

10 December 2014

Micro Focus International plc
Interim results for the six months ended 31 October 2014

Micro Focus International plc ("Micro Focus", "the Company" or "the Group", LSE: MCRO.L), the international software product group, announces unaudited interim results for the six months ended 31 October 2014 after a further period of solid progress on adjusted measures.

During this period it announced the transformational \$2.5bn acquisition of The Attachmate Group, Inc. ("Attachmate") which was subsequently completed on 20 November 2014. No trading results of the Attachmate Group are included in the results set out below.

Results at a glance	Six months ended 31 Oct 2014	Six months ended 31 Oct 2013	Change	Year ended 30 Apr 2014
Revenue				
Total Revenue				
Constant Currency	\$208.3m	\$207.1m	+0.6%	\$430.9m
- Licence	\$76.7m	\$83.6m	-8.3%	\$177.1m
- Maintenance	\$125.1m	\$118.5m	+5.6%	\$241.8m
- Consultancy	\$6.5m	\$5.0m	+30.0%	\$12.0m
Reported	\$208.3m	\$207.5m	+0.4%	\$433.1m
Acquisitions in the year ended 30 April 2014				
- Licence	\$0.9m	-	N/A	\$2.3m
- Maintenance	\$5.3m	-	N/A	\$3.6m
- Consultancy	\$0.2m	-	N/A	\$0.2m
- Sub-total	\$6.4m	-	N/A	\$6.1m
Like for Like				
- Licence	\$75.8m	\$83.6m	-9.3%	\$174.8m
- Maintenance	\$119.8m	\$118.5m	+1.1%	\$238.2m
- Consultancy	\$6.3m	\$5.0m	+26.0%	\$11.8m
- Sub-total	\$201.9m	\$207.1m	-2.5%	\$424.8m
NON GAAP MEASURES				
Adjusted EBITDA*				
Constant Currency	\$102.5m	\$87.3m	+17.4%	\$188.1m
Reported	\$102.5m	\$89.9m	+14.0%	\$192.0m
Underlying Adjusted EBITDA*				
Constant Currency	\$98.3m	\$90.4m	+8.7%	\$192.5m
Reported	\$98.3m	\$93.0m	+5.7%	\$196.4m
STATUTORY MEASURES				
Pre-tax profit				
Constant Currency	\$57.1m	\$67.7m	-15.7%	\$143.8m
Reported	\$57.1m	\$70.5m	-19.0%	\$147.8m
Earnings per share **				
Basic	36.17c	38.85c	-6.9%	84.75c
Diluted	35.07c	37.52c	-6.5%	82.35c
Adjusted	60.77c	45.53c	+33.5%	100.32c
Adjusted diluted	58.92c	43.98c	+34.0%	97.48c
Dividend per share	15.40c	14.00c	+10.0%	44.00c
Net debt	\$258.9m	\$164.5m	+57.4%	\$261.0m

Key highlights

- Total revenue of \$208.3m in line with the prior year, with growth in Maintenance and Consultancy revenue offset by a decline in Licence revenue
- Adjusted EBITDA ahead of market expectations at \$102.5m, an increase of 17.4% on a constant currency ("CCY") basis, at a margin of 49.2%
- Underlying Adjusted EBITDA increased by 8.7% on a CCY basis to \$98.3m
- First recognition of the tax benefit of the UK Patent Box regime totaling \$7.6m comprising a current year six month tax benefit of \$2.9m and a benefit of \$4.7m in respect of the year ended 30 April 2014
- Growth in Adjusted diluted earnings per share of 34.0% to 58.92 cents (2013: 43.98 cents)

- Strong cash conversion in the period
 - Cash generated from operations was \$68.4m (2013: \$86.4m) representing 88.4% (2013: 96.1%) of Adjusted EBITDA less exceptional costs
 - Net debt at 31 October 2014 decreased to \$258.9m (April 2014: \$261.0m), significant items included payment of final dividend of \$40.2m and costs paid of \$7.5m relating to the acquisition of Attachmate announced on 15 September 2014
 - Net debt to Facility EBITDA (for 12 month period to 31 October) multiple of 1.16 times (2013: 1.63 times)
- Enhanced returns for shareholders
 - Compound Annual Growth Rate in Shareholder Value over the last three years is 46.9% (2013: 31.0%)
 - 4th Return of Value completed of 60 pence per share for a total cost of £83.9m (\$131.6m)
- Proposed interim dividend increased by 10.0% to 15.4 cents per share (2013: 14.0 cents per share)
- Announcement, subsequent approval and completion of the acquisition of Attachmate
 - Exceptional costs associated with the transaction of \$25.1m
 - Exceptional interest costs of \$2.4m relating to the refinancing of existing debt facilities

Statutory results

- Operating profit of \$63.7m (\$88.8m pre-exceptional costs) (2013: \$73.9m)
- Profit before tax of \$57.1m (2013: \$70.5m)
- Basic earnings per share of 36.17 cents (2013: 38.85 cents) decreased by 6.9%**

* In assessing the performance of the business, the directors use non GAAP measures “Adjusted operating profit” and “Adjusted earnings per share”, being the relevant statutory measures, prior to exceptional items, amortization of purchased intangibles and share based compensation. “Adjusted EBITDA” is the Adjusted Operating Profit prior to depreciation and amortization of purchased software. Underlying Adjusted EBITDA removes the impact of net capitalization/amortization of development costs and foreign currency gains and losses from Adjusted EBITDA whilst Facility EBITDA is Adjusted EBITDA before amortization of capitalized development costs. A reconciliation of these profit measures is given in note 8.

** Earnings per share are detailed in note 10.

Kevin Loosemore, Executive Chairman of Micro Focus, commented:

“This was a period in which we made further solid progress. Total revenues in the period ended 31 October 2014 were 0.6% ahead of the same period last year on a constant currency basis whilst Underlying Adjusted EBITDA increased by 8.7% and Adjusted EBITDA increased by 17.4%. Growth in Maintenance and Consultancy revenues was offset by a decline in Licence revenues. After a strong close to the year ended 30 April 2014, Licence revenues in International remained strong, whilst there was a decline in Asia Pacific and Japan against a strong comparative period and the sales force restructuring at the end of the year ended 30 April 2014 in North America caused a drag in the half year as the new teams were brought on.

On 15 September 2014 we announced the acquisition of Attachmate, issued a prospectus on 8 October 2014 and completed the transaction on 20 November 2014. This is a transformational transaction for Micro Focus and has the potential to deliver significantly higher returns to our shareholders over the medium-term than our base case of 15% to 20% per annum.

On 1 December 2014 we completed our 4th Return of Value to shareholders, this time for 60 pence per share, at a cost of £83.9m (\$131.6m). This brings the total amount returned to shareholders since 28 March 2011 through share buy-backs, returns of value and ordinary dividends to £533.0m which represents 84.0% of the Market Capitalization at that time.

In line with our new progressive dividend policy, we are increasing our interim dividend by 10.0% to 15.4 cents per share (2013: 14.0 cents per share).

The acquisition of Attachmate represents a very exciting opportunity for the Enlarged Group. The initial phase of the integration has started and the medium-term objective remains the same – for low single digit revenue growth – in order to continue to deliver the financial model that we have set out.”

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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 business. Our key value proposition to our clients is that we enable them to achieve significant incremental benefits from their prior investments in IT by addressing the technical challenges of linking the new and the old.

During the six months to 31 October 2014, Micro Focus delivered revenues of \$208.3m (2013: \$207.5m) which compared with CCY revenue for the comparable period of \$207.1m, represents an increase of 0.6%. Excluding the acquisitions made in the six months to 30 April 2014, Licence fees were \$75.8m, (2013: CCY \$83.6m); Maintenance fees were \$119.8m (2013: CCY \$118.5m) and Consultancy revenues were \$6.3m (2013: CCY \$5.0m). The sum of Licence and Maintenance fees delivered \$195.6m (2013: CCY \$202.1m) and was a decline of 3.2%. Consultancy revenue growth was mostly in North America as a result of an increase in Mainframe Solutions projects.

Operating costs before exceptional items, share based payments and amortization of purchased intangibles ("Adjusted Operating Costs") decreased to \$108.7m from \$122.1m on a CCY basis. As a result Adjusted Operating Profit was \$99.6m (2013: CCY \$85.0m). Included within these profits are a charge for net amortization of development costs of \$0.8m (2013: net amortization charge of \$0.6m) and a foreign exchange gain of \$4.9m (2013: loss \$2.5m). The Underlying Adjusted Operating Costs have decreased to \$110.0m from \$116.7m on a CCY basis.

In the second half of last year we completed three acquisitions and these acquisitions have added revenues of \$6.4m comprising of Licence fees of \$0.9m, Maintenance fees of \$5.3m and Consultancy fees of \$0.2m. \$5.1m of these new revenues were generated in our North America region, \$1.0m in our International region and \$0.3m in our Asia Pacific and Japan region.

Revenues in our North America region declined by 1.0% to \$94.5m (2013: CCY \$95.5m) and represent 45.4% of Group revenues (2013: CCY 46.1%).

Revenues in our International region increased by 4.9% to \$87.6m (2013: CCY \$83.5m) and represented 42.0% of the revenue for the Group (2013: CCY 40.3%).

In our Asia Pacific and Japan region revenues declined by 6.8% to \$26.2m (2013: CCY \$28.1m) and represented 12.6% of the Group's revenue (2013: CCY 13.6%).

The average employee headcount during the period ended 31 October 2014 was 1,221 (2013: 1,205). At 31 October 2014 headcount was 1,220. We have continued with our strategy of recruiting graduates for our sales academy programme and we hired 23 during the period and in addition we have also hired 19 new graduate development trainees in the period.

We would like to thank our employees for their continued dedication, commitment and hard work in delivering the half year results.

Acquisition of Attachmate

On 15 September 2014, the Company announced that it had agreed to acquire Attachmate pursuant to which the Company would acquire the entire issued share capital of Attachmate, the holding company of The Attachmate Group, which is an enterprise software infrastructure business. Micro Focus shareholders voted in favour of the acquisition at a general meeting on 27 October 2014 and the transaction completed on 20 November 2014 following receipt of necessary competition clearances.

The consideration for the shares of Attachmate was the issue of 86,595,711 Ordinary Shares (the "Consideration Shares"). This is equal to approximately 40.0% of the Enlarged Share Capital following the acquisition and the Return of Value. The Company also announced on 15 September 2014 that it proposed, subject to shareholder approval, to return £83.9m (\$131.6m) to shareholders. The Board decided to effect the Return of Value through a structure which enabled existing shareholders, subject to applicable overseas restrictions and tax laws, to elect to receive their cash proceeds as income or capital or any combination of the two. The Record Date for the Return of Value occurred on 19 November 2014 and so the Consideration Shares issued in connection with the acquisition were not entitled to receive the Return of Value. In addition, the holder of the Consideration Shares did not participate in the final dividend of 17.7 pence per share payable in respect of the year ended 30 April 2014 but

will participate in the interim dividend of 15.4 cents per share (9.87 pence per share).

Strategic rationale and operational benefits

The Board has set out a clear strategy of delivering consistent Total Shareholder Returns (“TSRs”) in excess of Micro Focus’ risk adjusted cost of capital, with an objective of achieving TSRs of 15% to 20% per annum over the long-term. This objective has been comfortably exceeded over the three financial years ended 30 April 2014, through a combination of growing earnings per share, improving the consistency of the Company’s financial performance, returning cash to shareholders, and selectively reinvesting cash flow from operations into accretive acquisitions and into improving the quality of the Micro Focus Group’s product portfolio and “Go To Market” propositions. The Board believes that the acquisition presents a rare opportunity to achieve a significant increase in the scale and breadth of Micro Focus, with the potential to deliver TSRs that are superior to those likely to be achieved on an organic basis.

Attachmate was a privately held enterprise software infrastructure company headquartered in Houston, Texas, United States with approximately 3,300 employees. Attachmate’s consolidated revenues for the financial year ended 31 March 2014 were \$956.8m and Underlying Adjusted EBITDA was \$312.8m for the same period. The directors consider that the businesses of the Micro Focus Group and the Attachmate Group share a number of important attributes:

- both the Micro Focus Group and the Attachmate Group are well established enterprise software vendors operating at a global scale with a presence in all significant international markets;
- both the Micro Focus Group and the Attachmate Group are characterized by high Underlying Adjusted EBITDA margins (Micro Focus 45.4%, Attachmate 32.7%) and high recurring revenues (Micro Focus 66.3%, Attachmate 71.3%);
- both the Micro Focus Group and the Attachmate Group hold a portfolio of software solutions organized into different product groups which address specific aspects of the infrastructure software requirements of a substantial installed base of large enterprise customers; and
- the majority of both the Micro Focus Group and the Attachmate Group’s respective product portfolios are predominantly mature solution sets which are embedded within the IT infrastructures of large corporate customers.

The Board and Wizard Parent LLC (“Wizard”) (the direct parent company of Attachmate) have for some time recognized the potential for a combination of the two businesses and have held exploratory discussions in the past which have helped the parties to gain a greater understanding of the performance and trajectory of their respective businesses. Micro Focus’ executive team has, over the three years ended 30 April 2014, proven adept at managing Micro Focus’ product portfolio to arrest declining revenues through invigorated product management and improved sales effectiveness and a strong alignment of employee and management incentives to shareholder returns and cash generation, coupled with tight financial discipline and strongly improving adjusted operating margins.

With the Company performing strongly the Board believes that the acquisition represents a substantial opportunity to:

- create significantly greater scale and breadth of product portfolio covering adjacent areas of the infrastructure market, with limited direct overlaps creating a leading global infrastructure software company with a top three global market position in a number of key segments, including off mainframe COBOL, mainframe modernization, host connectivity and Linux;
- add a substantial recurring revenue base to Micro Focus’ existing “Core” products, together with accessing important new growth drivers and new revenue models within Attachmate’s product set, including, for example, maintenance and subscription revenues from the Attachmate Group’s SUSE Linux product portfolio which were \$181.8m for the financial year ended 31 March 2014;
- accelerate operational effectiveness over the medium-term, through the alignment of best practices between the Micro Focus Group and the Attachmate Group in areas such as product development, support, product management, account management, and sales force productivity, as well as achieving operational efficiencies where appropriate; and
- exploit and further develop cross-selling opportunities between the Enlarged Group’s enterprise customers.

Integration benefits

The Board believes that the principal benefits of the acquisition will arise mainly from the delivery, over the medium-term, of operational efficiencies across the Enlarged Group, primarily through reducing duplicated central costs and combining corporate support functions where appropriate. The Board will also seek to reduce or reverse areas of revenue decline, accelerate revenue growth where achievable, and enhance operating margins. However, the immediate imperative will be to ensure that the acquisition is effected without undue disruption to the product development, sales, support and administrative functions of the Enlarged Group. An outline integration and alignment plan has been developed. Following the completion of the acquisition on 20 November 2014, a more detailed alignment plan will set out the scope of the wider and longer term alignment process, quantifiable objectives and the proposed organization structure of the Enlarged Group. This plan will be finalized over the coming months with any significant changes to the Enlarged Group commencing at the end of the current

financial year.

Management, employees and locations of business

On Completion, Prescott Ashe (a Managing Director of Golden Gate Capital) and David Golob (a Partner in Francisco Partners), representing Wizard, joined the Board as non-executive directors. To ensure an appropriate balance between independent and non-independent directors, Stephen Murdoch stepped down from the Board at Completion whilst remaining as an employee of the Enlarged Group and a key member of the operating board (see below). The remaining directors continue to perform their existing roles on the Board as part of the Enlarged Group. The Board intends to appoint another independent non-executive director to the Board following Completion, which will increase the number of independent non-executive directors from four to five.

On 15 April 2014, the Board announced an intention to transition back to the separate roles of a Chairman and a Chief Executive over the following 12 to 24 months. This will be kept under review during the integration process.

An operating board has been formed comprising senior management of Micro Focus and Attachmate in order to ensure that the Enlarged Group benefits from the skills and experience of both Micro Focus and Attachmate to deliver best practice and operational excellence across the Enlarged Group. The Enlarged Group's headquarters remains Micro Focus' registered office at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, RG14 1QN, England. The Board also currently intends to retain Attachmate's principal offices in Houston Texas, Seattle Washington, Provo Utah and Nuremburg Germany.

Information on the Attachmate Group

The Attachmate Group provides enterprise infrastructure software solutions to businesses, governments and other large organizations in order to extend, manage and secure complex IT environments. It comprises four principal software product portfolios:

- Attachmate, which delivers advanced software for terminal emulation, legacy modernization, managed file transfer and enterprise fraud management;
- NetIQ, which helps organizations tackle information protection challenges cost-effectively and manage the complexity of dynamic, highly-distributed application environments;
- Novell, which helps businesses work more efficiently and collaborate more effectively; and
- SUSE Linux, which offers a family of software products centred around SUSE Linux Enterprise, an interoperable platform for core computing needs supported by a shared global support and services organization.

The Attachmate Group has a stable base of core relationship customers whose existence supports a strong recurring revenue base, with recurring revenues representing 71.3%, 71.0% and 68.9% respectively of total revenue for the financial years ended 31 March 2014, 2013 and 2012.

Financing of the Enlarged Group

The existing indebtedness of both the Attachmate Group and the Micro Focus Group has been refinanced as part of the acquisition and the Net Debt of the Enlarged Group following Completion of the acquisition and the Return of Value is approximately \$1.67bn. On 20 November 2014 a Micro Focus subsidiary entered into a new credit agreement comprising a \$1,275m seven year term loan B, a \$500m five year term loan C and a \$225m Revolving Facility (together "the New Facilities"). At completion, \$1,875m of the New Facilities were drawn down leaving \$125m of the Revolving Facility undrawn.

The only financial covenant attaching to the New Facilities relates to the Revolving Facility, which will be subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. The New Facilities have been used to finance the Return of Value and the Refinancing, and to pay fees and costs arising from the Return of Value, the acquisition and the Refinancing.

Impact on leverage and interest cover ratios

The Board is targeting to achieve a Net Debt ratio of 2.5 times Facility EBITDA within two years of Completion. Assuming full drawdown of Facility B and Facility C, and a \$75m drawdown under the Revolving Facility, the interest cost of the New Facilities for the 12 months following completion of the acquisition is estimated at \$103.9m. This is covered approximately five times by the Enlarged Group's pro-forma Facility EBITDA, which the Board considers to be a comfortable level of interest cover.

Impact on dividend and cash returns policy of the Enlarged Group

The Board has in recent periods had a dividend policy to propose a level of dividend covered approximately two times on a pre-exceptional earnings basis. Following Completion, unless the performance of the Enlarged Group were to fall significantly below the Board's expectations, the Board intends to implement a progressive dividend policy, but to suspend consideration of further Returns of Value or share buy-backs until such time as the Enlarged Group's target debt level of 2.5 times Facility EBITDA is achieved.

Delivering value to shareholders

The Board has adopted a very clear plan of value creation and the acquisition of Attachmate will augment that plan.

In December 2014 we completed a Return of Value to shareholders amounting to £83.9m (\$131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by 0.9285 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. As part of the restructuring resulting from the acquisition we have created a merger reserve of approximately \$1.4bn, which is expected to become a distributable reserve in future periods. This creates flexibility for future Returns of Value once Net Debt to Facility EBITDA is below 2.5 times.

This was our 4th Return of Value to shareholders and this brings the total amount returned to shareholders since 28 March 2011 through share buy-backs, Returns of Value and ordinary dividends to £533.0m which represents 84.0% of the Market Capitalization at that time.

We are announcing an increase in our interim dividend of 10.0% to 15.4 cents per share, (2013: 14.0 cents per share) reflecting our robust financial position and confidence in the future prospects of the business. This will be paid in sterling equivalent of 9.87 pence per share, based on an exchange rate of £ = \$1.5595, being the rate applicable on 9 December 2014, the date on which the Board resolved to propose the interim dividend.

Outlook

The acquisition of Attachmate represents a very exciting opportunity for the Enlarged Group. The initial phase of the integration has started and the medium-term objective remains the same - for low single digit revenue growth - in order to deliver the financial model that we have set out. In the short-term there is likely to be a reduction in overall pro-forma revenues as Attachmate continues its downward trend and as we rationalize the business; our target is to return to overall revenue growth on a CCY basis for the year ending 30 April 2018.

Micro Focus' results for the second half of the year will include five months and ten days trading from Attachmate. To the extent that the integration plan concludes that organisational changes are required the related restructuring charges would be taken in the second half of the year.

Kevin Loosemore
Executive Chairman
10 December 2014

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 and Micro Focus discloses profitability by these reporting segments. The regional presidents are responsible for revenues and directly controllable costs and are then allocated central costs to arrive at a regional Adjusted EBITDA. The segmental analysis is detailed in note 5. Product Portfolios are sold into these regions via a combination of direct sales, partners and independent software vendors.

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

	Six months ended 31 October 2014 Existing \$m	Six months ended 30 April 2014 Acquisitions \$m	Six months ended 31 October 2014 As Reported \$m	Six months ended 31 October 2013 As Reported \$m	Six months ended 31 October 2013 CCY \$m	Year ended 30 April 2014 CCY \$m
North America	89.4	5.1	94.5	95.6	95.5	199.7
International	86.6	1.0	87.6	82.8	83.5	178.0
Asia Pacific and Japan	25.9	0.3	26.2	29.1	28.1	53.2
Total revenue	201.9	6.4	208.3	207.5	207.1	430.9

On a CCY basis, revenues have increased by 0.6%. The acquisitions in the six months ended 30 April 2014, delivered \$6.4m of revenue in the period consisting of \$0.9m of Licence fee and \$5.3m of Maintenance revenue. Adjusting for this acquired revenue, on a like for like basis, revenues have declined by 2.5% from \$207.1m to \$201.9m.

In North America, on a CCY basis, excluding acquisitions, total revenues decreased by 6.4%. Once Niche revenues are excluded, the remaining product portfolios decreased by 5.7%. Licence fees and Maintenance revenue for these portfolios decreased by \$5.7m and \$0.5m respectively whilst Consultancy grew by \$0.9m. The acquisitions made in the six months ended 30 April 2014 contributed \$5.1m of revenue consisting of \$0.6m of Licence revenue, \$4.4m of Maintenance revenues and \$0.1m of Consulting revenues.

In International our total revenues on a CCY basis, excluding acquisitions, increased by 3.7%. Excluding the Niche product portfolio, which had declined from \$2.5m to \$1.5m, the growth in revenue was \$4.1m (5.1%). The acquisitions made in the six months ended 30 April 2014 contributed \$1.0m of revenue in the period.

In Asia Pacific and Japan our total revenues, excluding acquisitions, on a CCY basis declined by 7.8% from \$28.1m to \$25.9m. Excluding the Niche product portfolio, the decline in revenue is reduced to 7.6% or \$2.0m. The acquisitions made in the six months ended 30 April 2014 contributed \$0.3m of revenue in the period.

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

	Six months ended 31 October 2014 Existing \$m	Six months ended 30 April 2014 Acquisitions \$m	Six months ended 31 October 2014 As Reported \$m	Six months ended 31 October 2013 As Reported \$m	Six months ended 31 October 2013 CCY \$m	Year ended 30 April 2014 CCY \$m
Licence	75.8	0.9	76.7	83.7	83.6	177.1
Maintenance	119.8	5.3	125.1	118.7	118.5	241.8
Consultancy	6.3	0.2	6.5	5.1	5.0	12.0
Total revenue	201.9	6.4	208.3	207.5	207.1	430.9

Licence revenues declined by 8.3% to \$76.7m (2013: CCY \$83.6m) and represent 36.8% of the Group's revenues. COBOL Development declined by \$2.4m partly due to the tough trading conditions in Japan and the lower sales pipeline at the beginning of the year in North America. Mainframe Solutions declined by \$2.0m in the International and North America regions. Borland declined by \$2.1m which was experienced by all three regions due to a combination of sales force disruption and execution on key opportunities. CORBA increased by \$0.4m and Niche declined by \$0.8m as expected.

Maintenance revenues increased by 5.6% to \$125.1m (2013: CCY \$118.5m) and represent 60.1% of the Group's revenues. Once the impact of the acquisitions made in the six months ended 30 April 2014 and Niche Maintenance revenues are removed the remaining product portfolios delivered a growth of 2.1%. Growth in COBOL Development and flat Mainframe Solutions are offset by declines in Borland (Test) and the remaining CORBA Maintenance revenues. The renewal rates in the period by Product Portfolios were CD 92% (2013:

91%), Mainframe Solutions 94% (2013: 85%), Borland (Test) 86% (2013: 82%), CORBA 76% (2013: 82%) and Niche 78% (2013: 61%).

Consultancy revenues increased by \$1.5m to \$6.5m (2013: CCY \$5.0m) and represent 3.1% of the Group's revenues. The increase was partly in North America due to increased Mainframe Solutions activity and in Brazil where there was increased Borland (Test) and Mainframe Solutions activity.

Revenue by Product Portfolio on a reported and CCY basis is shown below:

	Six months ended 31 October 2014 Existing \$m	Six months ended 30 April 2014 Acquisitions \$m	Six months ended 31 October 2014 As Reported \$m	Six months ended 31 October 2013 As Reported \$m	Six months ended 31 October 2013 CCY \$m	Year ended 30 April 2014 CCY \$m	Change Like for Like %	Change As Reported at CCY %
COBOL								
Licence	46.2	-	46.2	48.8	48.6	107.1	-4.9	-4.9
Maintenance	63.5	-	63.5	60.0	59.8	121.9	6.2	6.2
Consultancy	0.3	-	0.3	0.5	0.6	1.0	-50.0	-50.0
	110.0	-	110.0	109.3	109.0	230.0	0.9	0.9
Mainframe Solutions								
Licence	11.7	0.1	11.8	13.8	13.8	28.9	-15.2	-14.5
Maintenance	21.9	-	21.9	20.6	20.7	42.3	5.8	5.8
Consultancy	3.9	0.1	4.0	2.1	2.2	6.3	77.3	81.8
	37.5	0.2	37.7	36.5	36.7	77.5	2.2	2.7
Borland (Test)								
Licence	7.3	0.5	7.8	9.9	9.9	19.3	-26.3	-21.2
Maintenance	18.9	4.1	23.0	19.8	19.8	41.6	-4.5	16.2
Consultancy	1.9	0.1	2.0	1.8	1.7	3.9	11.8	17.6
	28.1	4.7	32.8	31.5	31.4	64.8	-10.5	4.5
CORBA								
Licence	9.9	0.3	10.2	9.8	9.8	19.2	1.0	4.1
Maintenance	11.6	1.2	12.8	13.3	13.2	26.5	-12.1	-3.0
Consultancy	0.2	-	0.2	0.5	0.4	0.6	-50.0	-50.0
	21.7	1.5	23.2	23.6	23.4	46.3	-7.3	-0.9
Sub-total excluding Niche								
Licence	75.1	0.9	76.0	82.3	82.1	174.5	-8.5	-7.4
Maintenance	115.9	5.3	121.2	113.7	113.5	232.3	2.1	6.8
Consultancy	6.3	0.2	6.5	4.9	4.9	11.8	28.6	32.7
	197.3	6.4	203.7	200.9	200.5	418.6	-1.6	1.6
Niche								
Licence	0.7	-	0.7	1.4	1.5	2.6	-53.3	-53.3
Maintenance	3.9	-	3.9	5.0	5.0	9.5	-22.0	-22.0
Consultancy	-	-	-	0.2	0.1	0.2	-100.0	-100.0
	4.6	-	4.6	6.6	6.6	12.3	-30.3	-30.3
Total revenue								
Licence	75.8	0.9	76.7	83.7	83.6	177.1	-9.3	-8.3
Maintenance	119.8	5.3	125.1	118.7	118.5	241.8	1.1	5.6
Consultancy	6.3	0.2	6.5	5.1	5.0	12.0	26.0	30.0
Revenue at CCY	201.9	6.4	208.3	207.5	207.1	430.9	-2.5	0.6

COBOL Development (CD) – 52.9% (2013: CCY 52.6%) of revenues

The financial performance of the COBOL Development portfolio was mixed with International growing revenues by 1.7% and North America were also up by 2.1% whilst Asia Pacific and Japan declined by 3.9%. Overall revenues increased by 0.9% to \$110.0m (2013: CCY \$109.0m).

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 introduced further developments to Visual COBOL and have received a positive response from customers and the partner community. Visual COBOL

provides the fastest way for customers to move to Java Virtual Machine ("JVM"), .net or Cloud environments whilst protecting their investments and intellectual property. CD revenues grew by 0.9% on a CCY basis, mostly due to Maintenance fees growth of 6.2% offset by a decline in Licence fees of 4.9%. Visual COBOL revenues continued to grow strongly in the period contributing \$10.2m in Licence fees (2013: \$7.0m). We have seen a significant number of customers commit to Visual COBOL to take advantage of the opportunities provided by operating COBOL applications in a modern language format in an industry standard Integrated Development Environment ("IDE"). A significant new release of Visual COBOL and updates to our core COBOL offerings in Net Express and Server Express were delivered in the period.

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 our products 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) – 18.1% (2013: CCY 17.7%) of revenues

Mainframe Solutions revenues increased by 2.7% on a CCY basis. However, Licence fees declined by \$2.0m and Maintenance revenues increased by \$1.2m with Consultancy revenue growth of \$1.8m causing the overall increase in portfolio revenues. The Licence fee decline of \$2.0m was predominantly in our Enterprise suite of products in the International and North America regions as a result of the more competitive environment.

Our Mainframe Solutions product set addresses a customer's need to get the most value out of their mainframe environment. Feedback from our customers and prospects on both our strategy and products has been very positive and emphasizes that the positioning is relevant to the current marketplace. Mainframe Solutions revenues grew by 2.7% in the period on a CCY basis driven mainly by growth in Maintenance revenue with Licence revenue declining. Our products typically form part of a much larger project and as such the timing and scale of Licence purchases is less predictable and smooth within any given reporting period. We are working to smooth this situation through key strategic initiatives to drive to a subscription model with major Systems Integrators.

Enterprise Developer takes our core Visual COBOL technology and by delivering it in the Eclipse IDE makes the capabilities available to the mainframe COBOL user. We have now released a major update to our Enterprise Developer for z Enterprise solution which fully incorporates the technology acquired through the prior year acquisition of SoforTe GmbH enabling us to complete our vision of supporting the full application life cycle from maintenance through to full modernization for mainframe COBOL applications. We estimate that the mainframe COBOL development market opportunity is approximately three times as large as that for off mainframe distributed COBOL development with the majority of this opportunity being addressed by the global Systems Integrator organisations who are the focus of our subscription model initiative above.

Borland (Test) – 15.7% (2013: CCY 15.2%) of revenues

The Borland (Test) product portfolio now consists of the Caliber, StarTeam and Silk Product Brands that were included last year together with the AccuRev Inc. acquisition, completed on 31 December 2013. Portfolio revenues increased by 4.5% with a decline in Licence revenues partially offset by growth in Maintenance and Consultancy revenues. Our North America and International regions provided all of the growth whilst Asia Pacific and Japan declined.

The Borland product portfolio enables companies to optimize the end to end supply chain process of delivering software, from definition (requirements capture) through to quality (testing and change management). Our portfolio enables companies to better align their teams, and for that alignment to extend outside the company to suppliers and partners. We provide solutions for both practitioners who want to work together more effectively, and IT decision makers who need to manage change in their business that they often cannot control. These capabilities provide the foundation for accelerated delivery of software projects and are leveraged by companies seeking competitive advantage, improved customer satisfaction and optimized operational efficiency.

We have invested significantly in the product portfolio to ensure relevance to key market growth areas, specifically: agile development, cloud based service delivery models, and the rapid adoption of mobile devices as a business technology platform. The product strategy reflects both these growth opportunities and a continued commitment to the success of our existing customers, informed through direct customer feedback and independent market research. Borland's products (Silk, Caliber, StarTeam and AccuRev) have clear product roadmaps and we are focused on delivering differentiated customer propositions from each product and from the combination of products within the portfolio. As an example of the individual product standard, Micro Focus was again placed in the leaders' quadrant of the 2013 Gartner Magic Quadrant for Integrated Quality Suites with our Silk portfolio. During the period significant new releases of Silk, Caliber and StarTeam were delivered and the acquired AccuRev team and portfolio integrated into the business successfully.

The challenge for our Borland portfolio is the balance between Licence and Maintenance income within overall revenues where Maintenance accounts for approximately 67% of total like for like revenues (2013: CCY 63%). We are fully aware of this dynamic and during last year reduced the drag on total revenues by increasing Licence sales. This progress was not continued into the period ended 31 October 2014 where Licence declined driven by a combination of sales force disruption and execution on key opportunities.

CORBA – 11.1% (2013: CCY 11.3%) of revenues

The CORBA product portfolio saw a small revenue decline of 0.9% from \$23.4m to \$23.2m. On a like for like basis the decline was 7.3%, with Licence fees growth of 1.0%, Maintenance revenues decline of 12.1% and Consultancy revenues showing a decline of 50%.

Following the purchase of the CORBA assets from Progress Software Corporation in February 2013 we have further strengthened our position in this product portfolio by buying the CORBA assets from PrismTech Group Limited in November 2013. We now own the three leading CORBA products: VisiBroker, Orbix and OpenFusion as well as the Orbacus mainframe product. These products provide excellent functionality and performance to companies with installed networks with a requirement for high speed and secure transfer of data between systems. Important new updates to VisiBroker were delivered during the period as well as integrating the products into a single development organization to leverage common process and learning across the multiple roadmaps. We are now the leading provider of CORBA technology on a worldwide basis.

Niche – 2.2% (2013: CCY 3.2%) of revenues

Our Niche portfolio comprises mature products that are expected to see on-going revenue decline but that provide good margins and strong cash flow.

As expected the Niche Product Portfolio has declined as a percentage of our business and now represents 2.2% of total revenues (2013: CCY 3.2%).

Absent the Niche Portfolio Micro Focus revenues grew by 1.6% in the first half of 2015 compared to the first half of 2014 on a CCY basis, including acquisitions from the six months ended 30 April 2014.

Costs

The costs (including exceptional costs of \$25.1m) for the period compared to the prior period at actual reported and CCY are shown below:-

	Six months ended 31 October 2014 As Reported \$m	Six months ended 31 October 2013 As Reported \$m	Six months ended 31 October 2013 CCY \$m	Year ended 30 April 2014 As Reported \$m	Year ended 30 April 2014 CCY \$m
Cost of sales	14.7	14.5	14.6	29.9	30.1
Selling and distribution	54.6	59.5	60.1	120.7	120.9
Research and development	29.2	27.4	27.9	57.8	58.2
Administrative expenses	46.2	32.2	33.3	68.9	70.0
Total costs	144.7	133.6	135.9	277.3	279.2

Cost of sales for the period increased by 0.7% on a CCY basis to \$14.7m (2013: CCY \$14.6m) mostly related to the cost of achieving additional consultancy revenues. The costs in this category predominantly relate to our consulting and helpline support operations.

Selling and distribution costs decreased on a CCY basis by 9.2% to \$54.6m (2013: CCY \$60.1m) as a result of less sales staff, lower cost of incentive plans, a reduction in marketing costs and a change in the cost mix of sales resource.

Research and development expenses on a CCY basis increased by 4.7% to \$29.2m (2013: CCY \$27.9m), equivalent to approximately 14.0% of revenue (2013: CCY 13.5%). The charge to the consolidated statement of comprehensive income in the period is after taking account of the net amortization of development costs in the period. Additions to capitalized development costs in the period were \$9.7m (2013: \$8.3m) less amortization of previously capitalized development costs of \$9.5m (2013: \$8.9m) and an impairment charge of \$1.0m (2013: \$Nil) resulting in a net charge to the consolidated statement of comprehensive income of \$0.8m (2013: \$0.6m). The amount spent on a CCY basis on research and development prior to the impact of net capitalization of development costs and impairment was \$28.4m (2013: CCY \$27.3m) representing 37.9% of licence fee revenue (2013: 32.7%). Impairment charges of \$1.0m (2013: \$Nil) were made in respect of some Borland development costs previously capitalized in the year ended 30 April 2014, to ensure the carrying value of these assets reflect the revised recoverable amount. The amount spent in the period on developing the products from the three acquisitions made in the second half of last year was \$3.3m. At 31 October 2014 the net book value of capitalized development costs on the balance sheet was \$30.7m (2013: \$30.9m).

Administrative expenses excluding exceptional costs of \$25.1m (2013: \$Nil), share based compensation of \$4.0m (2013: \$5.0m) and exchange gains of \$4.9m (2013: loss of \$2.5m) decreased by 14.7% to \$22.0m (2013: CCY \$25.8m). During the period administrative expenses included costs incurred to date in executing and researching the acquisition of Attachmate of \$25.1m which are being treated as exceptional items. In the six months to 31

October 2013 administrative expenses included \$1.0m relating to the India restatement and \$2.5m in legal and advisory fees for research into potential acquisitions that were treated as normal operating expenses.

Currency impact

53.3% of our revenue is contracted in US dollars, 24.6% in Euros, 7.8% in Yen and 14.3% in other currencies. In comparison, 31.3% of our costs are US dollar denominated, 36.2% in Sterling, 16.1% in Euros, 2.4% in Yen and 14.0% in other currencies.

This weighting of revenue and costs means that if the US\$: Euro or US\$: Yen exchange rates move 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, Yen 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 2013 CCY revenue is 0.2% lower at \$207.1m and profit before tax before the exchange loss above of \$2.5m is 3.8% lower than the reported numbers at \$70.5m.

There has been a significant amount of volatility in the first six months across our three main currencies with the US\$ (GBP, Euro and Yen). When we look at average exchange rates in the period compared to the period ended 31 October 2013 the average US\$ exchange rate has weakened by 7.05% against GBP, strengthened by 4.87% against JPY and weakened by 0.35% against EUR. Due to the relative mix of revenue and costs these changes have a marginal impact on revenue and a greater impact on costs when converting the six months ended 31 October 2013 to Constant Currency ("CCY") resulting in CCY Revenues for H1 2014 of \$207.1m (reported \$207.5m), Underlying Adjusted EBITDA of \$90.4m (reported \$93.0m) and Adjusted EBITDA of \$87.3m (reported \$89.9m).

If 31 October 2014 exchange rates were maintained for the remainder of the year ending 30 April 2015, then the impact on reported revenues for the year ended 30 April 2014 when converted to CCY would be to reduce revenue by \$2.1m to \$430.9m and Adjusted EBITDA by \$3.9m to \$192.5m.

Intercompany loan arrangements within the Group are denominated in the local currency of the borrower. 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 consolidated statement of comprehensive income. The Group's UK Corporation Tax liability is denominated in Sterling and any movement of the US\$: Sterling rate will give rise to a foreign exchange gain or loss which is also taken to the consolidated statement of comprehensive income. Since 30 April 2014 the US\$ has strengthened against the GBP by 4.9%, against the JPY by 7.6% and against the EUR by 9.2%. These movements give rise to the foreign exchange credit in the first half of \$4.9m (2013: loss of \$2.5m) as GBP and EUR liabilities are worth less at 31 October 2014 compared to 30 April 2014.

Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the period was \$102.5m (2013: \$89.9m) and Underlying Adjusted EBITDA was \$98.3m (2013: \$93.0m) at a margin of 47.2% (2013: 44.8%).

	Six months ended 31 October 2014 \$m	Six months ended 31 October 2013 As Reported \$m	Six months ended 31 October 2013 CCY \$m	Year ended April 2014 As Reported \$m
Reported Revenue	208.3	207.5	207.1	433.1
Adjusted EBITDA	102.5	89.9	87.3	192.0
Foreign Exchange (Credit) / Charge	(4.9)	2.5	2.5	4.4
Net Amortization / (Capitalization) of Development Costs	0.7	0.6	0.6	-
Underlying Adjusted EBITDA	98.3	93.0	90.4	196.4
Underlying Adjusted EBITDA Margin	47.2%	44.8%	43.7%	45.3%

Operating profit

Operating profit was \$63.7m (2013: \$73.9m) excluding exceptional items of \$25.1m (2013: \$Nil). Adjusted operating profit was \$99.6m (2013: \$87.8m).

Net finance costs

Net finance costs were \$6.5m (2013: \$3.5m), including the amortization of \$3.7m of loan arrangement and facility fees incurred on the Group's facility (2013: \$1.4m), facility interest of \$3.0m (2013: \$2.0m) and other interest costs of \$0.1m (2013: \$0.2m), offset by \$0.3m of interest received (2013: \$0.1m). Unamortized prepaid facility arrangement fees were \$0.1m at 31 October 2014. The increase in the amortization of loan arrangement and

facility fees is due to the acceleration of the fees to the consolidated statement of comprehensive income due to the early repayment of the loan and the entering of a new finance facility during November 2014 (see note 22).

Taxation

Tax for the period was \$6.6m (2013: \$12.5m) with the Group's effective tax rate being 11.6% (2013: 17.7%). The effective tax rate for the period has been reduced by the recognition of tax benefits from the Patent Box legislation in the UK. The effect of this reduction is partially offset by an increase due to the exceptional costs of \$25.1m relating to the Attachmate acquisition.

With effect from 1 April 2013, the UK Government introduced Patent Box legislation which provides a reduced rate of tax on profits arising from qualifying IP rights. As previously highlighted, the Patent Box presents a significant opportunity for the Group. As the Group has finalized the calculation of the Patent Box benefit due for the year ended 30 April 2014, we are now in a position to recognize a prior year benefit of \$4.7m as well as an estimate of the benefit accruing to 31 October 2014 of \$2.9m. The Group intends to assess the extent to which its qualifying patent portfolio may be increased in the future through applying for relevant patents.

The Group has incurred exceptional costs in the period in respect of the acquisition of Attachmate of \$25.1m. As a significant proportion of these costs will not be deductible for tax purposes, this has resulted in an increase to the effective tax rate of 3.5%.

Without the impact of the two items above, the effective tax rate ("ETR") for the period to 31 October 2014 would have been 17.6%. A reconciliation is shown below:

ETR before exceptional fees and patent box	17.6%
Effect on ETR of exceptional fees	+3.5%
Effect on ETR of current year patent box benefit	-3.6%
Effect on ETR of prior year patent box benefit	<u>-5.9%</u>
ETR for the period including exceptional items	<u>11.6%</u>

As previously disclosed, since 1 May 2009 the Group has benefited from a lower cash rate of tax 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 anticipated that HMRC will choose a test case to establish the correct interpretation of the legislation. Further details on this claim are provided in note 11. 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. If the Group is unsuccessful in any element of its claim then interest on overdue tax would be payable and charged as interest payable in the consolidated statement of comprehensive income. As at 31 October 2014 the current estimate of the maximum benefit is \$28.5m equivalent to 19.8 cents per share on a fully diluted basis and the estimate of the maximum interest cost is \$2.4m equivalent to 1.7 cents per share on a fully diluted basis.

As disclosed in note 22, the Group completed the acquisition of Attachmate on 20 November 2014. The Group's tax profile will change following the acquisition and it is expected that the Group's tax rate will increase due to a larger proportion of profits being taxed in the United States. The impact of the acquisition will be recognized in the full year results to 30 April 2015 as the acquisition was completed outside of the period of these interim results.

Profit after tax

Profit after tax decreased by 12.9% to \$50.5m (2013: \$58.0m) primarily as a result of exceptional items of \$25.1m relating to the acquisition of Attachmate.

Goodwill

The largest item on the consolidated statement of financial position is goodwill at \$308.5m (2013: \$288.3m) arising from acquisitions made by the Group. In the current period adjustments have been made to the goodwill relating to the acquisition of the OpenFusion CORBA assets from PrismTech Group Limited (note 21) of \$0.3m.

Cash flow

The Group's operating cash flow from continuing operations was \$68.4m (2013: \$86.4m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 88.4% (2013: 96.1%).

At 31 October 2014, the Group's net borrowings balance was \$258.9m (2013: \$164.5m). The most significant cash outflows in the period, other than loan repayments, were the payment of the final dividend for last year of \$40.2m, Income Tax and National Insurance Contributions in respect of exercise of share options in April 2014 of \$10.4m and \$7.5m in relation to the acquisition of Attachmate (note 22).

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 Group expanded significantly as a result of the completion of the acquisition of Attachmate.

The principal risks and uncertainties facing the Group as at 31 October 2014 are still relevant to the Group and they are referenced in the Annual Report and Accounts 2014 together with the mitigating actions. The principal risks and uncertainties were:

- successful 'Go To Market' models;
- continuing success of the Group's research and development activities;
- retention and recruitment of employees; and
- changes in the market conditions.

Since the Annual Report and accounts the Enlarged Group issued in its Prospectus dated 8 October 2014 its principal risks and uncertainties and those are set out in detail on pages 20 – 33 in the Prospectus. The additional or heightened principal risks and uncertainties facing the Group are summarized as:

- integration of the Attachmate business;
- managing and reducing the revenue decline of Attachmate;
- developing new and enhanced products that achieve widespread market acceptance and revenues;
- retention of key personnel of the Enlarged Group; and
- effectiveness of the sales force and distribution channels.

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
10 December 2014

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.

Following completion of the acquisition of Attachmate the directors of Micro Focus International plc are Kevin Loosemore, Mike Phillips, Karen Slatford, Prescott Ashe, David Golob, Tom Skelton, Tom Virden and Richard Atkins. Biographies for each director are included on pages 235, 236 and 238 of the Prospectus. A list of current directors is maintained on the Company's website: www.microfocus.com.

By order of the Board

Kevin Loosemore
Executive Chairman
10 December 2014

Mike Phillips
Chief Financial Officer

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

	Note	Six months ended 31 October 2014 (unaudited) \$'000	Six months ended 31 October 2013 (unaudited) \$'000	Year ended 30 April 2014 (audited) \$'000
Revenue	5,6	208,319	207,541	433,058
Cost of sales		(14,699)	(14,484)	(29,912)
Gross profit		193,620	193,057	403,146
Selling and distribution costs		(54,596)	(59,513)	(120,669)
Research and development expenses		(29,171)	(27,384)	(57,833)
Administrative expenses		(46,192)	(32,243)	(68,924)
Operating profit		63,661	73,917	155,720
Analyzed as:				
Operating profit before exceptional items		88,751	73,917	155,720
Exceptional items	7	(25,090)	-	-
Operating profit	5	63,661	73,917	155,720
Finance costs*	7	(6,791)	(3,584)	(8,197)
Finance income		263	118	318
Profit before tax		57,133	70,451	147,841
Taxation	11	(6,609)	(12,464)	(25,759)
Profit for the period		50,524	57,987	122,082
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Currency translation differences		(1,666)	1,737	2,176
Other comprehensive income for the period, net of tax		(1,666)	1,737	2,176
Total comprehensive income for the period		48,858	59,724	124,258
Attributable to:				
Owners of the parent		48,858	59,724	124,258
Earnings per share expressed in cents per share				
- basic	10	36.17	38.85	84.75
- diluted	10	35.07	37.52	82.35
Earnings per share expressed in pence per share				
- basic	10	21.66	24.97	52.92
- diluted	10	21.00	24.12	51.43

* Finance costs include exceptional items of \$2,384,000 (2013: \$Nil).

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

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

		31 October 2014 (unaudited) \$'000	31 October 2013 (unaudited) \$'000	30 April 2014 (audited) \$'000
	Note			
ASSETS				
Non-current assets				
Goodwill	12	308,524	288,269	308,182
Other intangible assets	13	84,602	87,952	92,533
Property, plant and equipment	14	20,398	21,086	21,599
Deferred tax assets		43,382	37,113	42,631
		456,906	434,420	464,945
Current assets				
Inventories		108	269	133
Trade and other receivables	15	84,784	82,101	107,139
Derivative financial instruments	20	-	4,223	-
Cash and cash equivalents		29,993	30,648	32,800
		114,885	117,241	140,072
Total assets		571,791	551,661	605,017
Liabilities				
Current liabilities				
Trade and other payables	16	67,367	199,719	77,876
Borrowings	17	288,908	195,100	293,830
Provisions	18	1,452	7,002	4,382
Current tax liabilities	11	42,219	44,607	42,177
Deferred income		124,588	123,162	150,168
		524,534	569,590	568,433
Non-current liabilities				
Deferred income		10,958	8,902	12,629
Long-term provisions	18	5,453	1,458	4,920
Deferred tax liabilities		33,641	34,691	35,286
		50,052	45,051	52,835
Total liabilities		574,586	614,641	621,268
Net (liabilities)		(2,795)	(62,980)	(16,251)
EQUITY				
Equity attributable to owners of the parent				
Ordinary shares		37,863	37,799	37,802
Share premium account		14,785	18,013	14,546
Retained earnings		(125,502)	(190,078)	(140,324)
Foreign currency translation reserve (deficit)		(6,839)	(5,612)	(5,173)
Other reserves		76,898	76,898	76,898
Total (deficit) attributable to owners of the parent		(2,795)	(62,980)	(16,251)

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

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

	Six months ended 31 October 2014 (unaudited) \$'000	Six months ended 31 October 2013 (unaudited) \$'000	Year ended 30 April 2014 (audited) \$'000
Note			
Cash flows from operating activities			
Net profit for the period	50,524	57,987	122,082
Adjustments for			
Net interest payable	6,528	3,466	7,879
Taxation	6,609	12,464	25,759
Operating profit	63,661	73,917	155,720
Research and development tax credits	(1,131)	-	-
Depreciation	1,965	1,856	3,846
Loss on disposal of property, plant and equipment	15	35	123
Amortization of intangibles	17,256	18,042	38,047
Impairment of intangibles	13 984	-	-
Share-based compensation	3,953	5,004	12,837
Exchange movements	(406)	(46)	712
Provisions	1,555	(3,730)	1,699
Changes in working capital:			
Inventories	25	(125)	11
Trade and other receivables	22,477	10,517	(13,175)
Payables and other liabilities	(41,993)	(19,112)	6,955
Net cash generated from operating activities	68,361	86,358	206,775
Interest paid	(3,114)	(2,202)	(5,752)
Tax paid	(5,161)	(10,508)	(26,049)
Net cash from operating activities	60,086	73,648	174,974
Cash flows from investing activities			
Payments for intangible assets	13 (10,525)	(8,510)	(19,055)
Purchase of property, plant and equipment	14 (1,762)	(1,374)	(2,908)
Interest received	255	118	317
Payment for acquisition of business	21 -	(6,578)	(35,195)
Net cash acquired with acquisitions	21 -	-	3,261
Net cash used in investing activities	(12,032)	(16,344)	(53,580)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	(146)	520	1,028
Return of Value paid to shareholders	-	-	(144,664)
Foreign exchange gain on hedging contracts related to the Return of Value	-	-	4,470
Costs associated with the Return of Value	-	(205)	(536)
Repayment of bank borrowings	17 (58,000)	(62,000)	(134,000)
Proceeds from bank borrowings	17 50,000	45,000	215,000
Bank loan costs	(590)	(4,915)	(5,248)
Dividends paid to owners	9 (40,215)	(43,072)	(62,633)
Net cash used in financing activities	(48,951)	(64,672)	(126,583)
Effects of exchange rate changes	(1,910)	73	46
Net (decrease) in cash and cash equivalents	(2,807)	(7,295)	(5,143)
Cash and cash equivalents at beginning of period	32,800	37,943	37,943
Cash and cash equivalents at end of period	29,993	30,648	32,800

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 \$'000	Share premium account \$'000	Foreign currency translation reserve (deficit) \$'000	Other reserves (deficit) \$'000	Retained earnings \$'000	Total \$'000
Balance as at 1 May 2013	37,797	16,083	(7,349)	76,898	(65,613)	57,816
Currency translation differences	-	-	1,737	-	-	1,737
Profit for the period	-	-	-	-	57,987	57,987
Total comprehensive income	-	-	1,737	-	57,987	59,724
Transactions with owners:						
Dividends	-	-	-	-	(43,072)	(43,072)
Issue of share capital	2	21	-	-	497	520
Return of Value to shareholders	-	-	-	-	(144,453)	(144,453)
Expenses and foreign exchange relating to Return of Value	-	-	-	-	4,017	4,017
Movement in relation to share options	-	1,909	-	-	559	2,468
	2	1,930	-	-	(182,452)	(180,520)
Balance as at 31 October 2013	37,799	18,013	(5,612)	76,898	(190,078)	(62,980)
Balance as at 1 May 2014	37,802	14,546	(5,173)	76,898	(140,324)	(16,251)
Currency translation differences	-	-	(1,666)	-	-	(1,666)
Profit for the period	-	-	-	-	50,524	50,524
Total comprehensive income	-	-	(1,666)	-	50,524	48,858
Transactions with owners:						
Dividends	-	-	-	-	(40,215)	(40,215)
Issue of share capital	61	239	-	-	(447)	(147)
Movement in relation to share options	-	-	-	-	3,813	3,813
Deferred tax on share options	-	-	-	-	1,147	1,147
	61	239	-	-	(35,702)	(35,402)
Balance as at 31 October 2014	37,863	14,785	(6,839)	76,898	(125,502)	(2,795)

The accompanying notes are an integral part of these condensed consolidated interim financial statements. Other reserves includes a capital redemption reserve of \$104.0m (2013: \$104.0m) and a merger deficit reserve of \$27.1m (2013: \$27.1m).

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 by the Board on 9 December 2014 for issue on 10 December 2014.

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 2014 were approved by the board of directors on 18 June 2014 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 2014 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct 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 2014, 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 2014, 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:
- IFRS 10 "Consolidated Financial Statements" applies for periods beginning on or after 1 January 2014.
 - IFRS 11 "Joint Arrangements" applies for periods beginning on or after 1 January 2014.
 - IFRS 12 "Disclosures of Interests in Other Entities" applies for periods beginning on or after 1 January 2014.
 - IAS 27 (Revised 2011), "Separate Financial Statements", applies for periods beginning on or after 1 January 2014.
 - IAS 28 (Revised 2011), "Associates and Joint Ventures" applies for periods beginning on or after 1 January 2014.
 - Amendments to IAS 36 "Impairment of Assets" applies for periods beginning on or after 1 January 2014.
- (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:
- Amendment to IAS 19, "Employee Benefits" applies for periods beginning on or after 1 July 2014.
 - Annual Improvements 2012 includes amendments to IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations", IFRS 8 "Operating Segments", IFRS 13 "Fair Value Measurement", IAS 16 "Property, Plant and Equipment", IAS 38 "Intangible Assets", IFRS 9 "Financial Instruments", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets and IAS 39 "Financial Instruments – Recognition and Measurement" applies for periods beginning on or after 1 July 2014.
 - Annual Improvements 2013 includes amendments to IFRS 1 "First Time Adoption", IFRS 3 "Business Combinations", IFRS 13 "Fair Value Measurement" and IAS 40 "Investment Property" applies for periods beginning on or after 1 July 2014.
 - Annual Improvements 2014 includes amendments to IFRS 5, "Non-current Assets Held For Sale and Discontinued Operations", IFRS 7, "Financial Instruments: Disclosures", IAS 19, "Employee Benefits" and IAS 34, "Interim Financial Reporting" applies for periods beginning on or after 1 January 2016.
 - Amendment to IFRS 11 "Joint Arrangements" applies for periods beginning on or after 1 January 2016.
 - Amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" applies for periods beginning on or after 1 January 2016.
 - Amendment to IFRS 10 "Consolidated Financial Statements" applies for periods beginning on or after 1 January 2016.

Notes to the consolidated interim financial information

3. Accounting policies continued

- Amendment to IAS 28 “Investments in Associates and Joint Ventures” applies for periods beginning on or after 1 January 2016.
- IFRS 15 “Revenue From Contracts With Customers” applies for periods beginning on or after 1 January 2017.
- IFRS 9 “Financial Instruments” applies for periods beginning on or after 1 January 2018.

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. In respect of IFRS 15 whilst there is a level of uncertainty in regards to the total impact on revenues, the directors do not anticipate this to be material.

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 being the currency of the territory in which it operates.

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 8.

Operating segments for the half-year ended 31 October 2014:

	North America	International	Asia Pacific and Japan	Total
	\$'000	\$'000	\$'000	\$'000
Segment revenue	94,549	87,590	26,180	208,319
Directly managed costs	(16,696)	(25,105)	(6,321)	(48,122)
Allocation of centrally managed costs	(29,231)	(23,711)	(7,626)	(60,568)
Total segment costs	(45,927)	(48,816)	(13,947)	(108,690)
Adjusted operating profit (note 8)	48,622	38,774	12,233	99,629
Exceptional items				(25,090)
Share based compensation charge				(3,953)
Amortization of purchased intangibles				(6,925)
Operating profit*				63,661
Total assets				571,791
Total liabilities				574,586

* Operating profit includes \$1.0m (2013: \$Nil) of impairment charges (see note 13).

Notes to the consolidated interim financial information

5. Segmental reporting continued

Operating segments for the half-year ended 31 October 2013:

	North America \$'000	International \$'000	Asia Pacific and Japan restated \$'000	Total restated \$'000
Segment revenue	95,602	82,754	29,185	207,541
Directly managed costs	(16,816)	(28,604)	(8,228)	(53,648)
Allocation of centrally managed costs	(32,539)	(24,688)	(8,900)	(66,127)
Total segment costs	(49,355)	(53,292)	(17,128)	(119,775)
Adjusted operating profit (note 8)	46,247	29,462	12,057	87,766
Share based compensation charge				(5,004)
Amortization of purchased intangibles				(8,845)
Operating profit				73,917
Total assets				551,661
Total liabilities				614,641

Comparative figures have been restated to reflect a change in the way our costs are allocated between directly managed costs and allocation of centrally managed costs.

6. Analysis of revenue by product

Set out below is an analysis of revenue recognized between the principal product portfolios for the six months ended 31 October 2014.

	CD \$'000	MS \$'000	Borland (Test) \$'000	CORBA \$'000	Niche \$'000	Total \$'000
Licence	46,230	11,797	7,794	10,215	677	76,713
Maintenance	63,490	21,932	23,016	12,764	3,895	125,097
Consulting	306	4,019	1,956	179	49	6,509
Total	110,026	37,748	32,766	23,158	4,621	208,319

Set out below is an analysis of revenue recognized between the principal product categories for the six months ended 31 October 2013.

	CD \$'000	MS \$'000	Borland (Test) \$'000	CORBA \$'000	Niche \$'000	Total \$'000
Licence	48,751	13,756	9,930	9,789	1,481	83,707
Maintenance	60,051	20,634	19,775	13,330	4,988	118,778
Consulting	543	2,096	1,789	472	156	5,056
Total	109,345	36,486	31,494	23,591	6,625	207,541

7. Exceptional items

The exceptional administrative expenses of \$25.1m shown in the consolidation statement of comprehensive income relate to fees incurred as part of the acquisition of Attachmate which completed on 20 November 2014. The total cash outflow of exceptional items during the period was \$7.5m.

In addition to the exceptional items of \$25.1m, exceptional interest costs of \$2.4m relating to the refinancing of existing debt facilities are included within finance costs.

Notes to the consolidated interim financial information

8. Reconciliation of operating profit to EBITDA

	Six months ended 31 October 2014 (unaudited) \$'000	Six months ended 31 October 2013 (unaudited) \$'000	Year ended 30 April 2014 (audited) \$'000
Operating profit	63,661	73,917	155,720
Exceptional items	25,090	-	-
Share-based compensation charge	3,953	5,004	12,837
Amortization of purchased intangibles	6,925	8,845	18,923
Adjusted operating profit	99,629	87,766	187,480
Depreciation	1,965	1,856	3,846
Amortization of software	859	254	640
Adjusted EBITDA	102,453	89,876	191,966
Amortization of development costs	9,472	8,943	18,484
Facility EBITDA	111,925	98,819	210,450
Operating profit	63,661	73,917	155,720
Amortization of intangible assets	17,256	18,042	38,047
Depreciation of property, plant and equipment	1,965	1,856	3,846
EBITDA	82,882	93,815	197,613
Amortization of capitalized development costs	(9,472)	(8,943)	(18,484)
Exceptional items	25,090	-	-
Share-based compensation charge	3,953	5,004	12,837
Adjusted EBITDA	102,453	89,876	191,966
Foreign exchange (credit) / loss	(4,871)	2,464	4,400
Net amortization / (capitalization) of development costs	754	642	36
Underlying Adjusted EBITDA	98,336	92,982	196,402

The directors use EBITDA, EBITDA before exceptional items and share based compensation charge but after amortization of development costs ("Adjusted EBITDA") and Adjusted EBITDA before foreign exchange gains and losses and Net Amortization/Capitalization of development costs ("Underlying Adjusted EBITDA") as key performance measures of the business. Facility EBITDA was the measure used under the Group's \$420m Revolving Credit Facility to determine the Net Debt to Facility EBITDA covenant calculation. The Facility EBITDA for the 12 months ended 31 October 2014 was \$223.6m. Whilst the \$420m facility was repaid and cancelled as part of the refinancing on the acquisition, for consistency the directors will continue to use the metric Net Debt to Facility EBITDA.

9. Dividends

A dividend of \$40.2m was paid during the period to 31 October 2014 of 30.0 cents per share (2013: \$43.1m or 28.1 cents per share).

The directors announce an interim dividend of 15.4 cents per share (2013: 14.0 cents per share) payable on 23 January 2015 to shareholders who are on the register at 5 January 2015. This interim dividend, amounting to \$33.4m (2013: \$19.4m) has not been recognized as a liability in this half-yearly report.

Notes to the consolidated interim financial information

10. 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 2014 (unaudited)				Six months ended 31 October 2013 (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	50,524	139,699	36.17	21.66	57,987	149,278	38.85	24.97
Effect of dilutive securities								
Options		4,373				5,258		
Diluted EPS								
Earnings attributable to ordinary shareholders	50,524	144,072	35.07	21.00	57,987	154,536	37.52	24.12
Supplementary EPS								
Basic EPS	50,524	139,699	36.17	21.66	57,987	149,278	38.85	24.97
Adjusted items ¹	38,352				13,849			
Tax relating to above items	(3,982)				(3,868)			
Basic EPS – adjusted	84,894	139,699	60.77	36.39	67,968	149,278	45.53	29.27
Diluted EPS	50,524	144,072	35.07	21.00	57,987	154,536	37.52	24.12
Adjusted items ¹	38,352				13,849			
Tax relating to above items	(3,982)				(3,868)			
Diluted EPS – adjusted	84,894	144,072	58.92	35.28	67,968	154,536	43.98	28.27

¹ Adjusted items comprise amortization of acquired intangibles \$6,925,000 (2013: \$8,845,000), share-based compensation \$3,953,000 (2013: \$5,004,000), exceptional items \$25,090,000 (2013: \$Nil) and exceptional interest costs of \$2,384,000 (2013: \$Nil). 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 (2013: \$1.56 to £1).

Notes to the consolidated interim financial information

11. Taxation

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.

Tax for the period was \$6.6m (2013: \$12.5m) resulting in the Group's effective tax rate being 11.6% (2013: 17.7%).

The effective tax rate for the period has been reduced by the recognition of tax benefits from the Patent Box legislation in the UK. The effect of this reduction is partially offset by an increase due to the exceptional costs of \$25.1m relating to the Attachmate acquisition.

With effect from 1 April 2013, the UK Government introduced Patent Box legislation which provides a reduced rate of tax on profits arising from qualifying IP rights. As previously highlighted, the Patent Box presents a significant opportunity for the Group. As the Group has finalized the calculation of the Patent Box benefit due for the year ended 30 April 2014, we are now in a position to recognize a prior year benefit of \$4.7m as well as an estimate of the benefit accruing to 31 October 2014 of \$2.9m. The Group intends to assess the extent to which its qualifying patent portfolio may be increased in the future through applying for relevant patents.

The Group has incurred exceptional costs in the period in respect of the acquisition of Attachmate of \$25.1m. As a significant proportion of these costs will not be deductible for tax purposes, this has resulted in an increase to the effective tax rate of 3.5%.

Without the impact of the two items above, the effective tax rate ("ETR") for the period to 31 October 2014 would have been 17.6%. A reconciliation is shown below:

ETR before exceptional fees and patent box	17.6%
Effect on ETR of exceptional fees	+3.5%
Effect on ETR of current year patent box benefit	-3.6%
Effect on ETR of prior year patent box benefit	-5.9%
ETR for the period including exceptional items	<u>11.6%</u>

Changes to the UK Corporation tax system were included in Finance Act 2014 to reduce the main rate of corporation tax from 21% to 20% from 1 April 2015. The effect of these changes was recognized within the financial statements for the year ended 30 April 2014, there is therefore no further impact including within these interim results.

As at 31 October 2014 the outstanding current tax liability of the Group was \$42.2m (2013: \$44.6m). Of this amount, \$28.5m (2013: \$25.0m) related to the ongoing claim that the Group has made with HM Revenue & Customs which impacts its tax returns for the year ended 30 April 2009 and subsequent years and includes no interest. The Group has taken no benefit to the consolidated statement of comprehensive income but has paid reduced cash tax payments in line with its claim. The cash tax benefit in the six months to 31 October 2014 was \$2.4m (2013: \$2.4m) and the total cash tax benefit to date is \$27.2m based on the difference between the Group's claimed tax liability and the tax liability in the consolidated statement of financial position. 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 consolidated statement of financial position, there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement. If the Group is unsuccessful with any of its claim then interest on overdue tax would be payable and charged as interest payable in the consolidated statement of comprehensive income. As at 31 October 2014 the current estimate of the maximum benefit is \$28.5m equivalent to 19.8 cents per share on a fully diluted basis and the estimate of the maximum interest cost is \$2.4m equivalent to 1.7 cents per share on a fully diluted basis.

12. Goodwill

	31 October 2014 (unaudited)	31 October 2013 (unaudited)	30 April 2014 (audited)
Cost and net book amount	\$'000	\$'000	\$'000
At 1 May	308,182	284,661	284,661
Acquisitions	342	3,608	23,521
At 31 October / 30 April	308,524	288,269	308,182

The movement in goodwill in the period relates to hindsight period adjustments of the OpenFusion CORBA assets from PrismTech Group Limited acquired during the year ended 30 April 2014 (\$0.3m) (note 21).

Notes to the consolidated interim financial information

13. Other intangible assets

	Purchased software \$'000	Development costs \$'000	Purchased intangibles			Total \$'000
			Technology \$'000	Customer relationships \$'000	Non-compete agreements \$'000	
Net book value						
At 1 May 2013	753	31,504	30,813	30,459	115	93,644
Additions	209	8,301	3,942	-	-	12,452
Disposals	(1)	-	-	-	-	(1)
Charge for the period	(254)	(8,943)	(4,598)	(4,247)	-	(18,042)
Exchange adjustments	(101)	-	-	-	-	(101)
At 31 October 2013	606	30,862	30,157	26,212	115	87,952
Net book value						
At 1 May 2013	753	31,504	30,813	30,459	115	93,644
Additions	607	18,448	6,761	11,358	-	37,174
Disposals	(92)	-	-	-	-	(92)
Charge for the year	(640)	(18,484)	(9,720)	(9,088)	(115)	(38,047)
Exchange adjustments	(146)	-	-	-	-	(146)
At 30 April 2014	482	31,468	27,854	32,729	-	92,533
Net book value						
At 1 May 2014	482	31,468	27,854	32,729	-	92,533
Additions	823	9,702	-	-	-	10,525
Disposals	(1)	-	-	-	-	(1)
Charge for the period	(859)	(9,472)	(3,352)	(3,573)	-	(17,256)
Impairment	-	(984)	-	-	-	(984)
Exchange adjustments	(215)	-	-	-	-	(215)
At 31 October 2014	230	30,714	24,502	29,156	-	84,602

Expenditure totaling \$10.5m (2013: \$12.5m) was made in the period, including \$9.7m in respect of development costs and \$0.8m of purchased software.

Impairment charges of \$1.0m (2013: \$Nil) were made in respect of some Borland development costs previously capitalized in the year ended 30 April 2014, to ensure the carrying value of these assets reflect the revised recoverable amount.

14. Property, plant and equipment

Capital expenditure of \$1.8m (2013: \$1.4m) was made in the period.

15. Trade and other receivables

	31 October 2014 (unaudited) \$'000	31 October 2013 (unaudited) \$'000	30 April 2014 (audited) \$'000
Trade receivables	77,710	73,701	95,508
Prepayments	6,658	7,909	10,640
Other receivables	390	485	971
Accrued income	26	6	20
Total	84,784	82,101	107,139

At 31 October 2014, 31 October 2013 and 30 April 2014, the carrying amount approximates to the fair value.

Notes to the consolidated interim financial information

16. Trade and other payables - current

	31 October 2014 (unaudited) \$'000	31 October 2013 (unaudited) \$'000	30 April 2014 (audited) \$'000
Trade payables	3,615	3,926	4,683
Other tax and social security payable	9,189	8,455	25,884
Accruals	54,563	42,885	47,309
Return of Value – D Shares	-	144,453	-
Total	67,367	199,719	77,876

At 31 October 2014, 31 October 2013 and 30 April 2014, the carrying amount approximates to the fair value.

17. Borrowings

	31 October 2014 (unaudited) \$'000	31 October 2013 (unaudited) \$'000	30 April 2014 (audited) \$'000
Bank loan unsecured	289,000	199,000	297,000
Unamortized prepaid facility arrangement fees	(92)	(3,900)	(3,170)
	288,908	195,100	293,830

	31 October 2014 (unaudited) \$'000	31 October 2013 (unaudited) \$'000	30 April 2014 (audited) \$'000
Cash at bank and in hand	29,993	30,648	32,800
Less borrowings	288,908	195,100	293,830
Net debt	258,915	164,452	261,030

At 31 October 2014, the Group had an unsecured \$420m revolving credit facility in place, denominated in US dollars, which expires on 16 July 2017. Interest on the facility was payable at US Dollar Libor plus 1.65% from 16 July 2013 for a period of approximately four months. The rate then payable was dependent upon the Group's net debt to Facility EBITDA ratio on a periodic basis. The range payable was 1.65% to 2.90% over US Dollar LIBOR.

The facility could be used for the payment of distributions to shareholders, acquisitions and general corporate purposes.

Borrowings are stated after deducting unamortized prepaid facility costs. Facility arrangement costs have previously been amortized over three years but since the current facility will now be replaced with a new facility in November 2014 as a result of the acquisition of Attachmate the write down of these costs has been accelerated in this accounting period.

On 20 November 2014 the borrowings under the \$420m facility were repaid and replaced with the new banking facilities detailed in note 21 post balance sheet events.

During the period loan drawdowns were made of \$58.0m (2013: \$62.0m) and loan repayments were made of \$50.0m (2013: \$45.0m).

The fair value of borrowings equals their carrying amount.

Notes to the consolidated interim financial information

18. Provisions

	31 October 2014 (unaudited) \$'000	31 October 2013 (unaudited) \$'000	30 April 2014 (audited) \$'000
Onerous leases and dilapidations	1,701	2,121	2,252
Restructuring	53	161	107
Other	5,151	6,178	6,943
Total	6,905	8,460	9,302
Current	1,452	7,002	4,382
Non-current	5,453	1,458	4,920
Total	6,905	8,460	9,302

	Onerous leases and dilapidations \$'000	Restructuring \$'000	Other \$'000	Total \$'000
At 1 May 2014	2,252	107	6,943	9,302
Additional provision in the period	402	-	-	402
Utilization of provision	(795)	(54)	(1,792)	(2,641)
Released	(147)	-	-	(147)
Unwinding of discount	26	-	-	26
Exchange adjustments	(37)	-	-	(37)
At 31 October 2014	1,701	53	5,151	6,905

	Onerous leases and dilapidations \$'000	Restructuring \$'000	Other \$'000	Total \$'000
At 1 May 2013	2,589	513	7,899	11,001
Additional provision in the period	282	-	1,027	1,309
Utilization of provision	(734)	(248)	(2,748)	(3,730)
Released	(47)	(119)	-	(166)
Unwinding of discount	44	-	-	44
Exchange adjustments	(13)	15	-	2
At 31 October 2013	2,121	161	6,178	8,460

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

Restructuring provisions relates to the restructuring and property rationalization that was undertaken during the year ended 30 April 2011. Restructuring provisions as at 31 October 2014 relate to \$0.1m (2013: \$0.2m) for property costs incurred as part of the restructuring.

Other provisions as at 31 October 2014 include \$0.1m (2013: \$0.1m) of costs relating to a rationalization of non-trading subsidiaries, \$3.8m (2013: \$3.8m) relating to potential liabilities acquired with the Iona acquisition, \$1.3m (2013: \$1.3m) relating to tax due for pension and bonus payments prior to July 2011 for our subsidiary in Brazil and \$Nil (2013: \$1.0m) relating to the resolution of the India issue that resulted in the restatement of comparative figures for the period ended 31 October 2013.

Notes to the consolidated interim financial information

19. 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.

20. Return of value to shareholders

During the period ended 31 October 2013, the Group announced a Return of Value to shareholders of 60 pence per ordinary share by way of a D 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 2013. The Group entered into a forward exchange contract to protect the company from any foreign exchange movement and so the resulting payment to shareholders in November 2013 of \$144.7m was offset by a gain of \$4.5m on the foreign exchange forward contract such that the net cost to the company of the Return of Value was \$140.2m. The Return of Value was accompanied by a 12 for 13 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 D shares.

21. Business combinations

Acquisition of OpenFusion CORBA assets from PrismTech Group Limited

On 29 November 2013, the Group acquired from PrismTech Group Limited, the OpenFusion CORBA related assets for an initial consideration of £4.18m (equivalent to \$6.4m) with up to £1.12m (equivalent to \$1.8m) of contingent consideration. The initial consideration of £4.2m (equivalent to \$6.4m) was satisfied in cash using Micro Focus' existing banking facilities. The acquisition costs incurred of \$0.3m were expensed through administrative expenses in the consolidated statement of comprehensive income. Further contingent consideration of £1.1m (equivalent to \$1.8m) was paid on 6 August 2014.

A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

Details of the net liabilities acquired and goodwill are as follows:

	Carrying value at acquisition	Initial fair value	Hindsight period adjustments	Revised fair value
	\$'000	\$'000	\$'000	\$'000
Intangible assets	-	4,351	-	4,351
Trade and other receivables	3	-	-	-
Provisions	(151)	(108)	-	(108)
Deferred income	(844)	(1,621)	(342)	(1,963)
Net (liabilities) / assets	(992)	2,622	(342)	2,280
Goodwill		5,562	342	5,904
Consideration		8,184	-	8,184

Consideration satisfied by :

Cash	6,392
Contingent consideration	1,792
	8,184

The hindsight period adjustments above relate to amendments to deferred income. The deferred income adjustment relates to invoices recorded as pre-acquisition now identified as relating to future periods.

Notes to the consolidated interim financial information

22. Post balance sheet events

On the 15 September 2014 the Group announced the acquisition of Attachmate, a US company based in Houston and this was completed on 20 November 2014. The Board believes that the acquisition presents a rare opportunity to achieve a significant increase in the scale and breadth of Micro Focus, with the potential to deliver total shareholder returns that are superior to those likely to be achieved on an organic basis.

The Company acquired the entire share capital of Attachmate, in exchange for the issue of 86.60m Consideration Shares to Attachmate's parent company, Wizard. This is equal to approximately 40.0% of the enlarged share capital following the acquisition. The value of the Consideration Shares allotted to Wizard is approximately £885.9m (\$1.4bn) which together with the net debt of Attachmate of approximately \$1.1bn values the transaction at approximately \$2.5bn before costs.

In order to complete the acquisition the Group entered into the Facilities. The terms of the new facilities were detailed in our announcement of 8 October 2014 and include secured term loans of \$1,275m with an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.0%) with a seven year term and \$500m with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%) and a five year term. The loan of \$1,275m will be amortised at 1.0% per annum with an original issue discount of 1% with the loan of \$500m will be repaid at 10.0% per annum, with an original issue discount of 1.5%.

Following on from the completion of the acquisition, a Return of Value was made to shareholders (excluding those holding Consideration Shares) on 1 December 2014 amounting to £83.9m (\$131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a B and C Share Scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital.

The Return of Value was structured such that each shareholder received one B Share or one C Share for each Ordinary Share held. This was accompanied by a 0.9285 share consolidation to maintain broad comparability of the share price, together with a reduction in the nominal value of each ordinary share to 10 pence. As a consequence of the share consolidation and reduction in nominal value, Deferred D Shares were issued with an aggregate nominal value equal to the difference in the aggregate nominal value of the ordinary shares pre and post the share consolidation. The B Shares were bought back by the Company for 60 pence each and a dividend of 60 pence was paid on each C Share. Once the C share dividend was paid, each C Share was automatically reclassified as a Deferred Share having negligible value and carrying extremely limited rights. The Deferred Shares and Deferred D Shares were then purchased by the Company for an aggregate consideration of one pence and then cancelled.

More details on the acquisition, the new facilities and the Return of Value can be found on the Micro Focus website (www.investors/microfocus.com).

Notes to the consolidated interim financial information

Independent review report to Micro Focus International plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the interim results of Micro Focus International plc for the six months ended 31 October 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are 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 Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Micro Focus International plc, comprise:

- the consolidated statement of financial position as at 31 October 2014;
- the consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flow for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

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.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The interim results, including the condensed consolidated interim financial statements, are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the interim results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading

10 December 2014

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.