14 December 2016

Micro Focus International plc
Interim results for the six months ended 31 October 2016

Micro Focus International plc ("the Company" or "the Group", LSE: MCRO.L), the international software product group, announces unaudited interim results for the six months ended 31 October 2016.

Revenues in the period were $684.7m, 14.2% higher than the prior year's constant currency ("CCY") figures. Underlying Adjusted EBITDA of $320.3m was 20.9% higher than that delivered in the comparable period at CCY.

Pro-forma CCY* revenues increased 1.2% to $684.7m in the six months ended 31 October 2016, slightly ahead of the guidance range for the full year. Adjusted Diluted EPS in the period increased by 20.5% to 89.20 cents.

In March 2016 the Company announced it had entered into a definitive agreement to acquire the entire share capital of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. and its subsidiaries (together, "Serena" or "the Serena Group"). The acquisition completed on 2 May 2016 and consequently trading results of Serena are included in the results for the six months ended 31 October 2016 set out below.

In September 2016 the Company announced it had agreed with Hewlett Packard Enterprises ("HPE") to merge with the software business assets of HPE ("HPE Software") by way of merger with a wholly owned subsidiary of HPE. The transaction is expected to complete in the third quarter of the calendar year 2017. Exceptional pre-acquisition costs have been incurred in the period and further exceptional costs will be incurred for the remainder of the FY17 and to completion in FY18.

Key highlights

- Pro-forma CCY* revenue growth of 1.2%, driven by:
  - Strong performance by the SUSE Product Portfolio where revenues grew by 23.3% on a pro-forma CCY* basis;
  - On plan performance in Micro Focus portfolio with expected reduction in maintenance and Serena revenues.

- On a CCY basis:
  - Total revenues of $684.7m (2015: CCY $599.6m), an increase of 14.2%.
  - Adjusted EBITDA** of $332.5m (2015: CCY $271.7m), an increase of 22.4%.
  - Underlying Adjusted EBITDA increased by 20.9% to $320.3m (2015: CCY $265.0m).

- Completion of the Serena acquisition took place on 2 May 2016 for an Enterprise Value of $540.0m on a cash and debt free basis, partially funded by a share placing in FY16 of 10.9m shares at a price of 1455 pence raising £158.2m ($225.7m) before expenses.

- On a pro-forma CCY* basis to provide a better comparison of like-for-like performance:
  - Total revenues of $684.7m (2015: pro-forma CCY $676.8m), an increase of 1.2%.
  - Adjusted EBITDA of $332.5m (2015: pro-forma CCY $308.3m), an increase of 7.8%.
  - Underlying Adjusted EBITDA of $320.3m (2015: pro-forma CCY $301.5m), an increase of 6.2%.

- Continual focus on efficiencies led Underlying Adjusted EBITDA margins to improve further to 46.8% (2015: pro-forma CCY 44.5%)

- Exceptional costs incurred in the period of $41.0m (2015: $10.7m) relate to integration costs, acquisition costs, pre-acquisition costs, property costs, severance and legal costs. Second half exceptional costs are currently estimated to be up to $80.0m

- Improved cash generation in the period:
  - Cash generated from operations was $201.9m (2015: $162.7m) representing 69.3% (2015: 62.6%) of Adjusted EBITDA less exceptional costs.

  - Net debt+ at 31 October 2016 was $1,612.6m (30 April 2016: $1,078.0m) down from $1,625.0m following the completion of the Serena acquisition on 2 May 2016.

  - Free cash flow**** in the period of $111.0m (2015: $40.3m)

  - Net debt to Facility EBITDA** for the 12 month period to 31 October 2016 is a multiple of 2.6 times, decreasing to 2.4 times on a pro-forma basis including the acquisition of Serena; medium term target remains 2.5 times.

- Growth in adjusted diluted earnings per share of 20.5% to 89.20 cents (2015: 74.01 cents)***

- Proposed interim dividend increased by 75.5% to 29.73 cents per share (2015: 16.94 cents per share) in line with dividend policy of full year dividend being twice covered by adjusted earnings.

Statutory results

- Operating profit of $163.3m (2015: $150.4m)
- Profit before tax of $113.2m (2015: $98.8m)
- Basic earnings per share of 39.57 cents (2015: 40.17 cents) a decrease of 1.5%***

The table below shows the reported results for the Group at actual exchange rates for the six months ended 31 October 2016 together with CCY comparatives except where stated otherwise:

Results at a glance	**Six months ended 31 Oct 2016**	**Six months ended 31 Oct 2015**	**Growth /(Decline) %**	**Year ended 30 Apr 2016**
Revenue				
Total Revenue				
Constant Currency	**$684.7m**	**$599.6m**	**14.2%**	**$1,241.1m**
- Licence	$146.9m	$134.4m	9.3%	$304.8m
- Maintenance	$364.2m	$324.4m	12.3%	$642.6m
- Subscription	$144.9m	$117.1m	23.7%	$246.8m
- Consultancy	$28.7m	$23.7m	21.1%	$46.9m
Reported	**$684.7m**	**$604.5m**	**13.3%**	**$1,245.0m**
NON GAAP MEASURES				
Adjusted EBITDA**				
Constant Currency	$332.5m	$271.7m	22.4%	$550.0m
Reported	$332.5m	$270.6m	22.9%	$546.8m
Underlying Adjusted EBITDA**				
Constant Currency*	$320.3m	$265.0m	20.9%	$535.7m
Reported	$320.3m	$263.8m	21.4%	$532.5m
STATUTORY MEASURES				
Pre-tax profit				
Constant Currency	$113.2m	$101.0m	12.1%	$201.0m
Reported	$113.2m	$98.8m	14.6%	$195.4m
Earnings per share ***				
Basic	39.57c	40.17c	(1.5)%	74.50c
Diluted	38.12c	38.58c	(1.2)%	71.61c
Adjusted	92.59c	77.06c	20.2%	152.63c
Adjusted Diluted	89.20c	74.01c	20.5%	146.70c
Dividend per share	29.73c	16.94c	75.5%	66.68c
Net debt	$1,612.6m	$1,454.3m	10.9%	$1,078.0m

* Interim results presented for the six months to 31 October 2016 include the post-acquisition period results for Serena and GWAVA. Due to the significant size of the Serena acquisition the directors believe that the interim results are better understood by looking at the comparative results on a pro-forma basis for the combination of Serena and Base Micro Focus. The directors do not consider the GWAVA acquisition to be of a significant size ($0.8m revenue in the period and a loss to Adjusted EBITDA of $0.1m in the period) and therefore have not presented GWAVA results in the pro-forma comparatives.

Serena had a 31 January year end date prior to acquisition. Similar to other software companies with a perpetual licence model Serena's revenues were weighted to the end of each financial quarter and were weighted to the final financial quarter of the year. Micro Focus' experience is that when the financial year end is changed following acquisition the weighting of financial performance moves to the new financial year end. Consequently, in order to provide a meaningful comparison in the pro-forma results for the six months to 31 October 2015 the directors have combined the unaudited internal management information for Serena for the period from 1 February 2015 to 31 July 2015 and then added in the Base Micro Focus results for the six months ended 31 October 2015. The pro-forma comparatives for the year ended 30 April 2016 combine the unaudited financials for Serena for the year ended 31 January 2016 with the audited figures for Base Micro Focus for the year ended 30 April 2016. From the date of acquisition, 2 May 2016 to 31 October 2016, Serena contributed $72.6m to revenue and a contribution to Adjusted EBITDA of $40.0m, before any allocation of management costs.

** In assessing the performance of the business, the directors use non GAAP measures "Adjusted Operating Profit", "Adjusted Operating Costs" 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 and impairment of capitalized development costs. A reconciliation of these profit measures is given in note 8.

*** Earnings per share are detailed in note 11.

**** Free cash flow is cash generated from operations less net interest payments and loan costs, tax, purchase of intangible assets and purchase of property, plant and equipment.

\+ Net debt is defined in note 18. The acquisition of Serena completed on 2 May 2016 for an Enterprise Value of $540m. Pro-forma for the completion of the acquisition net debt at 30 April 2016 would have been $1,625.0m.

Kevin Loosemore, Executive Chairman of Micro Focus, commented:

"The board is delighted with our progress. Our focus on delivering to our customers by making detailed product by product decisions and investments has resulted in the business achieving modest like-for-like revenue growth. Our investments have resulted in strong growth in SUSE and a reduced rate of decline in the Micro Focus portfolio. Whilst we have had a good start to the year and completed two acquisitions, we are maintaining our revenue guidance for FY17 being in the range minus 2% to zero% on FY16 on a CCY basis, pro-forma for the acquisition of Serena.

"Mergers and acquisitions continue to be a key component of our strategy. The key strategic announcement in the period was the HPE Software transaction which is on target to complete in the third quarter of calendar year 2017. This is a complex transaction that will transform the Group in a similar way to the Attachmate transaction back in 2014 and provides the opportunity for enhanced shareholder returns over the medium-term.

"The acquisition of Serena completed at the beginning of the period together with a number of small acquisitions across the business comprising GWAVA Inc., openATTIC on 1 November and the OpenStack IaaS and Cloud Foundry Paas talent and technology assets from HPE which was announced on 30 November and is currently expected to close in the first quarter of calendar year 2017.

"We are delighted to announce that our interim dividend is increasing to 29.73 cents from 16.94 cents in line with our twice covered dividend policy."

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About Micro Focus

Micro Focus (LSE: MCRO.L) is a global enterprise software Company supporting the technology needs and challenges of the Global 2000. Our solutions help organizations leverage existing IT investments, enterprise applications and emerging technologies to address complex, rapidly evolving business requirements while protecting corporate information at all times. Our product portfolios are Micro Focus and SUSE. Within Micro Focus our solution portfolios are COBOL Development and Mainframe Solutions, Host Connectivity, Identity and Access Security, IT Development and Operations Management Tools, and Collaboration and Networking. For more information, visit: www.microfocus.com. SUSE, a pioneer in Open Source software, provides reliable, interoperable Linux, cloud infrastructure and storage solutions that give enterprises greater control and flexibility. For more information, visit: www.suse.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.

Executive Chairman’s Statement

Financial performance

The period under review has been one of considerable economic and political uncertainty. Against this backdrop, Micro Focus’ strategy has remained constant. Together with our ongoing merger and acquisition activity, the board is delighted with the financial performance of the business with growth in revenue and growth in Underlying Adjusted EBITDA. We would like to thank our employees for their continued dedication, commitment and hard work in delivering the first half results.

At the beginning of FY2017 our revenue guidance was for constant currency revenues of minus 2% to zero% on a pro-forma basis. Following completion of the acquisition of Serena, the Group had pro-forma reported revenues for the year to 30 April 2016 of $1,407.4m and Underlying Adjusted EBITDA of $613.4m. Adjusting for the exchange rates experienced in the six months to 31 October 2016, these pro-forma numbers become $1,401.6m and $615.4m on a CCY basis.

Micro Focus Group delivered revenues and Underlying Adjusted EBITDA in the six months to 31 October 2016 of $684.7m and $320.3m respectively, an increase in pro-forma CCY revenues of 1.2%. Our net debt at 31 October 2016 was $1,612.6m which is a small reduction from the $1,625.0m at 30 April 2016 on a pro-forma basis for the acquisition of Serena. Net debt to pro-forma Facility EBITDA for the 12 months period to 31 October 2016 is 2.4 times which is slightly below our medium term target of 2.5 times. Further details on the operational performance of our portfolios, Micro Focus and SUSE, are contained in the CEO reports from Stephen Murdoch and Nils Brauckmann.

Corporate developments: proposed merger with HPE Software

Micro Focus has a firm belief that there are significant segments of the infrastructure software market that have matured. The likely response to this is consolidation. To be successful in this stage of a market both operational effectiveness and scale are critical. We believe that Micro Focus is now well positioned to lead in this space.

On 7 September 2016 we announced that we had entered into a definitive agreement with Hewlett Packard Enterprise (“HPE”) on the terms of a transaction (the “Transaction”) in which we agreed to acquire HPE's software business segment (“HPE Software”) by way of a merger (the “Merger”) with a wholly owned subsidiary of HPE incorporated to hold the business of HPE Software for the purposes of the Transaction. At the time of announcement the Transaction valued HPE Software at $8.8bn consisting of $6.3bn of Micro Focus equity and a $2.5bn dividend to HPE funded by debt.

The Transaction presented a rare opportunity to increase significantly Micro Focus’ scale and breadth through the combination with a business operating in adjacent and complementary product areas with similar characteristics and benefitting from a high proportion of recurring revenues and strong cash conversion. On a pro-forma basis in the 12 months to 30 April 2016, HPE Software and Micro Focus would have combined annual revenues of US$4.5bn and EBITDA of US$1.35bn, creating one of the world’s largest pure-play infrastructure software companies.

The Transaction is complex and is expected to complete in the third quarter of calendar year 2017. HPE is in the process of carving out HPE Software from its existing business. Micro Focus will be seeking approval for the Transaction and a Return of Value of circa $400m to Micro Focus shareholders in a Circular to shareholders is expected to be issued in May 2017. The Circular will include historic financial information on HPE Software for the three years ended 31 October 2016 under IFRS. Following shareholder approval of the Transaction the Return of Value will be made to Micro Focus shareholders immediately prior to completion of the Transaction.

The Transaction provides considerable scope to improve product innovation and customer responsiveness through the application of Micro Focus’ disciplined operating model. This can be achieved whilst simultaneously improving profitability. HPE Software’s Underlying Adjusted EBITDA margin of c.21% compares with Micro Focus equivalent margin for its mature software assets of c.46% (excluding SUSE) in the year ended 30 April 2016. Micro Focus believes it will be possible to improve the margin delivered by HPE Software's mature software assets (c.80% of revenue) to Micro Focus’ level by the end of the third full financial year following completion (i.e. year ending 30 April 2021).

The board expects the Merger to enhance adjusted earnings per share by the first full financial year ending after completion, with scope for further benefits as operational improvements are realized across the Enlarged Group.

To fund the Transaction, the Company has entered into commitments with JP Morgan Chase (“JPMC”), HSBC, Barclays and The Royal Bank of Scotland (together “the Banks”) to provide $5bn of term loans and with the Banks and Bank of America Merrill Lynch to provide a $0.5bn revolving facility. These facilities will be marketed to lenders in the New Year.

In preparation for the Merger and integration of the business, Micro Focus has established an Integration Management Office (“IMO”) which interfaces to the Divestiture Management Office (“DMO”) of HPE. The DMO is responsible for carving out the HPE Software business into a stand-alone business with which Micro Focus will merge. The DMO is managing multiple work-streams related to all facets of the business. Our IMO co-ordinates the interactions to ensure that appropriate representation is provided on each work-stream. The IMO is led by our Business Operations and Integration Director supported by internal staff and external consultants led by the same Deloitte team that worked on the Attachmate transaction and integration. The IMO will continue in operation beyond completion and throughout FY2018. HPE Software is also implementing a new business software stack as part of the carve-out. It is our intention that Micro Focus will move onto the new systems after completion. Consequently, integration costs will be incurred and treated as exceptional throughout this integration period.

On 7 September we also announced that SUSE was to become HPE's preferred Linux partner and explore additional collaboration, leveraging SUSE's OpenStack expertise for joint innovation around HPE's Helion, Openstack Infrastructure as a Service (IaaS) and Stackato Platform as a Service (PaaS) solutions. HPE and SUSE have now reached a commercial arrangement over the transfer of assets and staff related to OpenStack IaaS and Cloud Foundry PaaS that, subject to regulatory clearance, is expected to complete in the first quarter of calendar year 2017.

Delivering value to customers

In the period it has been particularly pleasing to note the number of customer successes from product innovations that have been made following the acquisition of the Attachmate Group ("TAG") in November 2014. In a number of cases technologies from one portfolio have been used to enhance products in the other, particularly where there were product overlaps. Customers were also protected as product life expectancies have increased with Micro Focus ownership. We anticipate that similar benefits will accrue with the HPE transaction.

Delivering value to shareholders

The board has adopted a very clear plan of value creation.

Our priority is to improve the performance of the business in order to maximize the opportunity to generate modest revenue growth in the medium-term. At the same time we have created flexibility to allow value creation to shareholders through cash distributions or acquisitions as appropriate. We will do nothing that will constrain our ability to achieve organic growth and we are currently investing significant amounts on activities designed to enhance growth.

The board is targeting a net debt to Facility EBITDA multiple of approximately 2.5 times. This is a modest level of gearing for a company with the cash generating qualities of Micro Focus. We are confident that this level of debt would not reduce our ability to deliver growth, invest in products and/or make appropriate acquisitions. At Completion of the HPE Software Transaction it is anticipated that Net Debt to Facility EBITDA will increase to approximately 3.3 times on a pro-forma basis and that the target of 2.5 times will be achieved two years after Completion.

In July the board announced that in future the dividend payout would be twice covered by adjusted earnings of the Group. This policy took effect for the final dividend for FY16. Applying this policy to the interim dividend results in an increase in interim dividend of 75.5% to 29.73 cents (2015: 16.94 cents)

The dividend will be paid in Sterling equivalent to 23.60 pence per share, based on an exchange rate of £1 = $1.26, the rate applicable on 13 December 2016, the date on which the board resolved to pay the interim dividend. The dividend will be paid on 27 January 2017 to shareholders on the register at 6 January 2017.

Outlook

In accordance with our four phase plan established at the time of the acquisition of TAG in 2014 our intention was to stabilize revenues around a solid core in FY17 from which we aim to grow in FY18. We have had a good start to the year and are maintaining our revenue guidance for FY17 being in the range minus 2% to zero% on FY16 on a CCY basis, pro-forma for the acquisition of Serena.

Having delivered eleven and a half years of approximately 28.9% compound returns to investors we believe we have a strong operational and financial model that can continue to scale and provide excellent returns to our shareholders.

Kevin Loosemore
Executive Chairman
14 December 2016

Financial Review

Interim results presented for the six months to 31 October 2016 include the post-acquisition period results for Serena and GWAVA. Due to the significant size of the Serena acquisition the directors believe that the interim results are better understood by looking at the comparative results on a pro-forma basis for the combination of Serena and Base Micro Focus. The directors do not consider the GWAVA acquisition to be of a significant size ($0.8m revenue in the period and a loss to Adjusted EBITDA of $0.1m in the period) and therefore have not presented GWAVA results in the pro-forma comparatives.

Serena had a 31 January year end date prior to acquisition. Similar to other software companies with a perpetual licence model Serena's revenues were weighted to the end of each financial quarter and were weighted to the final financial quarter of the year. Micro Focus' experience is that when the financial year end is changed following acquisition the weighting of financial performance moves to the new financial year end. Consequently, in order to provide a meaningful comparison in the pro-forma results for the six months to 31 October 2015 the directors have combined the unaudited internal management information for Serena for the period from 1 February 2015 to 31 July 2015 and then added in the Base Micro Focus results for the six months ended 31 October 2015. The pro-forma comparatives for the year ended 30 April 2016 combine the unaudited financials for Serena for the year ended 31 January 2016 with the audited figures for Base Micro Focus for the year ended 30 April 2016. From the date of acquisition, 2 May 2016 to 31 October 2016, Serena contributed $72.6m to revenue and a contribution to Adjusted EBITDA of $40.0m, before any allocation of management costs.

A reconciliation between the GAAP and Non-GAAP performance measures is given on page 8 (Revenue), page 10 (Adjusted Operating Profit, Adjusted EBITDA and Underlying Adjusted EBITDA) and note 8. The Group operates two product portfolios (i) Micro Focus and (ii) SUSE. These are the reporting segments and the cash generating units for the Group.

The Micro Focus Product Portfolio contains our mature infrastructure software products that are managed on a portfolio basis akin to a "fund of funds" investment portfolio. This portfolio is being managed with a single product development group that makes and maintains the software, whilst the software is sold and supported through a geographic Go-to-Market ("GTM") organization. Products are organised into five sub-portfolios based on industrial logic. During the period Serena's product set was added to the Development & IT Operations Management Tools sub-portfolio and towards the end of the period GWAVA was added to Collaboration & Networking.

SUSE's characteristics are different due to the Open Source nature and the growth profile of its offerings. After the period end SUSE made its first acquisition of openATTIC, a storage management software solution, and entered into an agreement to take over assets and staff from HPE related to OpenStack IaaS and Cloud Foundry PaaS technology.

Our revenue guidance at the beginning of the year was for Group revenues for the full year to decline by between minus 2% and zero% when compared to the pro-forma CCY revenues of the comparable period with growth in SUSE expected to partially offset the anticipated decline in the Micro Focus Product Portfolio based on the revenue trends in the sub-portfolios. The performance in the period was revenue growth of 1.2% when compared to pro-forma CCY revenues, which was slightly ahead of our revenue guidance for the full year.

The portfolios have directly controlled costs and then an allocation of costs of the functions that are managed within the Micro Focus portfolio and provide services to both portfolios together with centrally managed support function costs. Set out in the table below are the profitability metrics for our two product portfolios including the breakdown of Adjusted Operating Profit for the period and the reconciliation between Adjusted Operating Profit, Adjusted EBITDA and Underlying Adjusted EBITDA (note 8):

	Six months ended 31 October 2016 As reported Actual			Six months ended 31 October 2015 Pro-forma CCY			Six months ended 31 October 2015 As reported Actual		
	Micro Focus $m	**SUSE $m**	**Group $m**	Micro Focus $m	SUSE $m	Group $m	Micro Focus $m	SUSE $m	Group $m
Segment revenue	**537.3**	**147.4**	**684.7**	557.3	119.5	676.8	483.3	121.2	604.5
Directly managed costs	**(277.3)**	**(81.2)**	**(358.5)**	(311.0)	(64.3)	(375.3)	(278.7)	(62.0)	(340.7)
Allocation of centrally managed costs	**12.7**	**(12.7)**	**-**	13.0	(13.0)	-	16.3	(16.3)	-
Total Adjusted Operating costs	**(264.6)**	**(93.9)**	**(358.5)**	(298.0)	(77.3)	(375.3)	(262.4)	(78.3)	(340.7)
Adjusted Operating Profit	**272.7**	**53.5**	**326.2**	259.3	42.2	301.5	220.9	42.9	263.8
Margin	**50.8%**	**36.3%**	**47.6%**	46.5%	35.3%	44.5%	45.7%	35.4%	43.6%
Adjusted Operating Profit	**272.7**	**53.5**	**326.2**	259.3	42.2	301.5	220.9	42.9	263.8
Depreciation of property, plant and equipment	**4.7**	**1.0**	**5.7**	5.1	0.8	5.9	4.7	1.1	5.8
Amortization of software intangibles	**0.5**	**0.1**	**0.6**	0.9	-	0.9	0.7	0.2	0.9
Adjusted EBITDA	**277.9**	**54.6**	**332.5**	265.3	43.0	308.3	226.3	44.2	270.5
Foreign exchange credit	**(8.0)**	**(1.3)**	**(9.3)**	0.1	(0.5)	(0.4)	(0.4)	-	(0.4)
Net capitalization of development costs	**(2.9)**	**-**	**(2.9)**	(6.4)	-	(6.4)	(6.4)	-	(6.4)
Underlying adjusted EBITDA	**267.0**	**53.3**	**320.3**	259.0	42.5	301.5	219.5	44.2	263.7
Margin	**49.7%**	**36.2%**	**46.8%**	46.5%	35.6%	44.5%	45.4%	36.5%	43.6%

The table below shows the revenue breakdown by type within the two product portfolios for the six months to 31 October 2016, the pro-forma CCY and reported revenue for the six months to 31 October 2015 and the year ended 30 April 2016.

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	(Decline)/ Growth %	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY $m	Year ended 30 April 2016 As reported Actual $m
Micro Focus Product Portfolio						
Licence	**146.9**	146.6	0.2%	134.5	335.0	304.8
Maintenance	**364.2**	382.6	(4.8%)	327.4	759.6	644.5
Consultancy	**26.2**	28.1	(6.8%)	21.4	55.3	41.9
	537.3	557.3	(3.6%)	483.3	1,149.9	991.2
SUSE Product Portfolio						
Licence	**-**	-	-	-	-	-
Maintenance	**-**	-	-	-	-	-
Subscription	**144.9**	117.1	23.7%	118.7	246.8	248.9
Consultancy	**2.5**	2.4	4.2%	2.5	4.9	4.9
	147.4	119.5	23.3%	121.2	251.7	253.8
Total Revenue						
Licence	**146.9**	146.6	0.2%	134.5	335.0	304.8
Maintenance	**364.2**	382.6	(4.8%)	327.4	759.6	644.5
Subscription	**144.9**	117.1	23.7%	118.7	246.8	248.9
Consultancy	**28.7**	30.5	(5.9%)	23.9	60.2	46.8
Revenue	**684.7**	676.8	1.2%	604.5	1,401.6	1,245.0

GWAVA Inc. was acquired on 30 September 2016 and contributed $0.8m to revenue in the period and is not included in the pro-forma CCY comparatives. Excluding GWAVA revenues grew by 1.0% compared to pro-forma CCY revenues.

We are not providing renewal rate information for SUSE or Micro Focus within this set of results. Our methodology is still being refined in order to accommodate data from our multiple systems. We believe that until renewal information is provided following the trends on the maintenance revenue for the Micro Focus sub-portfolios and subscription revenues for SUSE provides the best guidance on performance.

The table below shows regional revenue for the six months to 31 October 2016, the pro-forma CCY and reported regional revenue for the six months to 31 October 2015 and the year ended 30 April 2016:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	(Decline)/ Growth	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY $m	Year ended 30 April 2016 As reported Actual $m
Micro Focus						
North America	**299.8**	309.7	(3.2%)	260.8	627.6	525.2
International	**187.7**	197.7	(5.1%)	180.1	420.4	377.0
Asia Pacific & Japan	**49.8**	49.9	(0.2%)	42.4	101.9	89.0
Total	**537.3**	557.3	(3.6%)	483.3	1,149.9	991.2
SUSE						
North America	**59.9**	50.8	17.9%	50.9	108.6	108.6
International	**70.0**	54.2	29.2%	56.2	112.7	115.6
Asia Pacific & Japan	**17.5**	14.5	20.7%	14.1	30.4	29.6
Total	**147.4**	119.5	23.3%	121.2	251.7	253.8
Total Revenue						
North America	**359.7**	360.5	(0.2%)	311.7	736.2	633.8
International	**257.7**	251.9	2.3%	236.3	533.1	492.6
Asia Pacific & Japan	**67.3**	64.4	4.5%	56.5	132.3	118.6
Total Revenue	**684.7**	676.8	1.2%	604.5	1,401.6	1,245.0

Detailed analysis of the revenue performance of each of the product portfolios is provided in the CEO reports.

Reconciliation of pro-forma CCY revenues to reported revenues for the six months to 31 October 2015 and the year ended 30 April 2016

	6 months ended 31 October 2015 $m	Year ended 30 April 2016 $m
Micro Focus		
As reported	483.3	991.2
Serena	77.8	162.4
Currency impact	(3.8)	(3.7)
Pro-forma CCY	**557.3**	**1,149.9**
SUSE		
As reported	121.2	253.8
Currency impact	(1.7)	(2.1)
CCY	**119.5**	**251.7**
Total Revenue		
As reported	604.5	1,245.0
Serena	77.8	162.4
Currency impact	(5.5)	(5.8)
Total Pro-forma CCY	**676.8**	**1,401.6**

Operating costs

The operating costs (including exceptional costs of $41.0m) for the six months ended 31 October 2016 compared with the pro-forma CCY and as reported six months to 31 October 2015 and the year ended 30 April 2016 are shown below:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	(Decline)/ Growth %	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY $m	Year ended 30 April 2016 As reported Actual $m
Costs of goods sold	**74.3**	77.1	(3.6%)	66.5	157.2	135.4
Selling and distribution	**218.5**	210.6	3.8%	198.8	442.8	416.3
Research and development	**135.5**	130.9	3.5%	122.7	277.2	259.4
Administrative expenses	**93.1**	71.4	30.4%	66.1	148.1	139.0
Total operating costs	**521.4**	490.0	6.4%	454.1	1,025.3	950.1

On a pro-forma CCY basis, cost of goods sold for the period decreased by $2.8m to $74.3m (2015: pro-forma CCY $77.1m) of which the exceptional costs were $1.3m (2015: pro-forma CCY $0.9m). The reduction is partly as a result of lower consulting revenues and continuing cost efficiencies.

Selling and distribution costs, excluding the amortization of purchased trade names and customer relationship intangible assets of $69.4m (2015: pro-forma CCY $53.3m), were $149.1m (2015: pro-forma CCY $157.3m). Within these costs were exceptional costs of $2.0m (2015: pro-forma CCY $3.9m), thus the underlying costs were $147.1m (2015: pro-forma CCY $153.4m), a decrease of 4.1% on the prior period on a pro-forma CCY basis. The reduction was mostly due to cost saving actions taken at the end of FY16.

Research and development expenses, excluding the amortization of purchased technology intangible assets of $37.0m (2015: pro-forma CCY $37.6m), were $98.5m (2015: pro-forma CCY $93.2m), and after excluding exceptional costs of $2.2m (2015: pro-forma CCY $0.7m), the resulting costs were $96.3m (2015: pro-forma CCY $92.6m) an increase of 4.0% on the prior period on a pro-forma CCY basis. This figure is equivalent to approximately 14.1% of revenue (2015: pro-forma CCY 13.7%).

The impact of net capitalization of internal development costs was $2.9m (2015: pro-forma CCY $6.4m). Research and development costs prior to amortization of purchased intangibles, exceptional items and the capitalization and amortization of internal development costs were $99.3m (2015: pro-forma CCY $99.0m) an increase of 0.3%.

At 31 October 2016 the net book value of capitalized development costs on the consolidated statement of financial position was $46.5m (2015: $37.7m).

Administrative expenses were $93.1m (2015: pro-forma CCY $71.4m). Excluding share based compensation of $15.5m (2015: pro-forma CCY $12.8m), exceptional costs of $35.6m (2015: pro-forma CCY $4.5m) and an exchange gain of $9.3m (2015: pro-forma CCY gain of $0.4m), administrative expenses decreased by 6.1% to $51.2m (2015: pro-forma CCY $54.5m). The decrease has arisen mostly from continuing efficiencies. Share based compensation was $15.5m (2015: pro-forma CCY $12.8m), being ASG cost of $8.1m, LTIP cost of $6.9m and Sharesave Scheme costs of $0.5m.

Amortization of purchased intangibles included in the above cost categories for the six months totalled $106.4m (2015: pro-forma CCY $91.9m).

Adjusted Operating Costs (excluding amortization of purchased intangibles, exceptional costs and share-based compensation) were $358.5m (2015: pro-forma CCY $375.3m) a fall of $16.8m. The reduction in Adjusted Operating Costs has resulted from integration efficiencies achieved through the acquisition of Serena including the benefits of restructuring, rationalizing mainframe infrastructure, and closing the head office property in San Mateo. Savings have also been achieved from restructuring initiatives taken at the end of the last financial year in the Micro Focus Product Portfolio and ongoing focus on tightly controlling discretionary costs. Cost savings have been partially offset by ongoing investments in the SUSE Product Portfolio to support growth and a reduction in the net capitalisation of development costs as the adoption of the Micro Focus policy into TAG begins to normalise. Adjusted Operating Costs and Adjusted EBITDA benefited from an increase in the foreign exchange gain in the period.

As a result of the HPE Software Merger we have put our systems project (“TITAN”) on hold as the plan is to migrate to HPE Software’s new system stack following completion. This will mean that some of the further efficiencies planned with the integration of TAG and Serena have been delayed.

The exceptional costs in the period were $41.0m (2015: $10.7m) including:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 As reported Actual $m
Integration costs	**13.4**	8.4	23.6
Acquisition and pre-acquisition costs	**21.1**	0.5	6.1
Severance costs	**4.0**	0.7	(4.8)
Property costs	**2.5**	1.1	6.0
Royalty provision releases	**-**	-	(3.0)
	41.0	10.7	27.9

The HPE Software Transaction is anticipated to complete in the third quarter of calendar year 2017. In the period up to close it is anticipated that there will be further exceptional costs incurred related to pre-acquisition costs, integration costs, property and severance costs in relation to the HPE Software Transaction and the other acquisitions made during the current year. It is currently estimated that up to $80m of exceptional costs will be incurred before 30 April 2017 and a further $60m in the period up to the completion of the HPE Software Transaction. Post completion exceptional costs have not yet been quantified.

Currency impact

During the six months to 31 October 2016, 62.9% of our revenues were contracted in US dollars, 20.8% in Euros, 4.7% in Sterling, 3.5% in Yen and 8.1% in other currencies. In comparison, 50.4% of our costs are US dollar denominated, 13.0% in Sterling, 19.2% in Euros, 1.8% in Yen and 15.6% in other currencies.

This weighting of revenue and costs means that if the US$: Euro or US$: Yen exchange rates move during the period, the revenue impact is greater than the cost impact, whilst if US$: Sterling rate moves during the period the cost impact exceeds the revenue impact. Consequently, actual US$ EBITDA can be impacted by significant movements in US$ to Euro, Yen and Sterling exchange rates.

The currency movement for the US dollar against Sterling, Euro and Yen was a strengthening of 13.3% and a weakening of 0.1% and 17.0% respectively when looking at the average exchange rates in the six months to 31 October 2016 compared to those in the six months to 31 October 2015.

In order to provide CCY comparatives, we have restated the pro-forma results of the Group for the six months ended 31 October 2015 at the same average exchange rates as those used in reported results for the six months ended 31 October 2016. Consequently, pro-forma CCY revenues reduce from $682.3m to $676.8m, a reduction of 0.8%, and pro-forma CCY Underlying Adjusted EBITDA increases from $300.5m to $301.5m, an increase of 0.3%.

Intercompany loan arrangements within the Group are typically denominated in the local currency of the overseas affiliate. Consequently, any movement in the respective local currency and US$ will have an impact on the 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. The foreign exchange gain for the period is approximately $9.3m (2015: pro-forma CCY gain of $0.4m).

Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the period increased by $24.2m to $332.5m (2015: pro-forma CCY $308.3m). The increase in Adjusted EBITDA is as a result of the increase in pro-forma CCY revenue of 1.2% in the period and a reduction in adjusted operating costs of 4.5%, including an increase in the foreign exchange credit in the period.

Underlying Adjusted EBITDA in the year increased by $18.8m to $320.3m (2015: pro-forma CCY $301.5m) at a margin of 46.8% (2015: pro-forma CCY 44.5%). The increase in Underlying Adjusted EBITDA is smaller as it does not benefit from the increase in the foreign exchange credit or suffer from the reduction in net capitalization of development costs.

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	(Decline)/ Growth %	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY $m	Year ended 30 April 2016 As reported Actual $m
Revenue	**684.7**	676.8	1.2%	604.5	1,401.6	1,245.0
Adjusted EBITDA	**332.5**	308.3	7.8%	270.6	629.9	546.8
Foreign exchange gain	**(9.3)**	(0.4)		(0.4)	(3.1)	(2.9)
Net (capitalization)/amortization of development costs	**(2.9)**	(6.4)		(6.4)	(11.4)	(11.4)
Underlying Adjusted EBITDA	**320.3**	**301.5**	**6.2%**	**263.8**	**615.4**	**532.5**
Underlying Adjusted EBITDA Margin	**46.8%**	**44.5%**	**5.2%**	**43.6%**	**43.9%**	**42.8%**

Both revenue and EBITDA in the current period have been reduced by the fair value deferred revenue haircut of $6.4m that was applied as part of the acquisition of TAG ($3.8m), Serena ($2.5m) and GWAVA ($0.1m). The impact of this was $0.9m less than in the comparative period (2015: pro-forma CCY $7.3m).

Reconciliation of pro-forma CCY Adjusted EBITDA and Underlying Adjusted EBITDA to reported Adjusted EBITDA and Underlying Adjusted EBITDA for the six months to 31 October 2015 and the year ended 30 April 2016

	Six months ended 31 October 2015			Year ended 30 April 2016		
	Adjusted Operating Profit $m	Adjusted EBITDA $m	Underlying Adjusted EBITDA $m	Adjusted Operating Profit $m	Adjusted EBITDA $m	Underlying Adjusted EBITDA $m
Micro Focus						
As reported	220.9	226.4	219.5	453.3	465.1	451.1
Serena	36.3	36.8	36.7	80.4	81.2	80.9
Currency impact	2.1	2.1	2.8	3.3	3.6	3.7
Pro-forma CCY	**259.3**	**265.3**	**259.0**	**537.0**	**549.9**	**535.7**
SUSE						
As reported	42.9	44.2	44.3	79.8	81.7	81.4
Currency impact	(0.7)	(1.2)	(1.8)	(0.6)	(1.7)	(1.7)
CCY	**42.2**	**43.0**	**42.5**	**79.2**	**80.0**	**79.7**
Total						
As reported	263.8	270.6	263.8	533.1	546.8	532.5
Serena	36.3	36.8	36.7	80.4	81.2	80.9
Currency impact	1.4	0.9	1.0	2.7	1.9	2.0
Total Pro-forma CCY	**301.5**	**308.3**	**301.5**	**616.2**	**629.9**	**615.4**

Operating profit

Operating profit was $163.3m (2015: $150.4m). Within the operating profit is $41.0m (2015: $10.7m) of exceptional costs. Adjusted operating profit (excluding amortization of purchased intangibles, exceptional costs and share-based compensation) was $326.2m (2015: $263.9m).

Net finance costs

Net finance costs were $49.0m (2015: $50.4m) including the amortization of $7.3m (2015: $8.1m) of prepaid facility arrangement, original issue discounts and facility fees incurred on the Group's loan facilities, loan interest and commitment fees of $41.9m (2015: $42.1m), interest on pension liability $0.3m (2015: $0.2m) and other interest costs of $nil (2015: $0.4m) offset by $0.5m (2015: $0.4m) of interest received. Net finance costs have decreased by $1.4m, mostly due to reduced loan interest and commitment fees ($0.2m), a decrease in the amortization of prepaid facility arrangements, original issue discounts and facility fees ($0.8m) and a decrease in other interest costs of $0.4m.

Profit before tax and adjusted profit before tax
Profit before tax was $113.2m (2015: reported $98.8m). Adjusted profit before tax was $276.2m (2015: reported $212.3m):

	Six months ended 31 October 2016 As reported (unaudited) $'000	Six months ended 31 October 2015 As reported (unaudited) $'000	Year ended 30 April 2016 As reported (audited) $'000
Profit before tax	**113,206**	98,835	195,396
Share based compensation	**15,521**	11,856	28,793
Amortization of purchased intangibles	**106,394**	90,958	181,934
Exceptional costs	**41,048**	10,651	27,853
Adjusted profit before tax	**276,169**	212,300	433,976

The tax charge for the period was $22.6m (2015: $11.3m) with the Group's effective tax rate ("ETR") being 20.0% (2015: 11.4%). The tax charge on adjusted profit before tax for the period was $64.1m (2015: $44.6m), which represents an ETR on adjusted profit before tax of 23.2% (2015: 21.0%) as set out below:

	Six months ended 31 October 2016 (actual) (unaudited)			Six months ended 31 October 2015 (actual) (unaudited)			Year ended 30 April 2016 (actual) (audited)		
	Actual $'000	**Adjusts $'000**	**Adjusted measures $'000**	Actual $'000	Adjusts $'000	Adjusted measures $'000	Actual $'000	Adjusts $'000	Adjusted measures $'000
Profit before tax	**113,206**	**162,963**	**276,169**	98,835	113,465	212,300	195,396	238,580	433,976
Taxation	**(22,589)**	**(41,513)**	**(64,102)**	(11,297)	(33,262)	(44,559)	(32,424)	(67,766)	(100,190)
Profit after tax	**90,617**	**121,450**	**212,067**	87,538	80,203	167,741	162,972	170,814	333,786
Effective tax rate	**20.0%**		**23.2%**	11.4%		21.0%	16.6%		23.1%

In computing adjusted profit before tax, $163.0m of adjustments have been made for the items shown in the adjusted profit before tax section above, of which the associated tax is $41.5m.

The Group's ETR for the six months ended 31 October 2016 (20.0%) is higher than the previous year (11.4%) mainly due to the high proportion of disallowable exceptional costs in the current year relating to the HPE Software Transaction.

The Adjusted ETR for the six months ended 31 October 2016 (23.2%) is higher than the previous year (2015: 21.0%). This is due to intra-group transfer pricing changes to manage risk arising from the OECD's Base Erosion and Profit Shifting ("BEPS") initiative.

The Group continues to benefit from the UK's Patent Box regime. Benefits during the six months to 31 October 2016 were $4.3m (2015: $3.8m).The Group realized benefits in relation to intra-Group financing in the six months to 31 October 2016 of $8.4m (2015: $7.2m).

Ignoring the impact of the Merger with HPE Software the Group's medium-term Adjusted ETR is expected to be between 23% and 27% of the Group's adjusted profit before tax, in line with guidance issued at year end. The enacted reduction in the UK's corporation tax rate from 18% to 17% from 1 April 2020 is not expected to give rise to a material reduction in the Adjusted ETR.

The Group's cash taxes paid in the period were $18.2m, compared to $47.7m in the six months to 31 October 2015. The prior year figure included $27.2m in respect of US Federal income tax liabilities for the year ended 30 April 2016 and previous years. Following a recalculation of the respective liabilities, a substantial part of that payment was subsequently carried forward at 30 April 2016 as a debtor, reducing payments required in the current year.

There have been no significant developments in relation to the UK tax claim impacting the Group's tax returns for the years ended 30 April 2009 through to 2015, which is under review by HMRC. The Group maintains a provision for the full potential liability of $4.7m at 31 October 2016. The provision has reduced by $0.9m since 30 April 2016 due to foreign exchange movements.

Profit after tax
Profit after tax increased by 3.5% to $90.6m (2015: reported $87.5m).

Goodwill
The largest item on the consolidated statement of financial position is goodwill at $2,827.8m (2015: $2,436.2m) arising from acquisitions made by the Group. In the period goodwill has increased due to the acquisition of Serena ($378.6m) and GWAVA ($13.1m) (note 13).

Capital structure of the Group

As at 31 October 2016 the market capitalization of the Group was £4,896.6m, equivalent to $5,973.9m at an exchange rate of $1.22 to £1. Net debt was $1,612.6m resulting in an Enterprise Value of $7,586.4m.The board believes that this capital structure is appropriate for the Group's requirements.

The debt facilities of the Group were put in place at the time of the acquisition of TAG on 20 November 2014 and totaled $2,000.0m under a credit agreement comprising a $1,275.0m seven year Term Loan B, a $500.0m five year Term Loan C and a $225.0m Revolving Facility (together "the New Facilities"). As part of the Serena acquisition additional Revolving Facility commitments of $150.0m in total were obtained on 2 May 2016 from Barclays, HSBC and The Royal Bank of Scotland.

During the six months to 31 October 2016, mandatory repayments of $6.4m of the Term Loan B and $25.0m of the Term Loan C were made together with a draw-down of $115.0m and repayment of $95.0m of the Revolving Facility.

At 31 October 2016, $245.0m of the Revolving Facility was drawn, together with $1,105.9m of Term Loan B and $425.0m of Term Loan C giving gross debt of $1,775.9m drawn.

The only financial covenant attaching to these new facilities relates to the Revolving Facility, which is 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. At 31 October 2016 65.3% of the Revolving Facility was drawn. The covenant calculation indicates that the Group had in excess of 70% headroom against the covenant test.

The terms of Micro Focus' existing debt facilities are as follows:

(a) In relation to the senior secured term loan B of $1,275.0m: an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;

(b) In relation to the senior secured term loan C of $500.0m: an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 10.00% per annum, with an original issue discount of 1.50% and a five year term; and

(c) In relation to the senior secured revolving credit facility of $375.0m: an initial interest rate of 3.50% above LIBOR, and an original issue discount of 0.50%.

On 1 August 2016 the Company allocated a re-pricing of its senior secured term loan B which reduced its ongoing interest payments. The interest rate was reduced from 4.25% to 3.75% and the LIBOR floor was reduced from 1.00% to 0.75%, amortizing at 1.00% per annum, up from 0.75%. All other terms of the Group's Credit Facilities remain the same.

As announced on 7 September 2016, the Company has entered into Commitments for $5.5bn of new facilities to finance the Merger with HPE Software. These commitments have now been syndicated to the Banks in respect of the $5bn of term loans and to the Banks and Bank of America Merrill Lynch in respect of the revolving facility of $0.5bn. At the appropriate time when information is available and market conditions are suitable the commitments will be placed with lenders. These new term loan facilities will be drawn down at or around completion to fund the proposed return of value of circa $0.4bn, the dividend to HPE of $2.5bn, refinance the existing facilities and for general corporate purposes. The costs associated with raising these new facilities, including underwriting fees, original issue discount, ticking fees and professional costs will be capitalized and written off over the term of the facilities. The costs are currently estimated at between 4.5% and 6% of funds raised.

Total equity
The total equity of the Group is $1,581.8m with a merger reserve of $988.1m.

Cash flow and net debt
The Group's cash generated from operations was $201.9m (2015: $162.7m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 69.3% (2015: 62.6%). The first half of our financial year typically has a lower cash conversion than our second half ratio as a result of the timing of the maintenance and subscription renewals which are weighted to the second half of the year.

As at 31 October 2016 the net debt of the Group was $1,612.6m (2015: $1,454.3m) comprising gross debt of $1,775.9m (2015: $1,593.6m), cash balances of $123.0m (2015: $91.6m) and pre-paid loan arrangement fees of $40.3m (2015: $47.8m). This compares with the pro-forma net debt following completion of the Serena acquisition of $1,625.0m as at 30 April 2016.

The most significant cash outflows during the period were the payment of the 2016 final dividend of $111.0m, $277.6m in respect of the acquisition of Serena, $16.2m in respect of the acquisition of GWAVA, bank loan repayments of $126.4m, corporate taxes of $18.2m, payment for tangible and intangible assets of $24.0m and interest and loan costs of $54.2m.

Dividend
In the preliminary announcement for FY16 the board reverted to a dividend policy that is 2 times covered by the adjusted earnings of the Group which applied from the final dividend for FY16. Typically the interim dividend will be approximately half of the final dividend for the year.

The proposed interim dividend is 29.73 cents (2015: 16.94 cents per share), which represents a 75.5% increase on last year's interim dividend.

The dividend will be paid in Sterling equivalent to 23.60 pence per share, based on an exchange rate of £1 = $1.26 being the rate applicable on 13 December 2016, the date on which the board resolved to pay the dividend. The dividend will be paid on 27 January 2017 to shareholders on the register at 6 January 2017.

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

The principal risks and uncertainties facing the Group, including the impact of Brexit, have not changed from those set out in the Annual Report and Accounts 2016. The principal risks and uncertainties were:

- Products;
- Go to Market models;
- Competition;
- Employees;
- Change management;
- IT systems and information;
- Legal and regulatory compliance;
- Intellectual property;
- Treasury;
- Tax.

As well as the foregoing, the primary risk and uncertainty 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
14 December 2016

CEO Review – Micro Focus Product Portfolio

Introduction

The Micro Focus Product Portfolio represents 78.5% of total Group revenue in the six months to October 2016 (2015: pro-forma CCY 82.3%).

From within the Micro Focus Product Portfolio we also manage, for the Group overall, the corporate support functions of HR, IT, Facilities, Finance, Legal and both the Project Management Office ("PMO") for acquisitions and the Integration Management Office ("IMO") focused on the HPE transaction. This enables the Group to operate effectively and SUSE to directly control what they need to execute with speed and flexibility whilst leveraging the larger Group where appropriate.

The focus of the Micro Focus Portfolio is to deliver innovation that matters to customers. This means helping them solve real problems today within the context of the opportunities and challenges they face in their business and the realities of their existing IT environment. In essence enabling them to deliver more value from prior investments in existing infrastructure whilst also exploiting the opportunities presented by cloud, mobile and emerging opportunities such as DevOps and the Internet of Things ("I.O.T".). We describe this as "bridging the old and the new".

There were significant product innovations across the portfolio to underpin this strategy that are best illustrated through customer use cases. For example, a major public sector organization in EMEA chose to standardize on our Collaboration and Networking products to replace a competitive solution, a decision driven by significant total cost of ownership benefits and clarity of product roadmap. In the USA, we saw a new customer win of a major federal institution that implemented our industry leading security capabilities in Host Connectivity ensuring compliance with critical legislative changes without the unnecessary costs and risk of rewriting applications. In Australia a major financial institution standardized on our IAS solutions to underpin their infrastructure as they grow through acquisition and another leveraged our Mainframe Solutions capabilities, hosted in the cloud to deliver their DevOps vision.

In addition to our focus on delivering product innovation organically we also completed two acquisitions in the portfolio during the period.

On 2 May 2016 we completed the acquisition of Serena. Serena is a leading provider of Application Lifecycle Management products. Serena's product offerings have been integrated into the existing Micro Focus Development and IT Operations Management Tools ("Development & ITOM") portfolio, further enhancing both our expertise in mainframe computing and distributed software change management. Consistent with our strategy of adding value through targeted, customer driven innovation we have continued developing the full portfolio of Serena's products and we will aim to identify how additional customer value and capability can be realized for Serena customers, leveraging related Micro Focus software development and software quality solutions.

On 30 September 2016 we completed the acquisition of GWAVA Inc. ("GWAVA"), a leading company in email security and enterprise information archiving (EIA) based in the US, Canada and Germany. GWAVA has a full suite of products, including their award winning EIA product Retain, that enable customers to protect, optimize, secure and ensure compliance for email, mobile and social data across multiple platforms including Micro Focus GroupWise, Microsoft Office and Google.

During the period, the Micro Focus Product Portfolio delivered performance in line with management expectations.

Progress in North America was encouraging with overall execution levels and more importantly consistency of execution continuing to improve. International regions (EMEA and LATAM) saw strength in the U.K and France being offset by weakness in Brazil and a mixed performance across the rest of Europe. Asia Pacific & Japan delivered a good performance with notable strength in Australia and stability in Japan.

Operationally, there was notable strength in COBOL Development & Mainframe Solutions ("CDMS") offset by expected declines in Collaboration & Networking ("C&N"), Development & ITOM and Host Connectivity ("HC"). Revenues declined marginally in Identity, Access & Security ("IAS") but significant progress was made in the product portfolio to deliver much stronger foundations for sustainable growth over the longer term in this highly competitive and growing market.

This in period performance was very different by product and geography from the prior year highlighting the nature of portfolio movements in more mature markets and the strength of our portfolio approach.

Regional revenue performance

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	(Decline)/ Growth %	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY $m	Year ended 30 April 2016 As reported Actual $m
North America						
Licence	**80.0**	80.2	(0.2%)	74.8	171.6	157.3
Maintenance	**205.8**	216.7	(5.0%)	176.9	429.9	349.6
Consultancy	**14.0**	12.8	9.4%	9.1	26.1	18.3
	299.8	309.7	(3.2%)	260.8	627.6	525.2
International						
Licence	**47.3**	49.4	(4.3%)	45.8	126.2	115.1
Maintenance	**129.5**	135.8	(4.6%)	123.5	269.8	241.4
Consultancy	**10.9**	12.5	(12.8%)	10.8	24.4	20.5
	187.7	197.7	(5.1%)	180.1	420.4	377.0
Asia Pacific & Japan						
Licence	**19.6**	17.0	15.3%	14.0	37.2	32.3
Maintenance	**28.9**	30.1	(4.0%)	27.0	59.9	53.5
Consultancy	**1.3**	2.8	(53.6%)	1.4	4.8	3.2
	49.8	49.9	(0.2%)	42.4	101.9	89.0
Total						
Licence	**146.9**	146.6	0.2%	134.6	335.0	304.7
Maintenance	**364.2**	382.6	(4.8%)	327.4	759.6	644.5
Consultancy	**26.2**	28.1	(6.8%)	21.3	55.3	42.0
Total	**537.3**	557.3	(3.6%)	483.3	1,149.9	991.2

Revenue performance by product portfolio

Revenue for the period by product portfolio at actual exchange rates and CCY pro-forma and reported comparatives are shown in the table below:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	(Decline)/ Growth %	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY $m	Year ended 30 April 2016 As reported Actual $m
Micro Focus Product Portfolio						
CDMS						
Licence	**52.4**	40.2	30.3%	40.0	105.6	104.7
Maintenance	**75.3**	72.4	4.0%	71.9	146.7	145.2
Consultancy	**5.5**	4.1	34.1%	4.0	9.0	8.9
	133.2	116.7	14.1%	115.9	261.3	258.8
Host Connectivity						
Licence	**38.9**	48.1	(19.1%)	48.5	89.3	89.9
Maintenance	**52.6**	54.1	(2.8%)	54.2	105.7	105.4
Consultancy	**0.9**	1.2	(25.0%)	1.2	2.8	2.9
	92.4	103.4	(10.6%)	103.9	197.8	198.2
Identity, Access & Security						
Licence	**19.8**	20.1	(1.5%)	20.4	52.0	52.4
Maintenance	**70.3**	69.6	1.0%	70.5	141.3	142.2
Consultancy	**10.2**	11.7	(12.8%)	11.7	22.2	22.1
	100.3	101.4	(1.1%)	102.6	215.5	216.7
Development & IT Operations Management Tools						
Licence	**24.6**	25.9	(5.0%)	13.4	64.0	33.9
Maintenance	**109.4**	120.1	(8.9%)	62.8	237.5	121.3
Consultancy	**7.3**	8.2	(11.0%)	1.5	15.5	2.2
	141.3	154.2	(8.4%)	77.7	317.0	157.4
Collaboration & Networking						
Licence	**11.2**	12.3	(8.9%)	12.2	24.1	23.9
Maintenance	**56.6**	66.4	(14.8%)	68.0	128.4	130.4
Consultancy	**2.3**	2.9	(20.7%)	3.0	5.8	5.8
	70.1	81.6	(14.1%)	83.2	158.3	160.1
Micro Focus Product Portfolio						
Licence	**146.9**	146.6	0.2%	134.5	335.0	304.8
Maintenance	**364.2**	382.6	(4.8%)	327.4	759.6	644.5
Consultancy	**26.2**	28.1	(6.8%)	21.4	55.3	41.9
Total	**537.3**	557.3	(3.6%)	483.3	1,149.9	991.2

Licence revenue in the period was marginally up on a pro-forma CCY basis compared with the six months to 31 October 2015. There was a strong Licence revenue performance in CDMS offset by declines in all the other portfolios. Maintenance revenues declined by 4.8% on a pro-forma CCY basis. This was primarily in Development & ITOM Tools and Collaboration & Networking which is in line with prior year trends. The fair value deferred revenue haircut reduced maintenance by $4.5m (2015: $7.3m). Excluding this, underlying Maintenance revenues fell by 5.4%.

Consultancy revenues declined by 6.8% on a pro-forma CCY basis representing approximately 4.9% of total revenues compared with 5.0% in the prior period.

COBOL Development & Mainframe Solutions revenues were $133.2m; a growth of 14.1% on a pro-forma CCY basis compared with the six months to 31 October 2015. The growth in Licence revenues was 30.3% ($12.2m), growth in Maintenance revenues was 4.0% ($2.9m) and Consulting revenue growth was 34.1% ($1.4m). Visual COBOL revenues continued to grow strongly.

Host Connectivity revenues declined by 10.6% in the year on a pro-forma CCY basis to $92.4m. Licence revenues declined by 19.1% ($9.2m). Maintenance revenues declined by 2.8% ($1.5m) and there was a decline in Consulting revenues of 25% ($0.3m).

Identity, Access & Security revenues declined by 1.1% ($1.1m) on a pro-forma CCY basis to $100.3m. We believe that the IAS portfolio has the potential for growth within the context of a growing market but delivering this consistently will take time as we re-position the portfolio. Licence revenue declined by 1.5% ($0.3m) on a pro-forma CCY basis, Maintenance grew by 1.0% ($0.7m) and Consulting revenues declined by 12.8% ($1.5m).

Development & IT Operations Management Tools revenues were $141.3m; a decline of 8.4% ($12.9m) on pro-forma CCY basis. $10.7m of the decline was in Maintenance revenues which declined by 8.9% in line with management expectations. Licence revenues declined in the period by $1.3m.

Collaboration & Networking revenues were $70.1m; a 14.1% ($11.5m) decline on pro-forma CCY basis. Maintenance declined by 14.8% ($9.8m) in the period in line with management expectations.

Adjusted operating profit and Underlying Adjusted EBITDA

The table below shows the Adjusted Operating Profit for the portfolio together with a comparison to the pro-forma CCY figures for 2015:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	Six months ended 31 October 2015 As reported Actual $m
Segment revenue	**537.3**	557.3	483.3
Directly managed costs	**(277.3)**	(311.0)	(278.7)
Allocation of centrally managed costs to SUSE	**12.7**	13.0	16.3
Total Adjusted Operating Costs	**(264.6)**	(298.0)	(262.4)
Adjusted Operating Profit	**272.7**	259.3	220.9
Margin	**50.8%**	46.5%	45.7%

The directly managed costs are those costs specifically managed by the CEOs of the Micro Focus Product Portfolio and SUSE Product Portfolio. All the Group central support costs are managed by the Micro Focus Product Portfolio and the allocation of these costs to SUSE is based on an appropriate methodology.

The adjusted operating profit was $272.7m, delivering a margin of 50.8% which compares with the margin in the pro-forma CCY numbers for the six months to 31 October 2015 of 46.5%. The increase in margin arises because of the reduction in costs that have been achieved in the period through the progress on the integration of Serena and ongoing cost management initiatives in the core business.

The table below shows the reconciliation between Adjusted Operating Profit and Underlying Adjusted EBITDA with a comparative of the pro-forma CCY and reported figures for the six months ended 31 October 2015:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 Pro-forma CCY $m	Six months ended 31 October 2015 As reported Actual $m
Adjusted Operating Profit	**272.7**	259.3	220.9
Depreciation of property, plant and equipment	**4.7**	5.1	4.7
Amortization of software intangibles	**0.5**	0.9	0.7
Adjusted EBITDA	**277.9**	265.3	226.3
Foreign exchange credit	**(8.0)**	0.1	(0.4)
Net capitalization of development costs	**(2.9)**	(6.4)	(6.4)
Underlying Adjusted EBITDA	**267.0**	259.0	219.5

The Underlying Adjusted EBITDA improved by $8.0m in the year on a pro-forma CCY basis primarily due to cost saving actions taken at the end of FY16.

Outlook

We have continued to improve the foundations of the business through clarity of execution against the strategy of customer driven innovation, underpinned by a relentless focus on improving the way in which we operate to maximise the efficiency of the organisation.

This clarity of focus will continue as we execute against our strategy and begin to prepare for operation as an enlarged group after completion of the HPE Transaction. To this end our priorities remain unchanged:

- Delivery of our financial plan;
- The work to standardise systems and simplify the underlying operations of the business;
- Accelerating progress on improving the effectiveness of our go to market teams; and
- Continuing to operationalize the FOUR-BOX MODEL (New Models, Growth Drivers, Optimize and Core) to better align resources to optimize the performance of each sub-portfolio.

Stephen Murdoch
Chief Executive Officer
Micro Focus
14 December 2016

CEO Review – SUSE Product Portfolio

Introduction
The SUSE Product Portfolio represented 21.5% of the total Group revenue in the six months to 31 October 2016 (2015: CCY revenue 17.6%). Following the acquisition of TAG by Micro Focus the SUSE Product Portfolio was given a mandate to deliver "accelerated, sustainable and profitable revenue growth" and was provided with the support and initial investments to support this vision. The six months to 31 October 2016 was a successful period for SUSE with growth in revenue, Annual Contract Value ("ACV"), Total Contract Value ("TCV") and Adjusted Operating Profit.

To create additional capacity to grow we expanded the SUSE headcount across different business functions and geographies and aligned the critical supporting organizations of customer care, renewals and sales operations much more tightly with the SUSE business. This will continue throughout FY17 as SUSE assumes the execution responsibility for sales and marketing in APAC and for the SUSE channel. We continued to broaden and deepen our Alliance, OEM, Business Partner and cloud service provider relationships and see ongoing strong contribution from these routes to market to our overall success.

We also extended SUSE's presence and contribution in key Open Source projects and relevant industry groups both in support of strengthening our contribution to Open Source innovation and development efforts as well as in support of our partner and enterprise customer relationships.

Key Strategic Developments

openATTIC acquisition
On 1 November 2016 SUSE announced the completion of the acquisition of the openATTIC storage management technology and engineering talent from the company it-novum. The openATTIC technology aligns perfectly with our strategy to provide open source, software defined infrastructure solutions for the enterprise and will strengthen SUSE Enterprise Storage solution by adding enterprise grade storage management capabilities to the portfolio.

Acquisition of OpenStack IaaS and Cloud Foundry PaaS Talent and Technology Assets from HPE
On 30 November 2016 SUSE announced it had reached a definitive agreement with HPE on the terms of a transaction pursuant to which the company has agreed to acquire technology and talent that will expand SUSE's OpenStack Infrastructure-as-a-Service (IaaS) solution and accelerate SUSE's entry into the growing Cloud Foundry Platform-as-a-Service (PaaS) market. The acquired OpenStack assets will be integrated into SUSE OpenStack Cloud and the acquired Cloud Foundry and PaaS assets will enable SUSE to bring to market a certified, enterprise-ready SUSE Cloud Foundry PaaS solution for all customers and partners in the SUSE ecosystem. Additionally, SUSE has increased engagement with the Cloud Foundry Foundation, becoming a platinum member and taking a seat on the Cloud Foundry Foundation board.

As part of the transaction HPE has named SUSE as its preferred open source partner for Linux, OpenStack IaaS and Cloud Foundry PaaS. HPE's choice of SUSE as their preferred open source partner further cements SUSE's reputation for delivering high-quality, enterprise-grade open source solutions and services.

SUSECON
SUSE held its annual global end-user conference from 7 to 11 November 2016 in Washington, D.C. The conference showcased the latest developments in building software-defined data centers on SUSE's leading Linux, OpenStack and Ceph-based solutions as well as in-depth sessions on other key technology topics such as Platform-as-a-Service, Docker and containers, NFV, and software-defined networking.

Key announcements at SUSECON included:

- SUSE has acquired software-defined storage management assets from German IT firm it-novum, including openATTIC, the open source Ceph and storage management framework. The acquisition allows SUSE to accelerate its use of openATTIC as the management framework for SUSE Enterprise Storage and will help the company deliver simpler, more cost-effective enterprise storage management solutions.

- For enterprises in data-intensive or highly regulated industries and those needing highly scalable and resilient storage solutions, SUSE announced the upcoming availability of SUSE Enterprise Storage 4, powered by Ceph technology. SUSE Enterprise Storage 4 marks the first production release of CephFS and is the ideal solution for bulk, archive and "large data" storage management.

- SUSE unveiled SUSE Linux Enterprise 12 Service Pack 2 to power physical, virtual and cloud-based mission-critical workloads. The newest version of the world-class SUSE Linux Enterprise Server open source operating system, SUSE Linux Enterprise 12 SP2 will help customers accelerate innovation, improve system reliability, meet tough security requirements and adapt to new technologies.

- SUSE is extending its "SUSE Ready" application-certification program to include SUSE OpenStack Cloud and SUSE Enterprise Storage. SUSE Ready, which has been a benefit to SUSE Linux Enterprise partners and customers for many years, verifies for customers that partner solutions are mutually tested and supported on SUSE software, so they can confidently build out their software-defined infrastructures using compatible and supported third-party solutions that best meet their business requirements, without being locked into a single vendor.

- SUSE honored its 2016 Customers of the Year. The award recipients represent the four regions of the globe and are recognized for "defining their future" using SUSE open source solutions for IT transformation and increased business agility and continuity.

SUSE – key financial metrics

SUSE provides technical support together with rights to updates, patches and security fixes for its Open Source solutions on a subscription basis with revenues being recognized rateably over the period of the contract. As with the Annual Results we are providing additional Key Performance Indicators ("KPIs") for the SUSE Product Portfolio in this set of results. Total Contract Value ("TCV") is the amount invoiced to customers (excluding sales tax) in respect of new contracts and renewals completed in the year. The weighted average contract length expressed in months, reflecting the duration of the TCV is also being provided as growth in TCV alone without this information is potentially misleading. Finally we are providing Annual Contract Value ("ACV") which aims to normalize contract length by including in the calculation of ACV only the first 12 months of each new contract or renewal included within TCV. Where the contract length is less than 12 months all of the TCV is included in ACV.

Revenue

The table below provides a breakdown of the revenue for the six months to 31 October 2016 and a CCY and reported comparison to six months to 31 October 2015 and the year ended 30 April 2016.

SUSE Product Portfolio

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Growth %	Six months ended 31 October 2015 As reported Actual	Year Ended 30 April 2016 CCY $m	Year ended 30 April 2016 As reported Actual $m
Subscription	**144.9**	117.1	23.7%	118.7	246.8	248.9
Consultancy	**2.5**	2.4	4.2%	2.5	4.9	4.9
	147.4	119.5	23.3%	121.2	251.7	253.8

The SUSE Product Portfolio revenue increased by 23.3% to $147.4m compared with the CCY revenues for the six months to 31 October 2015 of $119.5m, with the Subscription revenue increasing by 23.7% to $144.9m (2015: CCY $117.1m). The Subscription revenue is net of the fair value deferred revenue haircut of $1.9m (2015: $3.9m). Prior to this adjustment Subscription revenue grew by 21.3%.

Regional Revenue Performance

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Growth %	Six months ended 31 October 2015 As reported Actual $m	Year ended 30 April 2016 CCY $m	Year ended 30 April 2016 As reported Actual $m
North America	**59.9**	50.8	17.9%	50.9	108.6	108.6
International	**70.0**	54.2	29.2%	56.2	112.7	115.6
Asia Pacific & Japan	**17.5**	14.5	20.7%	14.1	30.4	29.6
Total	**147.4**	119.5	23.3%	121.2	251.7	253.8

All regions showed good revenue growth in the period compared with the CCY revenues for the same period in FY15. North America grew subscription revenue at 17.9%, International at 29.2% and Asia Pacific & Japan grew revenue at 20.7%

TCV and ACV

TCV represents the gross billings for the six months to 31 October 2016 of $154.0m, an increase of 20.3% (2015: CCY $128.0m). The weighted average contract duration increased from 28 months to 31 months due to the impact of two large end customer transactions with long contract duration. The 'in period yield' from TCV to revenue increased from 23% in the six months to 31 October 2015 to 24% in the six months to 31 October 2016. 'In period yield' represents the proportion of TCV generated in the period that can be recognized as subscription revenue in the same period. Net new subscription TCV increased by 30.0% year-on-year and renewal subscriptions TCV grew by 12% year-on-year. Net new subscription contracts are derived from the sale of subscriptions to new logo customers and existing customers expanding footprint of existing product portfolio or subscribing to new product solutions.

ACV grew to $88.8m for the six months to 31 October 2016, an increase of 16.4% (2015: CCY $76.3m). ACV removes the impact of multi-year contracts and is a cleaner KPI on the performance of the business. Where subscription term is less than 12 months, all of the subscription TCV billing is included in the ACV measure.

Regional TCV performance

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Growth %	Year ended 30 April 2016 As reported Actual $m
North America	**57.1**	56.6	0.9%	137.3
International	**75.1**	53.8	39.6%	128.9
Asia Pacific & Japan	**21.8**	17.6	23.9%	35.1
	154.0	128.0	20.3%	301.3

Regional ACV performance

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Growth %	Year ended 30 April 2016 As reported Actual $m
North America	**36.2**	34.3	5.5%	81.7
International	**36.3**	29.8	21.8%	67.8
Asia Pacific & Japan	**16.3**	12.2	33.6%	25.3
	88.8	76.3	16.4%	174.8

North America grew its TCV and ACV for the six months to 31 October 2016, by 0.9% and 5.5% respectively. Delayed renewal transactions with substantial new contract elements did not close as anticipated in the six months to 31 October 2016 and prevented the region from delivering more substantial TCV and ACV growth. These transactions are now forecasted to close in the third quarter of FY17.

International had a very strong performance in TCV and ACV, growing by 39.6% and 21.8% respectively. In addition to a solid overall performance across New and Renewal bookings, International results benefited from large transaction momentum with an enterprise customers in the period, who renewed and also expanded its SUSE product footprint.

Asia Pacific & Japan had very strong performance in TCV and ACV, growing by 23.9% and 33.6% respectively. We continue to have strong performance in China and Japan, and are also winning new accounts in some of the other key markets in the region. The region is also starting to get good traction by leveraging the global agreements we have in place with key independent hardware vendors and cloud service providers. Go-to-market via a SUSE dedicated and SUSE specialized sales force also contributes to the success of the region.

ACV contribution by route to market

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Direct	**5.6**	7.6	(26.3%)	37.2
Indirect	**43.5**	39.0	11.5%	61.8
Global Service Partners	**36.8**	27.7	32.9%	63.8
OEM (Embedded Systems)	**2.9**	2.0	45.0%	12.0
Total	**88.8**	76.3	16.4%	174.8

Direct represents customers that have a master licence agreement with SUSE and subscribe directly with SUSE or via authorized fulfillment partners.

Indirect represents customers that subscribe via the SUSE Value Added Reseller network and predominantly through a two tier distribution model.

Global Service Partners represents primarily Independent Hardware Vendors who sell SUSE subscriptions alongside the sale of their respective hardware and subscriptions generated from cloud service providers.

OEM (Embedded Systems) represents entities that embed SUSE subscriptions within the sale of their respective specialized appliance offerings.

We continue to see significant growth in Indirect, Global Service Partners and OEM routes to market, growing by 11.5%, 32.9% and 45.0% respectively.

We also see a trend of customers who initially purchased subscriptions direct, subsequently subscribing through Global Service Partners. This partially contributes to ACV from Global Service Partners growing more significantly relative to Direct and Indirect. We continue to see strength in the Value Added Reseller network, where we have seen significant growth in ACV during the fiscal year. OEM (Embedded Systems) transactions tend to be large, custom, specialized and binary in nature, and thus year on year fluctuations in ACV generated are to be expected.

The table below shows the percentage share of ACV by the different routes to market in HY17 compared to HY16:

	Six months ended 31 October 2016	Six months ended 31 October 2015	Year ended 30 April 2016
Direct	**6%**	10%	21%
Indirect (Value Added Reseller)	**49%**	51%	35%
Global Service Partners	**41%**	36%	37%
OEM	**4%**	3%	7%
	100%	100%	100%

In aggregate the ACV mix by route to market in HY17 compared to HY16 saw a small shift of contribution to SUSE's growth from direct routes to market to indirect routes to market. This is a result of the roll out of an improved partner program, additional partner sales coverage and increased collaboration between direct sales teams and the channel.

SUSE Adjusted Operating Profit and Adjusted EBITDA
The table below shows the Adjusted Operating Profit for the SUSE Product Portfolio and compares it against the CCY and as reported numbers for the six months to 31 October 2015:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Six months ended 31 October 2015 As reported Actual $m
Revenue	**147.4**	119.5	121.2
Directly managed costs	**(81.2)**	(64.3)	(62.0)
Allocation of centrally managed costs from Micro Focus	**(12.7)**	(13.0)	(16.3)
Total Adjusted Operating Costs	**(93.9)**	(77.3)	(78.3)
Adjusted Operating Profit	**53.5**	42.2	42.9
Margin	**36.3%**	35.3%	35.4%

SUSE Adjusted Operating Profit for the period was $53.5m at a margin of 36.3%. Compared to the CCY six months to 31 October 2015, this is an increase of $11.3m (26.8%) and a profit margin improvement of 1.0%. We have seen a significant increase in directly managed costs in SUSE that is consistent with the investment being made to deliver the SUSE growth charter. We are also seeing the benefit of a reduced allocation of centrally managed costs which is being delivered from the efficiencies in the Micro Focus Product Portfolio.

The table below shows the reconciliation between Adjusted Operating Profit and Underlying Adjusted EBITDA for SUSE:

	Six months ended 31 October 2016 As reported Actual $m	Six months ended 31 October 2015 CCY $m	Six months ended 31 October 2015 As reported Actual $m
Adjusted Operating Profit	**53.5**	42.2	42.9
Depreciation of property, plant and equipment	**1.0**	0.8	1.0
Amortization of software intangibles	**0.1**	-	0.2
Adjusted EBITDA	**54.6**	43.0	44.1
Foreign exchange credit	**(1.3)**	(0.5)	-
Net capitalization of development costs	**-**	-	-
Underlying Adjusted EBITDA	**53.3**	42.5	44.1

Deferred revenue

We continue to have year on year steady growth in the deferred revenue balance. At 31 October 2016 SUSE's total deferred revenue balance was $335.2m (2015: $275.1m), an increase of $60.1m (21.8%). 56% of the deferred revenue balance is recognizable revenue in the next 12 months and 82% recognizable in 24 months.

Headcount

At the end of April 2016, direct headcount in SUSE was 641 increasing to 776 by 31 October 2016, a net increase of 135 in the six months. The increased investment in direct headcount was in Sales, Engineering and Alliance & Marketing to address the opportunity we see in the market for SUSE's existing offerings together with new opportunities in OpenStack IaaS, Software Defined Distributed Storage based on Ceph technology and with public cloud service providers. The increase in Sales headcount includes heads from APJ Sales moving to directly managed dedicated SUSE headcount, which was part of a shared sales function at the end of April 2016. If we exclude this movement, net increase in total direct headcount is 91.

In addition to the direct headcount, the SUSE portfolio received in HY17 support from SUSE dedicated employees, who are organizationally aligned in the shared service functions of the Group. Most prominently in Renewal Sales, Consulting, Customer Care, Sales Operations and other corporate operations functions.

Outlook "Sustainable, Profitable Revenue Growth"

For FY17 SUSE will continue to focus on the successful execution of SUSE's mandate for sustainable, profitable revenue growth. The objective remains to grow revenue ahead of growth rates for relevant markets.

Nils Brauckmann
Chief Executive Officer
SUSE
14 December 2016

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.

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.

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 gives a true and fair review of the assets, liabilities, financial position and profit of the Group as a whole as required by DTR 4.2.4R and;

- includes a fair review 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 as required by DTR 4.2.7R and;

- includes a fair review of material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report as required by DTR 4.2.8R.

The current directors of the Company are Kevin Loosemore, Mike Phillips, Stephen Murdoch, Nils Brauckmann, Karen Slatford, Richard Atkins, Tom Virden, Steve Schuckenbrock and Amanda Brown. Biographies for each director are included on page 47 of the Annual Report and on the Company's website: www.microfocus.com.

By order of the board

Kevin Loosemore	**Mike Phillips**
Executive Chairman	**Chief Financial Officer**

14 December 2016

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

	Note	Six months ended 31 October 2016 (unaudited) Before exceptional items	Exceptional items	Total	Six months ended 31 October 2015 (unaudited) Before exceptional items	Exceptional items	Total	Year ended 30 April 2016 (audited) Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	5,6	684,743	-	684,743	604,523	-	604,523	1,245,049
Cost of sales		(73,031)	(1,265)	(74,296)	(65,578)	(932)	(66,510)	(135,432)
Gross profit		611,712	(1,265)	610,447	538,945	(932)	538,013	1,109,617
Selling and distribution costs		(216,526)	(2,002)	(218,528)	(194,600)	(4,202)	(198,802)	(416,333)
Research and development expenses		(133,359)	(2,175)	(135,534)	(121,977)	(682)	(122,659)	(259,388)
Administrative expenses		(57,493)	(35,606)	(93,099)	(61,314)	(4,835)	(66,149)	(138,962)
Operating profit		204,334	(41,048)	163,286	161,054	(10,651)	150,403	294,934
Analyzed as:								
Adjusted Operating Profit		326,249	-	326,249	263,868	-	263,868	533,514
Share based compensation		(15,521)	-	(15,521)	(11,856)	-	(11,856)	(28,793)
Amortization of purchased intangibles	14	(106,394)	-	(106,394)	(90,958)	-	(90,958)	(181,934)
Exceptional items	7	-	(41,048)	(41,048)	-	(10,651)	(10,651)	(27,853)
Operating profit	5	204,334	(41,048)	163,286	161,054	(10,651)	150,403	294,934
Share of results of associates		(1,127)	-	(1,127)	(1,129)	-	(1,129)	(2,190)
Finance costs		(49,455)	-	(49,455)	(50,887)	-	(50,887)	(98,357)
Finance income		502	-	502	448	-	448	1,009
Net finance costs		(48,953)	-	(48,953)	(50,439)	-	(50,439)	(97,348)
Profit before tax		154,254	(41,048)	113,206	109,486	(10,651)	98,835	195,396
Taxation	12	(28,140)	5,551	(22,589)	(14,593)	3,296	(11,297)	(32,424)
Profit for the period		126,114	(35,497)	90,617	94,893	(7,355)	87,538	162,972
Attributable to:								
Equity shareholders of the parent		126,135	(35,497)	90,638	94,676	(7,355)	87,321	162,894
Non-controlling interests		(21)	-	(21)	217	-	217	78
Profit for the period		126,114	(35,497)	90,617	94,893	(7,355)	87,538	162,972
Other comprehensive income:								
Items that will not be reclassified to profit or loss								
Actuarial (loss)/gain on pension liabilities schemes	21	(3,521)	-	(3,521)	6,260	-	6,260	2,697
Actuarial gain on non-plan pension assets	21	2,482	-	2,482	1,205	-	1,205	3,104
Deferred tax movement on pensions		326	-	326	(2,344)	-	(2,344)	(1,745)
Items that may be subsequently reclassified to profit or loss								
Currency translation differences		(5,708)	-	(5,708)	(1,774)	-	(1,774)	(3,458)
Other comprehensive (expense)/income for the period		(6,421)	-	(6,421)	3,347	-	3,347	598
Total comprehensive income for the period		119,693	(35,497)	84,196	98,240	(7,355)	90,885	163,570
Attributable to:								
Equity shareholders of the parent		119,714	(35,497)	84,217	98,023	(7,355)	90,668	163,492
Non-controlling interests		(21)	-	(21)	217	-	217	78
Total comprehensive income for the period		119,693	(35,497)	84,196	98,240	(7,355)	90,885	163,570
Earnings per share expressed in cents per share								
				cents			cents	cents
- basic	11			39.57			40.17	74.50
- diluted	11			38.12			38.58	71.61
Earnings per share expressed in pence per share				pence			pence	pence
- basic	11			29.49			25.96	49.59
- diluted	11			28.41			24.94	47.66

The accompanying notes are an integral part of this financial information.

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

	Note	**31 October 2016 (unaudited) $'000**	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Non-current assets				
Goodwill	**13**	**2,827,825**	2,436,168	2,436,168
Other intangible assets	**14**	**1,186,184**	1,050,581	966,555
Property, plant and equipment	**15**	**40,537**	42,525	40,867
Investments in associates		**11,584**	13,772	12,711
Long term pension assets	**21**	**24,120**	19,114	22,272
Other non-current assets		**3,230**	3,515	4,002
Deferred tax assets		**208,230**	219,343	198,757
		4,301,710	3,785,018	3,681,332
Current assets				
Inventories		**63**	78	93
Trade and other receivables	**16**	**277,958**	215,224	268,186
Current tax receivables		**3,432**	-	18,016
Cash and cash equivalents		**122,970**	91,566	667,178
Assets classified as held for sale		**888**	888	888
		405,311	307,756	954,361
Total assets		**4,707,021**	4,092,774	4,635,693
Current liabilities				
Trade and other payables	**17**	**151,163**	137,020	188,090
Borrowings	**18**	**294,192**	50,600	275,256
Provisions	**19**	**15,420**	27,784	10,545
Current tax liabilities		**29,583**	27,515	22,426
Deferred income	**20**	**582,412**	537,280	565,480
		1,072,770	780,199	1,061,797
Non-current liabilities				
Deferred income		**204,342**	171,407	196,483
Borrowings	**18**	**1,441,337**	1,495,272	1,469,953
Retirement benefit obligations	**21**	**34,599**	26,695	31,669
Long-term provisions	**19**	**11,729**	16,634	14,354
Other non-current liabilities		**11,021**	4,039	3,671
Deferred tax liabilities		**349,464**	286,450	264,038
		2,052,492	2,000,497	1,980,168
Total liabilities		**3,125,262**	2,780,696	3,041,965
Net assets		**1,581,759**	1,312,078	1,593,728

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

	Note	**31 October 2016 (unaudited) $'000**	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Capital and reserves				
Share capital	**22**	**39,650**	39,558	39,573
Share premium account		**190,727**	16,559	190,293
Merger reserve	**23**	**988,104**	1,168,104	988,104
Capital redemption reserve	**23**	**163,363**	163,363	163,363
Retained earnings/(deficit)		**221,593**	(61,380)	228,344
Foreign currency translation deficit		**(22,714)**	(15,322)	(17,006)
Total equity attributable to owners of the parent		**1,580,723**	1,310,882	1,592,671
Non-controlling interests		**1,036**	1,196	1,057
Total equity		**1,581,759**	1,312,078	1,593,728

The accompanying notes are an integral part of this financial information.

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

	Note	**Six months ended 31 October 2016 (unaudited) $'000**	Six months ended 31 October 2015* (unaudited) $'000	Year ended 30 April 2016* (audited) $'000
Cash flows from operating activities				
Net profit for the period		**90,617**	87,538	162,972
Adjustments for:				
Net interest		**48,953**	50,439	97,348
Taxation		**22,589**	11,297	32,424
Share of results of associates		**1,127**	1,129	2,190
Operating profit		**163,286**	150,403	294,934
Research and development tax credits		**(936)**	(936)	(2,041)
Depreciation	**15**	**5,712**	5,770	11,419
Loss on disposal of property, plant and equipment		**484**	7	109
Amortization of intangibles	**14**	**119,085**	100,644	203,313
Share-based compensation	**9**	**15,521**	11,856	28,793
Exchange movements		**(9,270)**	719	(2,915)
Provisions movements	**19**	**18,788**	2,237	12,985
Changes in working capital:				
Inventories		**30**	44	28
Trade and other receivables		**21,073**	4,276	(49,175)
Payables and other liabilities		**(50,118)**	(17,310)	30,923
Provision utilization	**19**	**(18,581)**	(25,114)	(55,639)
Deferred income		**(62,308)**	(69,879)	(16,603)
Pension funding in excess of charge to operating profit		**(856)**	(22)	(18)
Cash generated from operations		**201,910**	162,695	456,113
Interest paid		**(42,879)**	(52,200)	(91,807)
Bank loan costs		**(5,864)**	(753)	(1,805)
Tax (paid)/received		**(18,183)**	(47,707)	(79,282)
Net cash generated from operating activities		**134,984**	62,035	283,219
Cash flows from investing activities				
Payments for intangible assets	**14**	**(17,571)**	(15,786)	(34,488)
Purchase of property, plant and equipment	**15**	**(6,454)**	(5,917)	(10,281)
Interest received		**502**	448	1,009
Payment for acquisition of subsidiaries	**26**	**(293,797)**	(9,960)	(9,960)
Repayment of bank borrowings on acquisitions	**26**	**(316,650)**	-	-
Net cash acquired with acquisitions	**26**	**68,173**	106	106
Net cash used in investing activities		**(565,797)**	(31,109)	(53,614)
Cash flows from financing activities				
Proceeds from issue of ordinary share capital		**467**	475	968
Proceeds from share placement		**-**	-	225,720
Costs associated with share placement		**-**	-	(2,979)
Repayment of bank borrowings	**18**	**(126,375)**	(126,375)	(157,750)
Net proceeds from bank borrowings	**18**	**115,000**	20,000	245,000
Dividends paid to owners	**10**	**(111,023)**	(70,015)	(105,159)
Net cash (used in)/generated from financing activities		**(121,931)**	(175,915)	205,800
Effects of exchange rate changes		**8,536**	(4,769)	(9,551)
Net (decrease) / increase in cash and cash equivalents		**(544,208)**	(149,758)	425,854
Cash and cash equivalents at beginning of period		**667,178**	241,324	241,324
Cash and cash equivalents at end of period		**122,970**	91,566	667,178

* Provision utilization for the six months to 31 October 2015 and the year ended 30 April 2016 has been reclassified from provision movements to working capital movements to ensure consistency with the six months to 31 October 2016 presentation. The presentation of bank loan costs for the six months to 31 October 2015 and year ended 30 April 2016 have also been reclassified from net cash from financing activities to net cash generated from operating activities to ensure consistency with the six months to 31 October 2016 presentation.

The accompanying notes form an integral part of this financial information.

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

	Notes	Share capital $'000	Share premium account $'000	Retained earnings/ (deficit) $'000	Foreign currency translation reserve (deficit) $'000	Capital redemption reserves $'000	Merger reserve $'000	Equity / (deficit) attributable to the parent $'000	Non-controlling interests $'000	Total equity / (deficit) $'000
Balance as at 1 May 2015		**39,555**	**16,087**	**(96,479)**	**(13,548)**	**163,363**	**1,168,104**	**1,277,082**	**979**	**1,278,061**
Currency translation differences		-	-	-	(1,774)	-	-	(1,774)	-	(1,774)
Profit for the period		-	-	87,321	-	-	-	87,321	217	87,538
Remeasurement on defined benefit pension schemes	**21**	-	-	6,260	-	-	-	6,260	-	6,260
Remeasurement on long-term pension assets	**21**	-	-	1,205	-	-	-	1,205	-	1,205
Deferred tax movement pensions		-	-	(2,344)	-	-	-	(2,344)	-	(2,344)
Total comprehensive income		-	-	92,442	(1,774)	-	-	90,668	217	90,885
Transactions with owners:										
Dividends	**10**	-	-	(70,015)	-	-	-	(70,015)	-	(70,015)
Issue of share capital		3	472	(1,935)	-	-	-	(1,460)	-	(1,460)
Movement in relation to share options		-	-	12,287	-	-	-	12,287	-	12,287
Deferred tax on share options		-	-	2,320	-	-	-	2,320	-	2,320
Balance as at 31 October 2015		**39,558**	**16,559**	**(61,380)**	**(15,322)**	**163,363**	**1,168,104**	**1,310,882**	**1,196**	**1,312,078**
Balance at 1 May 2016		**39,573**	**190,293**	**228,344**	**(17,006)**	**163,363**	**988,104**	**1,592,671**	**1,057**	**1,593,728**
Currency translation differences		**-**	**-**	**-**	**(5,708)**	**-**	**-**	**(5,708)**	**-**	**(5,708)**
Profit for the period		**-**	**-**	**90,638**	**-**	**-**	**-**	**90,638**	**(21)**	**90,617**
Remeasurement on defined benefit pension schemes	**21**	**-**	**-**	**(3,521)**	**-**	**-**	**-**	**(3,521)**	**-**	**(3,521)**
Remeasurement on long-term pension assets	**21**	**-**	**-**	**2,482**	**-**	**-**	**-**	**2,482**	**-**	**2,482**
Deferred tax movement pensions		**-**	**-**	**326**	**-**	**-**	**-**	**326**	**-**	**326**
Total comprehensive income		**-**	**-**	**89,925**	**(5,708)**	**-**	**-**	**84,217**	**(21)**	**84,196**
Transactions with owners:										
Dividends	**10**	**-**	**-**	**(111,023)**	**-**	**-**	**-**	**(111,023)**	**-**	**(111,023)**
Movement in relation to share options		**77**	**434**	**11,266**	**-**	**-**	**-**	**11,777**	**-**	**11,777**
Deferred tax on share options		**-**	**-**	**3,081**	**-**	**-**	**-**	**3,081**	**-**	**3,081**
Balance as at 31 October 2016		**39,650**	**190,727**	**221,593**	**(22,714)**	**163,363**	**988,104**	**1,580,723**	**1,036**	**1,581,759**

The accompanying notes are an integral part of this financial information.

Micro Focus International plc

Notes to the consolidated interim financial statements (unaudited)

1. General

Micro Focus International plc (“the Company”) is a public limited Company incorporated and domiciled in the UK. The address of its registered office is, The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK.

Micro Focus International plc and its subsidiaries (together “the Group”) provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. The Group has a presence in 40 countries worldwide and employs approximately 4,490 people.

The Company is listed on the London Stock Exchange.

These condensed consolidated interim financial statements were approved by the board on 13 December 2016 for issue on 14 December 2016.

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 2016 were approved by the Board of directors on 13 July 2016 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 six months ended 31 October 2016 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 2016, 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 2016, 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:

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization applies for periods beginning on or after 1 January 2016. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

- 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 IAS 1, ‘Presentation of financial statements’ as part of the IASB initiative to improve presentation and disclosure in financial reports, effective for annual periods beginning on or after 1 January 2016.

The amendments above do not have a material impact to the consolidated financial statements.

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

- IFRS 15 ‘Revenue from Contracts with Customers’ establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards and has been approved by EU, apart from those clarifications the IASB published in April 2016. Earlier application is permitted. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations.

- IFRS 9 ‘Financial instruments’. This standard replaces the guidance in IAS 39 and applies to periods beginning on or after 1 January 2018. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

The Group is currently assessing the impact of IFRS 15 and IFRS 9. It is too early to determine how significant the effect of these standards will be on reported results and financial position.

3. Accounting policies continued

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

- Amendments to IAS 7, 'Statement of cash flows' on disclosure initiative are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. This amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities and is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealized losses are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. These amendments clarify how to account for deferred tax assets originated from unrealized loss in debt instruments measured at fair value.

- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share based payment transactions are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The Group is currently assessing the impact of IFRS 16.

Apart from IFRS 16, where it is too early to determine how significant the effect on reported results and financial position will be, the directors anticipate that the future introduction of those amendments listed above will not have a material impact on the consolidated financial statements.

4. Functional currency

The presentation currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity. The Group uses the local currency as the functional currency, except for two entities based in Ireland (Novell Ireland Software Limited and Novell Ireland Real Estate Limited) and the parent company, where the functional currency is the US dollar.

Notes to the consolidated interim financial statements (unaudited)

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"). The Group's operating segments are: Micro Focus and SUSE as set out in the Executive Chairman's Statement. Operating segments are consistent with those used in internal management reporting and the profit 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 six months ended 31 October 2016:

	Note	Micro Focus	SUSE	Total
		$'000	**$'000**	**$'000**
Segment revenue		**537,311**	**147,432**	**684,743**
Directly managed costs		**(277,297)**	**(81,197)**	**(358,494)**
Allocation of centrally managed costs		**12,651**	**(12,651)**	**-**
Total segment costs		**(264,646)**	**(93,848)**	**(358,494)**
Adjusted Operating Profit	8	**272,665**	**53,584**	**326,249**
Exceptional items	7			**(41,048)**
Share based compensation charge				**(15,521)**
Amortization of purchased intangibles				**(106,394)**
Operating profit				**163,286**
Share of results of associates				**(1,127)**
Net finance costs				**(48,953)**
Profit before tax				**113,206**
Total assets				**4,707,021**
Total liabilities				**3,125,262**

Operating segments for the six months ended 31 October 2015:

	Note	Micro Focus	SUSE	Total
		$'000	**$'000**	**$'000**
Segment revenue		483,291	121,232	604,523
Directly managed costs		(278,637)	(62,018)	(340,655)
Allocation of centrally managed costs		16,268	(16,268)	-
Total segment costs		(262,369)	(78,286)	(340,655)
Adjusted Operating Profit	8	220,922	42,946	263,868
Exceptional items	7			(10,651)
Share based compensation charge				(11,856)
Amortization of purchased intangibles				(90,958)
Operating profit				150,403
Share of results of associates				(1,129)
Net finance costs				(50,439)
Profit before tax				98,835
Total assets				4,092,774
Total liabilities				2,780,696

The operating segment split of depreciation on property, plant and equipment and the amortization of purchased software intangibles is reported in note 8. The segmental costs for the six months ended 31 October 2015 have been reclassified to the methodology utilized in the six months ended 31 October 2016.

Notes to the consolidated interim financial statements (unaudited)

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 2016:

	Micro Focus							
	CDMS	Host Connectivity	Identity, Access & Security	Development & IT Operations Management Tools	Collaboration & Networking	Total Micro Focus	SUSE	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Licence	52,447	38,898	19,845	24,509	11,174	146,873	-	146,873
Maintenance	75,320	52,613	70,298	109,388	56,612	364,231	-	364,231
Subscription	-	-	-	-	-	-	144,925	144,925
Consulting	5,433	935	10,211	7,336	2,292	26,207	2,507	28,714
Total	133,200	92,446	100,354	141,233	70,078	537,311	147,432	684,743

Set out below is an analysis of revenue recognized between the principal product portfolios for the six months ended 31 October 2015:

	Micro Focus							
	CDMS	Host Connectivity	Identity, Access & Security	Development & IT Operations Management Tools	Collaboration & Networking	Total Micro Focus	SUSE	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Licence	39,984	48,450	20,412	13,467	12,210	134,523	-	134,523
Maintenance	71,910	54,205	70,489	62,798	68,015	327,417	-	327,417
Subscription	-	-	-	-	-	-	118,732	118,732
Consulting	4,025	1,210	11,723	1,411	2,982	21,351	2,500	23,851
Total	115,919	103,865	102,624	77,676	83,207	483,291	121,232	604,523

The table below provides the proportion of revenue by each of the portfolios delivered during the six months to 31 October 2016, the comparison to the revenue for the six months to 31 October 2015 and the year ended 30 April 2016, with Micro Focus broken out into its sub-portfolios:

	Six months ended 31 October 2016	Six months ended 31 October 2015	Year ended 30 April 2016
COBOL Development & Mainframe Solutions	**19.4%**	19.2%	20.8%
Host Connectivity	**13.6%**	17.2%	15.9%
Identity, Access & Security	**14.6%**	17.0%	17.4%
Development & IT Operations Management Tools	**20.6%**	12.8%	12.6%
Collaboration & Networking	**10.3%**	13.8%	12.9%
Micro Focus Portfolio	**78.5%**	80.0%	79.6%
SUSE Portfolio	**21.5%**	20.0%	20.4%
Micro Focus Group	**100.0%**	100.0%	100.0%

7. Exceptional items

The exceptional costs of $41.0m (2015: $10.7m) shown in the consolidated statement of comprehensive income relate to costs incurred on the acquisition of Serena and GWAVA, pre-acquisition costs relating the HPE Software and integration costs for acquired businesses. The total cash outflow of exceptional items during the year was $21.2m (2015: $8.0m).

Reported within Operating profit:	**Six months ended 31 October 2016 (unaudited) $'000**	Six months ended 31 October 2015 (unaudited) $'000	Year ended 30 April 2016 (audited) $'000
Integration costs	**13,432**	8,394	23,634
Acquisition costs	**1,468**	531	531
Pre-acquisition costs	**19,669**	-	5,569
Property costs	**2,521**	1,073	5,964
Severance and legal costs	**3,958**	653	(4,845)
Royalty provision release	**-**	-	(3,000)
	41,048	10,651	27,853

Notes to the consolidated interim financial statements (unaudited)

7. Exceptional items continued
Integration costs of $13.4m (2015: $8.4m) arose from the work being done in bringing together the Base Micro Focus, TAG, Serena and GWAVA organizations into one organization. Other activities include; development of a new Group intranet and website and system integration costs.

The acquisition costs of $1.5m are external costs in evaluating and completing the acquisitions of Serena in May 2016 and GWAVA in September 2016 (2015: acquisition of Authasas BV $0.5m). The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

The property costs of $2.5m (2015: $1.1m) relate to the cost of exiting entire buildings or floors of buildings which the Group are leasing following the integration of the TAG and Serena business. The majority of the costs relate to TAG and Serena properties in North America.

Severance and legal costs of $4.0m (2015: $0.7m) relate mostly to termination costs for senior Serena executives after acquisition.

The pre-acquisition costs of $19.7m (2015: $nil) relate to the evaluation of the acquisition of HPE Software (note 27), which was announced in September 2016 and is expected to complete in the third quarter of calendar year 2017. The costs relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction

The estimated total tax effect of exceptional items is a credit to the income statement of $5.6m (2015: $3.3m).

8. Reconciliation of operating profit to EBITDA

	Note	**Six months ended 31 October 2016 (unaudited) $'000**	Six months ended 31 October 2015 (unaudited) $'000	Year ended 30 April 2016 (audited) $'000
Operating profit	5	**163,286**	150,403	294,934
Exceptional items	7	**41,048**	10,651	27,853
Share-based compensation charge		**15,521**	11,856	28,793
Amortization of purchased intangibles	14	**106,394**	90,958	181,934
Adjusted Operating Profit		**326,249**	263,868	533,514
Depreciation of property, plant and equipment	15	**5,712**	5,770	11,419
Amortization of purchased software intangibles	14	**574**	918	1,864
Adjusted EBITDA		**332,535**	270,556	546,797
Amortization and impairment of development costs	14	**12,117**	8,768	19,515
Facility EBITDA		**344,652**	279,324	566,312
Operating profit	5	**163,286**	150,403	294,934
Amortization of intangible assets	14	**119,085**	100,644	203,313
Depreciation of property, plant and equipment	15	**5,712**	5,770	11,419
EBITDA		**288,083**	256,817	509,666
Amortization and impairment of development costs	14	**(12,117)**	(8,768)	(19,515)
Share-based compensation charge		**15,521**	11,856	28,793
Exceptional items	7	**41,048**	10,651	27,853
Adjusted EBITDA		**332,535**	270,556	546,797
Foreign exchange credit		**(9,270)**	(355)	(2,915)
Net (capitalization)/amortization of internal development costs	14	**(2,931)**	(6,360)	(11,362)
Underlying Adjusted EBITDA		**320,334**	263,841	532,520

Net capitalization of internal development costs of $2.9m (2015: $6.4m) is calculated as additions to intangible development costs of $15.3m (2015: $15.1m), excluding external consultants development costs of $0.3m (2015: $nil) less amortization and impairment of the development costs intangibles in the period of $12.1m (2015: $8.8m).

8. Reconciliation of operating profit to EBITDA continued
The table below provides the operating segments split for the six months ended 31 October 2016 and the six months ended 31 October 2015:

	Six months to 31 October 2016			Six months ended 31 October 2015		
	Micro Focus $'000	**SUSE $'000**	**Total $'000**	Micro Focus $'000	SUSE $'000	Total $'000
Adjusted Operating Profit	**272,665**	**53,584**	**326,249**	220,922	42,946	263,868
Depreciation of property, plant and equipment	**4,759**	**953**	**5,712**	4,691	1,079	5,770
Amortization of purchased software intangibles	**529**	**45**	**574**	746	172	918
Adjusted EBITDA	**277,953**	**54,582**	**332,535**	226,359	44,197	270,556
Foreign exchange credit	**(7,981)**	**(1,289)**	**(9,270)**	(355)	-	(355)
Net capitalization of development costs	**(2,931)**	**-**	**(2,931)**	(6,360)	-	(6,360)
Underlying Adjusted EBITDA	**267,041**	**53,293**	**320,334**	219,644	44,197	263,841

The directors use EBITDA, EBITDA before exceptional items and share based compensation charge but after amortization and impairment of development costs ("Adjusted EBITDA") and Adjusted EBITDA before foreign exchange gains and losses and net amortization/capitalization of internal development costs ("Underlying Adjusted EBITDA") as key performance measures of the business.

The use of these alternative performance measures are consistent with those used by sell-side equity analysts who write research on the Group and how institutional investors consider the performance of the Group.

Facility EBITDA was the measure used under the Group's $420m Revolving Credit Facility to determine the Net Debt to Facility EBITDA covenant calculation. Whilst the $420m facility was repaid and cancelled as part of the refinancing on the acquisition of TAG, for consistency the directors will continue to use the metric Net Debt to Facility EBITDA. These measures are not defined in IFRS and thus may not be comparable to similarly titled measures by other companies.

9. Share-based payments
The share-based compensation charge for the six months ended 31 October 2016 was $15.5m (2015: $11.9m) including $4.3m (2015: $1.6m) relating to employer taxes. The increase in the period is as a result of the additional employer taxes that would be payable as a result of the increase in the share price. $7.6m of the employer taxes is included in trade and other payables and $5.2m is included in other non-current liabilities.

10. Dividends
A dividend of $111.0m was paid during the period to 31 October 2016 of 49.74 cents per share (2015: $70.0m or 33.0 cents per share).

The directors announce an interim dividend of 29.73 cents per share (2015: 16.94 cents per share) payable on 27 January 2017 to shareholders who are registered at 6 January 2017. This interim dividend, amounting to $68.2m (2015: $35.1m) has not been recognized as a liability in this half year report.

Notes to the consolidated interim financial statements (unaudited)

11. Earnings per share

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

	Six months ended 31 October 2016 (unaudited)				Six months ended 31 October 2015 (unaudited)			
	Total earnings $'000	**Weighted average number of shares '000**	**Per share amount Cents**	**Per share amount Pence**	Total earnings $'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence
Basic EPS								
Earnings attributable to ordinary shareholders [1]	**90,638**	**229,067**	**39.57**	**29.49**	87,321	217,402	40.17	25.96
Effect of dilutive securities								
Options		**8,689**				8,938		
Diluted EPS								
Earnings attributable to ordinary shareholders	**90,638**	**237,756**	**38.12**	**28.41**	87,321	226,340	38.58	24.94
Supplementary EPS								
Basic EPS	**90,638**	**229,067**	**39.57**	**29.49**	87,321	217,402	40.17	25.96
Adjusted items[2]	**162,963**				113,465			
Tax relating to above items	**(41,513)**				(33,262)			
Basic EPS – adjusted	**212,088**	**229,067**	**92.59**	**69.00**	167,524	217,402	77.06	49.81
Diluted EPS	**90,638**	**237,756**	**38.12**	**28.41**	87,321	226,340	38.58	24.94
Tax adjustments	**-**							
Adjusted items[2]	**162,963**				113,465			
Tax relating to above items	**(41,513)**				(33,262)			
Diluted EPS – adjusted	**212,088**	**237,756**	**89.20**	**66.48**	167,524	226,340	74.01	47.84

[1] Earnings attributable to ordinary shareholders is the profit for the period of $90,617,000 (2015: $87,538,000), excluding the $21,000 loss (2015: $217,000 profit) attributable to non-controlling interests.

[2] Adjusted items comprise amortization of purchased intangibles $106,394,000 (2015: $90,958,000), share-based compensation $15,521,000 (2015: $11,856,000) and exceptional items $41,048,000 (2015: $10,651,000).

The weighted average number of shares excludes treasury shares that do not have dividend rights. Earnings per share, expressed in pence, has used the average exchange rate for the year of $1.34 to £1 (2015: $1.55 to £1).

12. Taxation

Profit before tax and adjusted profit before tax

Profit before tax was $113.2m (2015: $98.8m). Adjusted profit before tax was $276.2m (2015: $212.3m):

	Six months ended 31 October 2016 (unaudited) $'000	Six months ended 31 October 2015 (unaudited) $'000	Year ended 30 April 2016 (audited) $'000
Profit before tax	**113,206**	98,835	195,396
Share based compensation	**15,521**	11,856	28,793
Amortization of purchased intangibles	**106,394**	90,958	181,934
Exceptional costs	**41,048**	10,651	27,853
Adjusted profit before tax	**276,169**	212,300	433,976

Notes to the consolidated interim financial statements (unaudited)

12. Taxation continued

The tax charge for the period was $22.6m (2015: $11.3m) with the Group's effective tax rate ("ETR") being 20.0% (2015: 11.4%). The tax charge on adjusted profit before tax for the period was $64.1m (2015: $44.6m), which represents an ETR on adjusted profit of 23.2% (2015: 21.0%) as set out below:

	Six months ended 31 October 2016 (actual) (unaudited)			Six months ended 31 October 2015 (actual) (unaudited)			Year ended 30 April 2016 (actual) (audited)		
	Actual $'000	**Adjusts $'000**	**Adjusted measures $'000**	Actual $'000	Adjusts $'000	Adjusted measures $'000	Actual $'000	Adjusts $'000	Adjusted measures $'000
Profit before tax	**113,206**	**162,963**	**276,169**	98,835	113,465	212,300	195,396	238,580	433,976
Taxation	**(22,589)**	**(41,513)**	**(64,102)**	(11,297)	(33,262)	(44,559)	(32,424)	(67,766)	(100,190)
Profit after tax	**90,617**	**121,450**	**212,067**	87,538	80,203	167,741	162,972	170,814	333,786
Effective tax rate	**20.0%**		**23.2%**	11.4%		21.0%	16.6%		23.1%

In computing adjusted profit before tax, $163.0m of adjustments have been made for the items shown in the adjusted profit before tax section above, of which the associated tax is $41.5m.

The Group's ETR for the six months ended 31 October 2016 (20.0%) is higher than the previous year (11.4%) mainly due to the high proportion of disallowable exceptional costs in the current year relating to the HPE Software acquisition.

The Adjusted ETR for the six months ended 31 October 2016 (23.2%) is higher than the previous year (2015: 21.0%). This is due to intra-group transfer pricing changes to manage risk arising from the OECD's Base Erosion and Profit Shifting ("BEPS") initiative.

The Group continues to benefit from the UK's Patent Box regime. Benefits during the six months to 31 October 2016 were $4.3m (2015: $3.8m).The Group realized benefits in relation to intra-Group financing in the six months to 31 October 2016 of $8.4m (2015: $7.2m).

Ignoring the impact of the Merger with HPE Software the Group's medium-term Adjusted ETR is expected to be between 23% and 27% of the Group's adjusted profit before tax, in line with guidance issued at year end. The enacted reduction in the UK's corporation tax rate from 18% to 17% from 1 April 2020 is not expected to give rise to a material reduction in the Adjusted ETR.

The Group's cash taxes paid in the period were $18.2m, compared to $47.7m in the six months to 31 October 2015. The prior year figure included $27.2m in respect of US Federal income tax liabilities for the year ended 30 April 2016 and previous years. Following a recalculation of the respective liabilities, a substantial part of that payment was subsequently carried forward at 30 April 2016 as a debtor, reducing payments required in the current year.

There have been no significant developments in relation to the UK tax claim impacting the Group's tax returns for the years ended 30 April 2009 through to 2015, which is under review by HMRC. The Group maintains a provision for the full potential liability of $4.7m at 31 October 2016. The provision has reduced by $0.9m since 30 April 2016 due to foreign exchange movements.

Notes to the consolidated interim financial statements (unaudited)

13. Goodwill

Cost and net book amount	**31 October 2016 (unaudited) $'000**	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
At 1 May	**2,436,168**	2,421,745	2,421,745
Hindsight adjustments	**-**	5,583	5,583
Acquisitions (note 26)	**391,657**	8,840	8,840
At 31 October / 30 April	**2,827,825**	2,436,168	2,436,168
A segment-level summary of the goodwill allocation is presented below:			
Micro Focus	**1,968,259**	1,576,602	1,576,602
SUSE	**859,566**	859,566	859,566
At 31 October / 30 April	**2,827,825**	2,436,168	2,436,168

The Group has two operating segments: Micro Focus Product Portfolio and SUSE Product Portfolio.

The additions to goodwill in the year relate to the acquisition of Serena ($378.6m) and GWAVA ($13.1m) (note 26). Of the additions to goodwill, there is no amount that is expected to be deductible for tax purposes.

14. Other intangible assets

			Purchased intangibles			
	Purchased software $'000	Development costs $'000	Technology $'000	Trade names $'000	Customer relationships $'000	Total $'000
Net book value						
At 1 May 2015	935	31,369	222,466	209,696	667,755	1,132,221
Acquisition - Authasas	-	-	2,545	-	811	3,356
Additions	658	15,128	-	-	-	15,786
Charge for the period	(918)	(8,768)	(37,599)	(7,520)	(45,839)	(100,644)
Exchange adjustments	(138)	-	-	-	-	(138)
At 31 October 2015	**537**	**37,729**	**187,412**	**202,176**	**622,727**	**1,050,581**
Net book value						
At 1 May 2015	935	31,369	222,466	209,696	667,755	1,132,221
Acquisition - Authasas	-	-	2,545	-	811	3,356
Additions	3,093	31,395	-	-	-	34,488
Charge for the year	(1,864)	(19,515)	(75,227)	(15,040)	(91,667)	(203,313)
Exchange adjustments	(197)	-	-	-	-	(197)
At 30 April 2016	**1,967**	**43,249**	**149,784**	**194,656**	**576,899**	**966,555**
Net book value						
At 1 May 2016	1,967	43,249	149,784	194,656	576,899	966,555
Acquisition - Serena (note 26)	79	-	86,100	21,400	210,200	317,779
Acquisition – GWAVA (note 26)	-	-	4,075	711	544	5,330
Additions	2,226	15,345	-	-	-	17,571
Charge for the period	(574)	(12,117)	(37,027)	(5,501)	(63,866)	(119,085)
Exchange adjustments	(1,966)	-	-	-	-	(1,966)
At 31 October 2016	**1,732**	**46,477**	**202,932**	**211,266**	**723,777**	**1,186,184**

Expenditure totaling $17.6m (2015: $15.8m) was made in the year, including $15.3m in respect of development costs and $2.2m of purchased software. The acquisition of Serena gave rise to an addition of $317.7m to purchased intangibles and $0.1m to purchased software, the acquisition of GWAVA gave rise to an addition of $5.3m to purchased intangibles (note 26).

Of the $15.3m of additions to development costs, $15.0m (2015: $15.1m) relates to internal development costs and $0.3m (2015: $nil) to external consultants development costs.

At 31 October 2016, the unamortized lives of technology assets were in the range of two to ten years, customer relationships in the range of one to ten years and trade names in the range of ten to twenty years.

Amortization of $69.4m (2015: $53.4m) is included in selling and distribution costs, $49.1m (2015: $46.4m) is included in research and development expense and $0.6m (2015: $0.9m) is included in administrative expenses in the consolidated statement of comprehensive income.

Notes to the consolidated interim financial statements (unaudited)

15. Property, plant and equipment

Capital expenditure of $6.5m (2015: $5.9m) was made in the six months to 31 October 2016.

	Freehold land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Net book value					
At 1 May 2015	14,653	14,645	9,505	4,093	42,896
Acquisition – Authasas	-	-	14	-	14
Additions	-	2,649	2,578	690	5,917
Disposals	-	(1)	(5)	(1)	(7)
Charge for the period	(211)	(1,741)	(3,156)	(662)	(5,770)
Exchange adjustments	50	(154)	(368)	(53)	(525)
At 31 October 2015	**14,492**	**15,398**	**8,568**	**4,067**	**42,525**
Net book value					
At 1 May 2015	14,653	14,645	9,505	4,093	42,896
Acquisition – Authasas	-	-	14	-	14
Additions	-	3,636	5,386	1,259	10,281
Disposals	-	-	(53)	(56)	(109)
Charge for the year	(403)	(3,541)	(6,127)	(1,348)	(11,419)
Exchange adjustments	(638)	(136)	(11)	(11)	(796)
At 30 April 2016	**13,612**	**14,604**	**8,714**	**3,937**	**40,867**
Net book value					
At 1 May 2016	13,612	14,604	8,714	3,937	40,867
Acquisition – Serena (note 26)	-	1,057	659	211	1,927
Acquisition – GWAVA (note 26)	-	-	111	84	195
Additions	18	2,329	3,926	181	6,454
Disposals	-	(286)	(79)	(119)	(484)
Charge for the period	(182)	(2,060)	(2,919)	(551)	(5,712)
Exchange adjustments	(2,057)	(209)	(366)	(78)	(2,710)
At 31 October 2016	**11,391**	**15,435**	**10,046**	**3,665**	**40,537**

16. Trade and other receivables

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Trade receivables	**257,486**	201,568	248,759
Less: provision for impairment of trade receivables	**(3,768)**	(2,998)	(4,486)
Trade receivables net	**253,718**	198,570	244,273
Prepayments	**21,353**	14,690	21,694
Other receivables	**2,436**	1,647	1,651
Accrued income	**451**	317	568
Total	**277,958**	215,224	268,186

At 31 October 2016, 31 October 2015 and 30 April 2016, the carrying amount approximates to the fair value.

17. Trade and other payables – current

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Trade payables	**14,301**	13,158	20,793
Tax and social security	**9,250**	5,588	10,425
Accruals	**127,612**	118,274	156,872
Total	**151,163**	137,020	188,090

At 31 October 2016, 31 October 2015 and 30 April 2016, the carrying amount approximates to the fair value. Accruals include employee taxes on share-based payments, acquisition fees, vacation and payroll accruals including bonuses and commissions.

18. Borrowings

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Bank loans secured	**1,775,875**	1,593,625	1,787,250
Unamortized prepaid facility arrangement fees and original issue discounts	**(40,346)**	(47,753)	(42,041)
Net Borrowings	**1,735,529**	1,545,872	1,745,209
Reported within:			
Current liabilities	**294,192**	50,600	275,256
Non-current liabilities	**1,441,337**	1,495,272	1,469,953
Net Borrowings	**1,735,529**	1,545,872	1,745,209
Less: Cash at bank and in hand	**(122,970)**	(91,566)	(667,178)
Net debt	**1,612,559**	1,454,306	1,078,031

The terms of the Micro Focus existing debt facilities are as follows:

- Syndicated senior secured tranche B term loan facility of $1,275.0m ("Term Loan B"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;

- A syndicated senior secured tranche C term loan facility of $500.0m ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 10.00% per annum, with an original issue discount of 1.5% and a five year term; and

- A senior secured revolving credit facility of $375.0m, ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.50%.

The Revolving Facility was increased to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 26).

On 1 August 2016 the Company allocated a re-pricing of its senior secured term loan B which will reduce its ongoing interest payments. The interest rate was reduced from 4.25% to 3.75% and the LIBOR floor was reduced from 1.00% to 0.75%, amortizing at 1.00% per annum, up from 0.75%. All other terms of the Group's Credit Facilities remain the same.

The only financial covenant attaching to these new facilities relates to the Revolving Facility, which is 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. At 31 October 2016 $245.0m of the Revolving Facility available of $375.0m was drawn representing 65.3%. The covenant calculation indicates that the Group had in excess of 70% headroom against the covenant test.

Borrowings are stated after deducting unamortized prepaid facility fees and original issue discounts. Facility arrangement costs and original issue discounts are amortized between four and six years. The fair value of borrowings equals their carrying amount.

19. Provisions

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Onerous leases and dilapidations	**16,687**	21,422	18,176
Restructuring and integration	**7,340**	9,095	3,523
Legal	**3,022**	3,264	1,920
Other	**100**	10,637	1,280
Total	**27,149**	44,418	24,899
Current	**15,420**	27,784	10,545
Non-current	**11,729**	16,634	14,354
Total	**27,149**	44,418	24,899

19. Provisions continued

	Onerous leases and dilapidations $'000	**Restructuring and integration $'000**	**Legal $'000**	**Other $'000**	**Total $'000**
At 1 May 2016	**18,176**	**3,523**	**1,920**	**1,280**	**24,899**
Acquisitions - Serena (note 26)	**-**	**1,201**	**1,344**	**-**	**2,545**
Additional provision in the period	**2,128**	**20,358**	**-**	**-**	**22,486**
Released	**(344)**	**(2,077)**	**(97)**	**(1,180)**	**(3,698)**
Utilization of provision	**(3,151)**	**(15,311)**	**(119)**	**-**	**(18,581)**
Exchange adjustments	**(122)**	**(354)**	**(26)**	**-**	**(502)**
At 31 October 2016	**16,687**	**7,340**	**3,022**	**100**	**27,149**
Current	**5,120**	**7,278**	**3,022**	**-**	**15,420**
Non-current	**11,567**	**62**	**-**	**100**	**11,729**
Total	**16,687**	**7,340**	**3,022**	**100**	**27,149**

	Onerous leases and dilapidations $'000	Restructuring and integration $'000	Legal $'000	Other $'000	Total $'000
At 1 May 2015	22,630	30,921	3,065	10,637	67,253
Hindsight adjustment	-	-	677	-	677
Additional provision in the period	2,575	5,201	-	-	7,776
Provision releases in the period	(991)	(4,548)	-	-	(5,539)
Utilization of provision	(2,598)	(22,328)	(188)	-	(25,114)
Unwinding of discount	6	-	-	-	6
Exchange adjustments	(200)	(151)	(290)	-	(641)
At 31 October 2015	21,422	9,095	3,264	10,637	44,418
Current	9,464	8,856	3,264	6,200	27,784
Non-current	11,958	239	-	4,437	16,634
Total	**21,422**	**9,095**	**3,264**	**10,637**	**44,418**

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilized within nine years. The provision was increased by $2.1m in the period to 31 October 2016, mostly due to the lengthening in the estimated time to sublease a North American property.

Restructuring and integration provisions relate mostly to severance and integration work undertaken during the six months ended 31 October 2016. Integration provisions arose from the work done in bringing together the Base Micro Focus, TAG, Serena and GWAVA organizations into one organization. This includes, amongst other activities; development of a new Group intranet and website and system integration costs. Severance releases relate to the change in estimates made for integrating the TAG business in the year ended 30 April 2016, including the redeployment of staff previously notified of redundancy. The provisions are expected to be fully utilized within 12 months.

Legal provisions include management's best estimate of the likely outflow of economic benefits associated with ongoing legal matters.

Of the net additions and releases to provisions in the period, $19.9m (2015: $7.3m) was included in exceptional items.

20. Deferred income – current

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Deferred income	**582,412**	537,280	565,480

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred income in the consolidated statement of financial position to be recognized in future periods.

21. Retirement benefit obligations

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Within Non-current assets :			
Long term pension assets	**24,120**	19,114	22,272
Within Non-current liabilities:			
Retirement benefit obligations	**(34,599)**	(26,695)	(31,669)

There are three defined benefit plans in Germany under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life in the case of retirement, disability and death. The level of benefits provided depends not only on the final salary but also on member's length of service, social security ceiling and other factors. Final pension entitlements are calculated by our Actuary in Swiss Life. They also complete calculations for cases of death in service and disability. There is no requirement for the appointment of Trustees in Germany. The schemes are administered locally with the assistance of German pension experts. All three plans were closed for new membership.

Long-term pension assets

Certain long-term pension assets do not meet the definition of plan assets as they have not been pledged to the plan and are subject to the creditors of the Group. Such assets as follows are recorded separately in the consolidated statement of financial position as long-term pension assets.

The movement on the long-term pension asset is as follows:

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
As at 1 May	**22,272**	14,076	14,076
Hindsight adjustment	**-**	3,917	3,917
Return on non-plan assets	**187**	168	333
Benefits paid	**(44)**	(40)	(8)
Contributions	**-**	-	475
Actuarial gain on non-plan assets included within other comprehensive income	**2,482**	1,205	3,104
Foreign currency exchange changes	**(777)**	(212)	375
As at 31 October / 30 April	**24,120**	19,114	22,272

The long-term pension asset was acquired as part of the acquisition of TAG. The non-plan assets were not subject to an actuarial revaluation until after 30 April 2015 and therefore a hindsight adjustment was made in respect of this and reflected in the consolidated statement of comprehensive income.

Retirement benefit obligations

The net liability included in the consolidated statement of financial position arising from obligations in respect of defined benefit schemes is as follows:

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Present value of defined benefit obligation	**40,120**	32,148	37,524
Fair value of plan assets	**(5,521)**	(5,453)	(5,855)
	34,599	26,695	31,669

Notes to the consolidated interim financial statements (unaudited)

21. Retirement benefit obligations continued

The present value of the defined benefit obligation has moved as follows:

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
At 1 May	**37,524**	38,224	38,224
Current service cost	**424**	383	760
Benefits paid	**(145)**	(88)	(100)
Interest cost	**311**	276	546
Remeasurements - actuarial losses:			
- Demographic	**-**	-	-
- Financial	**3,521**	(6,340)	(2,024)
- Experience	**(117)**	98	(565)
Foreign currency exchange changes	**(1,398)**	(405)	683
At 31 October / 30 April	**40,120**	32,148	37,524

The fair value of plan assets has moved as follows:

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
At 1 May	**5,855**	5,482	5,482
Interest income	**49**	40	79
Remeasurements - actuarial return on assets excluding amounts included in interest income	**(117)**	18	108
Contributions by plan participants	**13**	13	126
Benefits paid	**(43)**	(42)	(84)
Foreign currency exchange changes	**(236)**	(58)	144
At 31 October / 30 April	**5,521**	5,453	5,855

$0.7m (2015: $0.6m) is included in the consolidated statement of comprehensive income in respect of the German defined benefit pension arrangements being a current service charge of $0.4m (2015: $0.4m) and a net finance charge of $0.3m (2015: $0.2m).

The contributions for the six months ended 30 April 2017 are expected to be broadly in line with the six months ended 31 October 2016.

The amounts recognized as movements in equity included $0.1m (2015: $0.1m) of actuarial return on assets excluding amounts included in interest and $3.4m (2015: $6.2m gains) of actuarial losses arising on scheme liabilities.

The key assumptions used for the German scheme were:

	31 October 2016 (unaudited) $'000	31 October 2015 (unaudited) $'000	30 April 2016 (audited) $'000
Rate of increase in final pensionable salary	**2.60%**	2.60%	2.60%
Rate of increase in pension payments	**2.00%**	2.00%	2.00%
Discount rate	**1.30%**	2.20%	1.70%
Inflation	**2.00%**	2.00%	2.00%

The mortality assumptions for the German scheme are set based on actuarial advice in accordance with published statistics and experience in the territory, specifically German pension table 'Richttafeln 2005 G' by Prof. Dr. Klaus Heubeck. This is unchanged from that reported as at 30 April 2016.

21. Retirement benefit obligations continued

Sensitivities

The table below provides information on the sensitivity of the defined benefit obligation to changes to the most significant actuarial assumptions. The table shows the impact of changes to each assumption in isolation, although, in practice, changes to assumptions may occur at the same time and can either offset or compound the overall impact on the defined benefit obligation.

These sensitivities have been calculated using the same methodology as used for the main calculations. The weighted average duration of the defined benefit obligation is 25 years.

	Change in assumption	**Change in defined benefit obligation**
Discount rate for scheme liabilities	0.50%	13.0%
Price inflation	0.25%	3.7%
Salary growth rate	0.50%	1.7%

An increase of one year in the assumed life expectancy for both males and females would increase the defined benefit obligation by 2.9% (2015: 2.9%). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

22. Share capital

Ordinary shares at 10 pence each (2015: 10 pence each)

	31 October 2016		31 October 2015		30 April 2016	
	Shares	**$'000**	Shares	$'000	Shares	$'000
Issued and fully paid						
At 1 May	**228,706,210**	**39,573**	228,587,397	39,555	228,587,397	39,555
Shares issued to satisfy option awards	**584,289**	**77**	22,242	3	118,313	18
Share placement issues	**-**	**-**	-	-	500	-
At 31 October / April	**229,290,499**	**39,650**	228,609,639	39,558	228,706,210	39,573

Share issuances during the six months to 31 October 2016

During the six months to 31 October 2016, 584,289 ordinary shares of 10 pence each (2015: 22,242 ordinary shares of 10 pence) were issued by the Company to settle exercised share options. The gross consideration received was $0.5m (2015: $0.5m).

At 31 October 2016 there were no treasury shares held (2015: 11,029,506) and as such that the voting rights and number of listed shares at 31 October were 229,290,499 (2015: 217,580,133).

Potential issues of shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,875.58 pence under the following share option schemes approved by shareholders in 2005 and 2006: the Long-Term Incentive Plan 2005, the Additional Share Grants, the Sharesave Plan 2006 and the Employee Stock Purchase Plan 2006.

The number of shares subject to options at 31 October 2016 was 9,271,150 (2015: 9,312,749).

Notes to the consolidated interim financial statements (unaudited)

23. Other reserves

	Capital redemption reserve $'000	Merger reserve $'000	Total $'000
Share capital issue [1]	-	(27,085)	(27,085)
Redemption of B shares [2]	56,359	-	56,359
Expenses and foreign exchange relating to return of value [2]	545	-	545
Redemption of B shares [2]	47,079	-	47,079
Acquisition of TAG [3]	-	1,372,666	1,372,666
Reallocation of merger reserve [5]	-	(130,000)	(130,000)
Return of Value – Share consideration [4]	11,903	-	11,903
Return of Value – New share issues [4]	47,477	(47,477)	-
As at 1 May 2015 and 31 October 2015	163,363	1,168,104	1,331,467
As at 1 May 2015	163,363	1,168,104	1,331,467
Reallocation of merger reserve [5]	-	(180,000)	(180,000)
As at 30 April 2016	**163,363**	**988,104**	**1,151,467**
As at 1 May 2016 and 31 October 2016	**163,363**	**988,104**	**1,151,467**

[1] On 17 May 2005, the Company acquired the entire issued share capital of Micro Focus International Limited by way of a share for share exchange, pursuant to which the previous shareholders of Micro Focus International Limited were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in Micro Focus International Limited. This increase in share capital created a merger reserve deficit of $27.1m.

[2] In January 2012 a Return of Value was made to all shareholders amounting to $129.0m in cash after including a foreign exchange contract gain of $0.6m. As a result of this a capital redemption reserve was created following the redemption of the B shares ($56.9m). In November 2012 a further Return of Value was made to all shareholders amounting to $128.2m in cash after including a foreign exchange contract gain of $2.4m. In the year ended 30 April 2014 a further $47.1m was added to the capital redemption reserve following the redemption of the B shares.

[3] On 20 November 2014 the TAG acquisition was completed. As a result of this a merger reserve was created of $1.372.7m. The acquisition of TAG was structured by way of a share for share exchange; this transaction fell within the provisions of section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The Company chose to record its investment in TAG at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had section 612 of the Companies Act 2006 not been applicable (i.e. equal to the difference between the fair value of TAG and the aggregate nominal value of the shares issued). This merger reserve was initially considered unrealized on the basis it was represented by the investment in TAG, which is not considered to represent qualifying consideration (in accordance with Tech 02/10 (Guidance on the determination of realized profits and losses in the context of distributions under the Companies Act 2006)). Immediately following the acquisition of TAG, the Company's investment in TAG was transferred to another Group company in exchange for an intercompany loan. To the extent this loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realized.

[4] In December 2014 a Return of Value was made to all shareholders amounting to $131.6m in cash. The Return of Value was accompanied by a 0.9285 share consolidation and resulted in a net $11.9m reduction in share capital and an $11.9m increase in the capital redemption reserve. In addition $47.5m was transferred from the merger reserve to the capital redemption reserve.

[5] The merger reserve is an unrealized profit until it can be realized by the settlement of the intercompany loan by qualifying consideration. $180.0m of the intercompany loan is expected to be settled in qualifying consideration during the year to 30 April 2017 (2015: $130.0m) and as such an equivalent proportion of the merger reserve is considered realized and therefore has been transferred to the profit and loss account.

24. Related party transactions

The Group's related parties are its subsidiary undertakings and Executive Committee members. 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.

	6 months ended 31 October 2016 $'000	6 months ended 31 October 2015 $'000	Year ended 30 April 2016 $'000
Key management compensation			
Short-term employee benefits	4,749	4,710	9,297
Share-based payments	6,326	6,247	10,146
	11,075	10,957	19,443

The key management figures above include the executive management team and directors. There are no post-employment benefits.

At the beginning of the period Wizard Parent LLC held 13.8% of the issued share capital of the Company and by the 13 July 2016 they reduced their holding to only 2.6%. Wizard Parent LLC is no longer considered to be a related party.

Notes to the consolidated interim financial statements (unaudited)

25. Return of Value to shareholders
There has not been a Return of Value to shareholders in the six months to 31 October 2016.

From the 25 March 2011 to 31 October 2016, the Company has returned a total of £710.8m to shareholders through share buy-backs, Returns of Value and ordinary dividends which represented 111.9% of the Market Capitalization at that time.

As part of the corporate entity restructuring resulting from the acquisition of TAG a merger reserve was created 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.

26. Business combinations

Summary of acquisitions

	Carrying value at acquisition $'000	Fair value adjustments $'000	Hindsight adjustments $'000	Goodwill $'000	Consideration Shares $'000	Consideration Cash $'000	Consideration Total $'000
Acquisitions in the six months ended 31 October 2015 and the year ended 30 April 2016:							
Authasas BV	1,110	10	-	8,840	-	9,960	9,960
Acquisitions in the six months ended 31 October 2016:							
Serena Software Inc.	148,958	(249,938)	-	378,603	-	277,623	277,623
GWAVA Inc.	1,098	2,295	-	13,054	-	16,447	16,447
	150,056	**(247,643)**	**-**	**391,657**	**-**	**294,070**	**294,070**

Acquisition of Serena Software Inc.
On 2 May 2016, the Group acquired the entire share capital of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. ("Serena") and its subsidiaries for $277.6m, payable in cash at completion. In addition to this the Group then repaid the outstanding Serena bank borrowings of $316.7m as at 2 May 2016, making the total cash outflow for the Group of $528.5m, net of cash acquired of $65.8m.

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

Serena is a leading provider of enterprise software focused on providing Application Lifecycle Management products for both mainframe and distributed systems. Whilst Serena is headquartered in San Mateo, California the operations are effectively managed from offices in Hillsboro, Oregon and St. Albans in the United Kingdom. It operates in a further ten countries. The Serena Group's customers are typically highly regulated large enterprises, across a variety of sectors including banking, insurance, telco, manufacturing and retail, healthcare and government. Like Micro Focus, Serena benefits from high levels of recurring maintenance revenues and high EBITDA margins, with consistently strong cash generation and no significant customer concentration. Serena's position in the Source Code Change Management ("SCCM") segment complements the Micro Focus Product Portfolio in COBOL Development, Host Connectivity, and CORBA.

Serena will be integrated into the Micro Focus Product Portfolio and the revenues reported in the Development and IT Operations Management Tools sub-portfolio and, consequently, it will give rise to operational efficiencies.

The transaction was funded through the Group's existing cash resources together with additional debt and equity finance arranged through Barclays, HSBC, the Royal Bank of Scotland and Numis Securities. On the 2 May 2016, the Group's existing revolving credit facility was extended from $225m to $375m and the Group raised approximately £158.2m (approximately $225.7m) through a Placing underwritten by Numis Securities incurring $3.0m of costs associated with the Placing in March 2016.

26. Business combinations continued

Acquisition of Serena Software Inc. continued
A provisional fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. At the time these consolidated interim financial statements were authorized for issue, the Group had not yet fully completed its assessments of the Serena acquisition.

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

	Carrying value at acquisition	Fair value adjustments	Fair value
	$'000	$'000	$'000
Goodwill	462,400	(462,400)	-
Intangible assets - purchased [1]	-	317,700	317,700
Intangible assets - other	79	-	79
Property, plant and equipment	1,927	-	1,927
Other non-current assets	167	-	167
Deferred tax asset	15,541	-	15,541
Trade and other receivables	27,362	-	27,362
Cash and cash equivalent	65,784	-	65,784
Borrowings – short-term	(27,712)	-	(27,712)
Trade and other payables	(11,518)	-	(11,518)
Provisions – short-term	(2,545)	-	(2,545)
Current tax liabilities	(3,173)	-	(3,173)
Deferred income – short-term [2]	(72,217)	3,761	(68,456)
Deferred income – long-term [2]	(14,853)	798	(14,055)
Borrowings – long-term	(288,938)	-	(288,938)
Other non-current liabilities	(717)	-	(717)
Deferred tax liabilities [3]	(2,629)	(109,797)	(112,426)
Net assets	148,958	(249,938)	(100,980)
Goodwill (note 13)			378,603
Consideration			**277,623**
Consideration satisfied by :			
Cash			**277,623**

Trade and other receivables are net of a bad debt provision of $0.8m.

The fair value adjustments relate to:
1 Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of Serena Software Inc.;
2 Deferred income has been valued taking account of the remaining performance obligations;
3 A deferred tax liability has been established relating to the purchase of intangibles.

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 14):

	Fair value
	$'000
Technology	**86,100**
Customer relationships	**210,200**
Trade names	**21,400**
	317,700

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $378.6m has been capitalized.

From the date of acquisition, 2 May 2016 to 31 October 2016, the acquisition contributed $72.6m to revenue and $40.0m to Adjusted EBITDA, before any allocation of management costs. There is no difference in results between 1 May and 2 May 2016.

26. Business combinations continued

Acquisition of GWAVA Inc.
On 30 September 2016, the Group acquired the entire share capital of GWAVA Inc. ("GWAVA") and its subsidiaries for $16.4m, payable in cash at completion.

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

GWAVA is a leading company in email security and enterprise information archiving (EIA). GWAVA has approximately 90 employees, based in the US, Canada and Germany. More than a million users across 60 countries rely on its products in over 3,000 customer organizations, supported by GWAVA's global team, with a further 1,000 GWAVA business partners collaborating closely to ensure successful customer solutions. In addition to GWAVA's award winning EIA product Retain, GWAVA has a full suite of products to protect, optimize, secure and ensure compliance for customers running Micro Focus GroupWise.

Extending our portfolio by adding the ability to archive all electronic business communication data in one central location, including email, social media and mobile communications data will provide further support for our customers' mobile, social, cloud and big data initiatives. We are also better positioned to address their growing governance needs relating to compliance, privacy and regulatory reporting requirements.

The acquisition supports our commitment to enabling our customers to innovate faster with the lowest possible risk and to maximize the business value of their existing IT assets. It also demonstrates our clear commitment to protecting the investment of existing GroupWise customers, as well as creating new and exciting possibilities for them as they consider their collaboration needs.

A provisional fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. At the time these consolidated interim financial statements were authorized for issue, the Group had not yet fully completed its assessments of the GWAVA acquisition.

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

	Carrying value at acquisition	**Fair value adjustments**	**Fair value**
	$'000	**$'000**	**$'000**
Intangible assets - purchased [1]	-	5,330	5,330
Intangible assets - other [2]	1,180	(1,180)	-
Property, plant and equipment	195	-	195
Trade and other receivables [3]	3,309	(767)	2,542
Cash and cash equivalent	2,389	-	2,389
Trade and other payables	(1,064)	-	(1,064)
Deferred income – short-term [4]	(4,094)	324	(3,770)
Deferred income – long-term	(817)	-	(817)
Deferred tax liabilities [5]	-	(1,412)	(1,412)
Net assets	1,098	2,295	3,393
Goodwill (note 13)			13,054
Consideration			**16,447**
Consideration satisfied by :			
Cash			**16,447**

Of the consideration payable, $16,174,000 has been settled as at 31 October 2016 and $273,000 remains payable.

Trade and other receivables is net of a bad debt provision of $52,000.

The fair value adjustments relate to:
[1] Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of GWAVA Inc.;
[2] Other intangible assets relating to historic IP has been written down to nil;
[3] Other advances have been written off as irrecoverable;
[4] Deferred income has been valued taking account of the remaining performance obligations;
[5] A deferred tax liability has been established relating to the purchase of intangibles.

26. Business combinations continued

Acquisition of GWAVA Inc. continued
The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 14):

	Fair value
	$'000
Technology	**4,075**
Customer relationships	**544**
Trade names	**711**
	5,330

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $13.1m has been capitalized. From the date of acquisition, 30 September 2016 to 31 October 2016, the acquisition contributed $0.8m to revenue and a loss of $0.1m to Adjusted EBITDA.

The estimated results of the above acquisition if it had been made at the beginning of the accounting year, 1 May 2016, to 31 October 2016 would have been as follows:

Continuing	**$m**
Revenue	**4.6**
Profit for the period	**0.1**
Adjusted EBITDA	**0.2**
Underlying Adjusted EBITDA	**0.1**

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 31 October 2016 would have been as follows:

Continuing	**$m**
Revenue	**688.5**
Profit for the period	**90.8**
Adjusted EBITDA	**332.8**
Underlying Adjusted EBITDA	**320.4**

The above figures are based on information provided to Micro Focus by GWAVA and the results since acquisition.

27. Post balance sheet events

1. OpenATTIC acquisition

On 1 November 2016 SUSE announced the completion of the acquisition of the openATTIC storage management technology and engineering talent from the company it-novum for a cash consideration of 4.7m Euros. The openATTIC technology aligns perfectly with our strategy to provide open source, software defined infrastructure solutions for the enterprise and will strengthen SUSE Enterprise Storage solution by adding enterprise grade storage management capabilities to the portfolio.

2. Acquisition of OpenStack IaaS and CloudFoundry PaaS Talent and Technology Assets from HPE

On 30 November 2016 SUSE announced it had reached a definitive agreement with HPE on the terms of a transaction pursuant to which the company has agreed to acquire technology and talent that will expand SUSE's OpenStack Infrastructure-as-a-Service (IaaS) solution and accelerate SUSE's entry into the growing CloudFoundry Platform-as-a-Service (PaaS) market. In consideration for this the Group will assume any liabilities relating to the IPR agreements and the transferring employees and offer employment to the offered employees.

The acquired OpenStack assets will be integrated into SUSE OpenStack Cloud and the acquired Cloud Foundry and PaaS assets will enable SUSE to bring to market a certified, enterprise-ready SUSE Cloud Foundry PaaS solution for all customers and partners in the SUSE ecosystem. Additionally, SUSE has increased engagement with the Cloud Foundry Foundation, becoming a platinum member and taking a seat on the Cloud Foundry Foundation Board.

As part of the transaction, HPE has named SUSE as its preferred open source partner for Linux, OpenStack IaaS and CloudFoundry PaaS. HPE's choice of SUSE as their preferred open source partner further cements SUSE's reputation for delivering high-quality, enterprise-grade open source solutions and services.

27. Post balance sheet events continued

3. Micro Focus announces proposed merger with HPE Software

On 7 September 2016 we announced that we had entered into a definitive agreement with Hewlett Packard Enterprise (“HPE”) on the terms of a transaction (the “Transaction”) in which we agreed to acquire HPE's software business segment (“HPE Software”) by way of a merger (the “Merger”) with a wholly owned subsidiary of HPE incorporated to hold the business of HPE Software for the purposes of the Transaction. At the time of announcement HPE Software was valued at $8.8bn.

The Transaction is complex and is expected to complete in the third quarter of calendar year 2017. HPE are in the process of carving out HPE Software from their existing business. Micro Focus will be seeking approval for the Transaction in a Circular to shareholders in May 2017 together with approval for a $400m return of value to shareholders that is agreed as part of the Transaction. The Circular will include historic financial information on HPE Software for the three years ended 31 October 2016 under IFRS. Following shareholder approval of the Transaction the return of value will be made to Micro Focus shareholders immediately prior to completion of the Transaction.

The board expects the Merger to enhance adjusted earnings per share by the first full financial year ending after Completion, with scope for further benefits as operational improvements are realized across the Group.

To fund the Transaction, the Company has entered into commitments with JPMC, HSBC, Barclays and The Royal Bank of Scotland (the Banks) to provide $5bn of term loans and the Lenders and Bank of America Merrill Lynch to provide a $0.5bn revolving facility. These facilities will be marketed to lenders in the New Year.

Independent review report to Micro Focus International plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Micro Focus International plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim results for the six months ended 31 October 2016 of Micro Focus International plc for the six month period ended 31 October 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated statement of financial position (unaudited) as at 31 October 2016;
- the consolidated statement of comprehensive income (unaudited) for the period then ended;
- the consolidated statement of cash flows (unaudited) for the period then ended;
- the consolidated statement of changes in equity (unaudited) for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results for the six months ended 31 October 2016 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, 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.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim results for the six months ended 31 October 2016, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim results for the six months ended 31 October 2016 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results for the six months ended 31 October 2016 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 Guidance and Transparency Rules sourcebook of the United Kingdom's 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.

What a review of interim 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.

Report on the condensed consolidated interim financial statements continued

We have read the other information contained in the interim results for the six months ended 31 October 2016 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
14 December 2016

a) The maintenance and integrity of the Micro Focus International plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim 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.