4m (2010: $62.6m) mostly as a result of exchange rate movements.

Research and development expenses increased slightly by 3.2% to $27.7m (2010: $26.8m), equivalent to approximately 12.6% of revenue compared with 12.4% in the prior half-year. The charge to the income statement in the period is after taking account of the net capitalisation of research and development in the period. Additions to capitalised research and development in the period were $9.5m (2010: $9.8m) less amortisation of previously capitalised research and development of $8.2m (2010: $5.5m) resulting in a net credit to the income statement of $1.3m (2010: $4.3m). At 31 October 2011 the net book value of capitalised research and development on the balance sheet was $27.9m (2010: $21.8m).

Administrative expenses, excluding a credit of exceptional items of $1.8m (2010: $Nil), and share based compensation of $2.0m (2010: $1.6m) decreased by 21.0% to $21.8m (2010: $27.6m). The current period includes a gain of $1.5m (2010: loss of $3.6m) 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 2.9%, mostly as a result of restructuring action taken in the prior year.

Currency impact

53.1% of our revenue is contracted in US dollars and 46.9% in other currencies. In comparison, 31.0% of our costs are US dollar denominated, with a significant proportion of the remainder being our sterling based head office costs, together with Euro denominated costs for our European sales operations.

This weighting of revenue and costs means that as the dollar weakened against sterling the increase in reported US dollar revenue is materially offset by the increase in our sterling cost base. As a result operating profit in US dollars is not materially different pre or post currency adjustments other than the $1.5m exchange rate gains on intercompany balances.

Adjusted EBITDA

Adjusted EBITDA in the period was $89.2m (2010: $79.0m) at a margin of 40.7% (2010: 36.6%).

In last year's Interim Results we identified $6.6m of items that had adversely effected Adjusted EBITDA and so the underlying Adjusted EBITDA margin was 39.3%. These items were a credit note provision of $2.1m, foreign currency losses of $3.6m and a property provision of $0.9m. There is one other item that can cause questions and concern to shareholders and analysts: capitalisation of software development expenditure. The Company has always made visible the impact of such capitalisation however, in looking at the comparative underlying performance of the business the impact of software development cost capitalisation has to be removed.

	Six months ended 31 October 2011 $m	Six months ended 31 October 2010 as reported $m	Year ended April 2011 as reported $m
Reported Revenue	219.1	215.6	436.1
Credit Note in Brazil	-	2.1	2.1
Underlying Revenue	219.1	217.7	438.2
Adjusted EBITDA	89.2	79.0	158.7
Foreign Exchange (credit)/charge	(1.5)	3.6	5.4
Credit Note in Brazil	-	2.1	2.1
Property provision	-	0.9	0.9
Net Capitalisation of Software	(1.3)	(4.3)	(9.2)
Underlying Adjusted EBITDA	**86.4**	**81.3**	**157.9**
Underlying Adjusted EBITDA Margin	**39.4%**	**37.3%**	**36.0%**

Operating profit

Operating profit was $78.7m (2010: $66.7m). Adjusted operating profit was $86.7m (2010: $76.2m). The improvement in the adjusted operating profit was partly driven by the $5.1m positive swing on foreign exchange and the impact of the restructuring undertaken during the year ended 30 April 2011.

Net finance costs

Net finance costs were $2.9m (2010: costs $3.5m), including the amortisation of $2.1m of loan arrangement and facility fees incurred on the Group's bank loan facility (2010: $2.1m), loan interest of $0.7m (2010: $1.5m) and other interest costs of $0.2m (2010: $Nil) offset by $0.1m of interest received (2010: $0.1m). Whilst the new banking facility has a lower margin than the previous facility there is an acceleration of the loan arrangement and facility fees which would have otherwise been charged in the second half of the year. In addition the new arrangement and facility fees will be charged on an ongoing basis.

Exceptional items

There was an exceptional credit in the six months to 31 October 2011 of $1.8m following releases of provisions related to the restructuring programme undertaken at the year ended 30 April 2011 which were no longer required (2010: $Nil). The release resulted mainly from lower settlements paid to staff made redundant by the restructuring and from our ability to avoid repaying a grant.

Taxation

Tax for the period was $13.4m (2010: $8.0m) resulting in the Group's effective tax rate being 17.7% (2010: 12.6%).

In accordance with IAS 34 the tax expense recognised 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 recognised in the period to which they relate. In the period a credit of $1.9m was recognised, arising from the submission of claims for enhanced deductions for research and development expenditure in prior periods. 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 utilisation of future losses it was appropriate to increase the value of losses recognised by $2.0m. The Group now carries deferred tax assets in respect of ten years benefit of US tax losses. It is now anticipated that deferred tax assets will be maintained at this level for the foreseeable future and in a normal year the impact will be $2.0m.

Changes to the UK Corporation tax system were included in the Finance Act 2011 to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012. The effect of the change in tax rate to 25% was to reduce the

deferred tax liability provided at 31 October 2011 by $0.4m. Further reductions are proposed to reduce the rate by 1% per annum to 23% by 1 April 2013. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The effect of these further reductions is not expected to be significant.

Excluding the effect of the items above, the effective tax rate for the period would be 23.3% (2010: 23.4%). The effective tax rate for the full year to 30 April 2012 is expected to be approximately between 18% and 21%. The Group's medium term effective tax rate is currently expected to be between 22% and 24%.

Profit after tax

Profit after tax increased by 12.8% to $62.4m (2010: $55.3m).

Cash flow

The Group's operating cash flow from continuing operations was $90.8m (2010: $77.9m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 101.8% (2010: 98.6%).

At 31 October 2011, the Group's net borrowings balance was $47.6m (2010: net borrowings $40.4m). During the half-year, the Group increased net borrowings by $32.7m from $14.9m at 30 April 2011. Significant cash outflows were the share buyback programme, at a cost of $62.5m, the purchase of the freehold of the Group's Headquarters in Newbury for $14.7m and the payment of the final dividend for last year of $30.9m.

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 2011. 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 2011 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 2011. These include changes in risk management, changes in foreign exchange rates and changes in capital risk management.

Please refer to pages 57 – 58 in the Annual Report and Accounts 2011, note 20, 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.

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 2011. 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**
7 December 2011	

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

	Note	**Six months ended 31 October 2011 (unaudited) $'000**	Six months ended 31 October 2010 (unaudited) $'000	Year ended 30 April 2011 (audited) $'000
Revenue	**5,6**	**219,102**	215,578	436,130
Cost of sales		**(26,341)**	(30,286)	(63,670)
Gross profit		**192,761**	185,292	372,460
Selling and distribution costs		**(64,447)**	(62,610)	(144,832)
Research and development expense		**(27,673)**	(26,813)	(61,302)
Administrative expenses		**(21,947)**	(29,183)	(45,794)
Operating profit	**5**	**78,694**	66,686	120,532
Analysed as:				
Operating profit before exceptional items		**76,889**	66,686	135,072
Exceptional items	**9**	**1,805**	-	(14,540)
Operating profit		**78,694**	66,686	120,532
Finance costs		**(2,978)**	(3,553)	(6,349)
Finance income		**117**	101	358
Profit before tax		**75,833**	63,234	114,541
Taxation	**10**	**(13,420)**	(7,981)	(18,105)
Profit for the period		**62,413**	55,253	96,436
Other comprehensive income				
Currency translation differences		**(165)**	1,172	607
Other comprehensive income for the period		**(165)**	1,172	607
Total comprehensive income for the period		**62,248**	56,425	97,043
Profit attributable to:				
Owners of the parent		**62,248**	56,425	97,043
Earnings per share expressed in cents per share		cents	cents	cents
- basic	**7**	**32.13**	26.92	47.04
- diluted	**7**	**31.42**	26.27	46.15
Earnings per share expressed in pence per share		pence	pence	pence
- basic	**7**	**19.28**	16.83	30.16
- diluted	**7**	**18.85**	16.42	29.58

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 2011 (unaudited) $'000	Restated * 31 October 2010 (unaudited) $'000	Restated * 30 April 2011 (audited) $'000
ASSETS				
Non-current assets				
Goodwill	**11**	**274,415**	274,355	274,355
Other intangible assets	**12**	**104,338**	113,066	109,843
Property, plant and equipment	**13**	**21,762**	8,661	9,048
Deferred tax assets		**42,741**	57,629	45,789
		443,256	453,711	439,035
Current assets				
Inventories		**961**	165	1,618
Trade and other receivables	**14**	**84,073**	111,814	108,072
Cash and cash equivalents		**30,436**	32,553	26,080
		115,470	144,532	135,770
Total assets		**558,726**	598,243	574,805
Liabilities				
Current liabilities				
Trade and other payables	**15**	**60,780**	59,374	63,556
Borrowings	**16**	**78,000**	73,000	41,000
Provisions	**17**	**5,821**	4,718	17,479
Current tax liabilities		**33,315**	33,114	22,393
Deferred income		**121,520**	120,827	136,269
		299,436	291,033	280,697
Non-current liabilities				
Deferred income		**13,642**	11,865	15,139
Long-term provisions	**17**	**4,176**	9,362	7,393
Deferred tax liabilities		**41,429**	42,860	42,878
		59,247	64,087	65,410
Total liabilities		**358,683**	355,120	346,107
Net assets		**200,043**	243,123	228,698
EQUITY				
Equity attributable to owners of the parent				
Ordinary shares		**37,760**	37,666	37,713
Share premium account		**116,700**	115,220	115,789
Retained earnings		**78,795**	122,479	108,217
Foreign currency translation reserve (deficit)		**(6,127)**	(5,157)	(5,936)
Other reserves (deficit)		**(27,085)**	(27,085)	(27,085)
Total equity attributable to owners of the parent		**200,043**	243,123	228,698

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

* Balances as at 31 October 2010 and as at 30 April 2011 have been restated to reflect adjustments made in respect of goodwill on prior year acquisitions and the disclosure of provisions previously contained within trade and other payables.

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

	Note	**Six months ended 31 October 2011 (unaudited) $'000**	Six months ended 31 October 2010 (unaudited) $'000	Year ended 30 April 2011 (audited) $'000
Cash flows from operating activities				
Net profit for the period		**62,413**	55,253	96,436
Adjustments for				
Net interest payable		**2,863**	3,452	5,991
Taxation		**13,420**	7,981	18,105
Depreciation		**1,962**	2,176	4,675
Loss on disposal of property, plant and equipment		**3**	178	234
Loss on disposal of intangible asset		**-**	224	225
Amortisation of intangibles		**16,548**	13,928	29,261
Share-based compensation		**1,980**	1,635	2,235
Exchange movements		**(268)**	2,690	2,980
Changes in working capital:				
Inventories		**658**	(12)	(1,465)
Trade and other receivables		**24,195**	14,473	15,320
Payables and other liabilities		**(32,998)**	(24,120)	8,340
Net cash generated from operating activities		**90,776**	77,858	182,337
Interest paid		**(894)**	(1,449)	(2,239)
Tax paid		**(419)**	(3,495)	(11,957)
Net cash from operating activities		**89,463**	72,914	168,141
Cash flows from investing activities				
Payments for intangible assets	**12**	**(10,963)**	(10,341)	(22,502)
Purchase of property, plant and equipment	**13**	**(15,290)**	(900)	(4,051)
Interest received		**117**	101	358
Net cash used in investing activities		**(26,136)**	(11,140)	(26,195)
Cash flows from financing activities				
Payments for repurchase of shares		**(62,498)**	-	(41,997)
Proceeds from issue of ordinary share capital		**535**	1,700	1,521
Proceeds from bank borrowings	**16**	**37,000**	-	-
Repayment of bank borrowings	**16**	**-**	(28,000)	(60,000)
Bank loan costs		**(2,087)**	(2,104)	(1,292)
Dividends paid to owners	**8**	**(30,920)**	(35,262)	(50,313)
Net cash used in financing activities		**(57,970)**	(63,666)	(152,081)
Effects of exchange rate changes		**(1,001)**	1,616	3,386
Net increase/(decrease) in cash and cash equivalents		**4,356**	(276)	(6,749)
Cash and cash equivalents at beginning of period		**26,080**	32,829	32,829
Cash and cash equivalents at end of period		**30,436**	32,553	26,080

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)	Restated retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 May 2010	**37,583**	**112,700**	**(6,329)**	**(27,085)**	**102,537**	**219,406**
Currency translation differences	-	-	1,172	-	-	1,172
Profit for the period	-	-	-	-	55,253	55,253
Total comprehensive income	-	-	1,172	-	55,253	56,425
Transactions with owners:						
Dividends	-	-	-	-	(35,262)	(35,262)
Issue of share capital	83	2,520	-	-	(903)	1,700
Movement in relation to share options	-	-	-	-	1,635	1,635
Movement on fair value of acquisitions	-	-	-	-	212	212
Deferred tax on share options	-	-	-	-	(993)	(993)
Balance as at 31 October 2010	**37,666**	**115,220**	**(5,157)**	**(27,085)**	**122,479**	**243,123**

	Ordinary shares	Share premium account	Foreign currency translation reserve (deficit)	Other reserves (deficit)	Restated retained earnings	Total
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)**
Balance as at 31 October 2011	**37,760**	**116,700**	**(6,127)**	**(27,085)**	**78,795**	**200,043**

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

Micro Focus International plc
Notes to the consolidated interim financial information

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 for issue on 6 December 2011.

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 2011 were approved by the board of directors on 22 June 2011 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 2011 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 2011, 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 2011, as described in those financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual taxable profits.

(a) The following new standards, interpretations and amendments to standards were effective during the period to 31 October 2011 and have been adopted in this interim financial information.

- IAS 24 (Revised), "Related Party Disclosures", for periods beginning on or after 1 January 2011 and supersedes IAS 24, "Related Party Disclosures" which was issued in 2003. The amendment to this standard clarifies and simplifies the definition of a related party.
- IAS 27 (Revised), "Consolidated and Separate Financial Statements". – The Group has adopted IFRS 3 (Revised) and it is required to adopt IAS 27 (Revised) at the same time. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses.

(b) The following standards, interpretations and amendments to existing standards were effective during the period to 31 October 2011 but had no material impact on this consolidated interim financial information:

- IFRIC 14 (Amendment), "Prepayment of a Minimum Funding Requirement", applies for periods beginning on or after 1 January 2011. The amendments correct an unintended consequence of IFRIC 14. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions.
- IFRIC 19, "Extinguishing Financial Liabilities With Equity Investments", applies for periods beginning on or after 1 July 2010. It clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor.
- Improvements to International Financial Reporting Standards – was issued in May 2010 with effective dates varying standard by standard.

(c) The following standards, interpretations and amendments to existing standards are not yet effective and have not been early 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.

3. Accounting policies continued

(d) 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.
- 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.
- 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.

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 presentation 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. In the year ended 30 April 2011 resources were managed on a global basis and accordingly the Executive Committee did not measure costs or operating profit by segment and therefore the Group has not reported operating profit by segment for the period ended 31 October 2010. Effective from 1 May 2011, the Group has reduced its number of operating segments to the three geographic regions with the Borland business now integrated within the regional organisations.

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**	**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)
Amortisation of purchased intangibles				(7,851)
Operating profit				**78,694**
Total assets				**558,726**
Total liabilities				**358,683**

Operating segments for the half-year ended 31 October 2010:

	North America	International	Asia Pacific	Total
	$'000	$'000	$'000	$'000
Total segment revenue	103,570	81,506	30,502	215,578
Operating costs				(148,892)
Operating profit				66,686
Share based compensation charge				1,635
Amortisation of purchased intangibles				7,858
Adjusted operating profit (note 9)				76,179
Total assets				598,243
Total liabilities				355,120

Notes to the consolidated interim financial information

6. Analysis of revenue by product

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

	CD $'000	MM $'000	Test $'000	Niche $'000	Total $'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**

Set out below is an analysis of revenue recognised between the principal product categories for the half-year ended 31 October 2010.

	CD $'000	MM $'000	Test $'000	Niche $'000	Total $'000
Licence	49,413	13,724	9,948	9,579	82,664
Maintenance	54,631	19,832	28,914	12,779	116,156
Consulting	185	7,632	8,082	859	16,758
Total	**104,229**	**41,188**	**46,944**	**23,217**	**215,578**

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 2011 (unaudited)				Six months ended 31 October 2010 (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	**62,413**	**194,256**	**32.13**	**19.28**	55,253	205,256	26.92	16.83
Effect of dilutive securities								
Options		**4,412**				5,053		
Diluted EPS								
Earnings attributable to ordinary shareholders	**62,413**	**198,668**	**31.42**	**18.85**	55,253	210,309	26.27	16.42
Supplementary adjusted EPS								
Basic EPS	**62,413**	**194,256**	**32.13**	**19.28**	55,253	205,256	26.92	16.83
Tax impact of US tax losses [1]	**-**				(6,842)			
Adjusted items[2]	**8,026**				9,493			
Tax relating to above items	**(1,421)**				(3,297)			
Basic EPS – adjusted	**69,018**	**194,256**	**35.53**	**21.32**	54,607	205,256	26.60	16.63
Diluted EPS	**62,413**	**198,668**	**31.42**	**18.85**	55,253	210,309	26.27	16.42
Tax impact of US taxes losses[1]	**-**				(6,842)			
Adjusted items[2]	**8,026**				9,493			
Tax relating to above items	**(1,421)**				(3,297)			
Diluted EPS – adjusted	**69,018**	**198,668**	**34.74**	**20.85**	54,607	210,309	25.97	16.23

[1] The tax charge for the half-year ended 31 October 2010 includes a credit in respect of the recognition of an additional deferred tax asset of $6.8m in respect of US tax losses. This credit does not result from the performance of the business in the period and has therefore been excluded in calculating Adjusted EPS.

[2] Adjusted items comprise amortisation 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 $1.67 to £1 (2010: $1.60 to £1).

8. Dividends

A dividend of $30.9m was paid during the period to 31 October 2011 of 16.2 cents per share (2010: $35.3m or 16.2 cents per share).

The directors announce an interim dividend of 8.2 cents per share (2010: 7.2 cents per share) payable on 27 January 2012 to shareholders who are on the register at 6 January 2012. This interim dividend, amounting to $15.2m (2010: $14.8m) has not been recognised 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 2011 (unaudited)	Six months ended 31 October 2010 (unaudited)	Year ended 30 April 2011 (audited)
	$'000	$'000	$'000
Operating profit	**78,694**	66,686	120,532
Exceptional items – reorganisation and property rationalisation	**(1,805)**	-	14,540
Share-based compensation charge	**1,980**	1,635	2,235
Amortisation of purchased intangibles	**7,851**	7,858	15,709
Adjusted operating profit	**86,720**	76,179	153,016
Depreciation	**1,962**	2,176	4,675
Amortisation of software	**484**	604	1,045
Adjusted EBITDA	**89,166**	78,959	158,736
EBITDA	**97,204**	82,790	154,468
Amortisation of capitalised development costs	**(8,213)**	(5,466)	(12,507)
Exceptional items – reorganisation costs	**(1,805)**	-	14,540
Share-based compensation charge	**1,980**	1,635	2,235
Adjusted EBITDA	**89,166**	78,959	158,736

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 $13.4m (2010: $8.0m) resulting in the Group's effective tax rate being 17.7% (2010: 12.6%).

In accordance with IAS 34 the tax expense recognised 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 recognised in the period to which they relate. In the period a credit of $1.9m was recognised, arising from the submission of claims for enhanced deductions for research and development expenditure in prior periods. 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 utilisation of future losses it was appropriate to increase the value of losses recognised by $2.0m. The Group now carries deferred tax assets in respect of ten years benefit of US tax losses. It is now anticipated that deferred tax assets will be maintained at this level for the foreseeable future and in a normal year the impact will be $2.0m.

Changes to the UK Corporation tax system were included in Finance Act 2011 to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012. The effect of the change in tax rate to 25% was to reduce the deferred tax liability provided at 31 October 2011 by $0.4m. Further reductions are proposed to reduce the rate by 1% per annum to 23 % by 1 April 2013. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The effect of these further reductions is not expected to be significant.

Excluding the effect of the items above, the effective tax rate for the period would be 23.3% (2010: 23.4%). The effective tax rate for the full year to 30 April 2012 is expected to be approximately between 18% and 21%. The Group's medium term effective tax rate is currently expected to be between 22% and 24%.

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 totalling $11.0m (2010: $10.3m) was made in the period. This consisted of $9.5m in respect of development costs and $1.5m in respect of purchased software.

13. Property, plant and equipment

Capital expenditure of $15.3m was made in the period. The majority of this related to the purchase of the freehold of the Group's Headquarters in Newbury which was purchased for a total consideration of $14.7m. This building is being depreciated over 30 years and in the half-year ended 31 October 2011 a total of $0.1m has been charged for depreciation.

14. Trade and other receivables

	31 October 2011 (unaudited)	31 October 2010 (unaudited)	30 April 2011 (audited)
	$'000	$'000	$'000
Trade receivables	**73,797**	97,715	93,801
Prepayments	**10,276**	11,969	13,835
Other receivables	**-**	-	396
Accrued income	**-**	2,130	40
Total	**84,073**	111,814	108,072

15. Trade and other payables - current

	31 October 2011 (unaudited)	Restated 31 October 2010 (unaudited)	Restated 30 April 2011 (audited)
	$'000	$'000	$'000
Trade payables	**7,724**	8,367	10,478
Other tax and social security payable	**7,828**	9,420	10,729
Accruals	**45,228**	41,587	42,349
Total	**60,780**	59,374	63,556

The above balances have been restated for the half-year ended 31 October 2010 and the year ended 30 April 2011 to move provisions out of accruals (see note 17).

16. Borrowings

	31 October 2011 (unaudited)	31 October 2010 (unaudited)	30 April 2011 (audited)
	$'000	$'000	$'000
Bank loan unsecured	**78,000**	73,000	41,000

At 31 October 2011, the Group had a three year unsecured $215m revolving credit facility in place, denominated in US dollars, which expires on 6 May 2012. Interest on the facility is payable at US Dollar Libor plus 2.25% from 30 April 2011 depending on covenant ratios. A new revolving credit facility was entered into on 1 December 2011 with a three year term and a limit of up to $275m (see note 19). The new facility will initially be used to repay the existing facility.

17. Provisions

	31 October 2011 (unaudited)	Restated 31 October 2010 (unaudited)	Restated 30 April 2011 (audited)
	$'000	$'000	$'000
Onerous leases and dilapidations	**4,518**	14,080	5,708
Legal	**400**	-	-
Restructuring	**5,079**	-	19,164
Total	**9,997**	14,080	24,872
Current	**5,821**	4,718	17,479
Non-current	**4,176**	9,362	7,393
Total	**9,997**	14,080	24,872

	Onerous leases and dilapidations $'000	**Legal $'000**	**Restructuring $'000**	**Total $'000**
At 1 May 2011	**5,708**	**-**	**19,164**	**24,872**
Additional provision in the period	**128**	**400**	**415**	**943**
Utilisation 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**	**400**	**5,079**	**9,997**

	Onerous leases and dilapidations $'000	**Legal $'000**	**Restructuring $'000**	**Total $'000**
At 1 May 2010	16,106	-	-	16,106
Additional provision in the period	637	-	-	637
Utilisation of provision	(2,816)	-	-	(2,816)
Unwinding of discount	153	-	-	153
At 31 October 2010	14,080	-	-	14,080

The legal provision has been made in the period in respect of an ongoing claim against a subsidiary company which is being robustly defended by the subsidiary.

The onerous lease and dilapidations provision relates to leased Group properties.

Restructuring provisions relates to the restructuring and property rationalization that was undertaken during the year ended 30 April 2011. Included within this is $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.

In prior periods provisions totalling $14.1m for the half-year ended 31 October 2010 and $24.9m for the year ended 30 April 2011 had been included within accruals. However, following a review it has been determined that it is more appropriate to show these balances as provisions in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

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. Post balance sheet events

On 2 December 2011 the Group announced the refinancing of its existing lending facilities entering into a new $275m three year unsecured Revolving Credit Facility with Barclays, Clydesdale, HSBC, Lloyds and RBS, which expires on 1 December 2014. Interest is payable at an initial rate of US Dollar LIBOR plus 2.1% for a period of approximately six months. The rate then payable is dependent upon the Group's net debt to pre-exceptional EBITDA ratio on a periodic basis. The range payable is 1.75% to 2.35% over US Dollar LIBOR. The facility was initially used to repay the outstanding balance on the Group's existing $215m facility and can be used on an ongoing basis. Subject to shareholder approval approximately $130.4m will be utilised to fund the proposed Special Dividend payment as discussed further below. The cost of arranging this new facility is $3.3m. $0.4m of this arrangement fee will be expensed to the Income Statement in the remainder of the current financial year.

As a result of this new facility, the unamortised costs of the previous facility of $1.1m will be expensed immediately through the Income Statement rather than over the remaining period of the facility in the year to 30 April 2012.

20. Return of value to shareholders

Following consultation with major institutional shareholders the Board is proposing, subject to shareholder approval, that a Return of Value of 45 pence per share is paid to shareholders. At current exchange rates this equates to approximately 70.2 cents per share and a total cost of approximately $130.4m.

Eligible shareholders will be offered the option of selecting a capital rather than income treatment of their distribution, The Circular to shareholders is expected to be despatched to shareholders no later than 16 December 2011 and, if approved by shareholders in the general meeting, cash will be distributed by the end of January 2012. In order to facilitate the payment of the Return of Value and in order to provide flexibility in future, the Group is undertaking an internal reorganisation to access distributable reserves.

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 2011, 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 2011 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

7 December 2011

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.