Interim Condensed Consolidated Financial Statements of Marcel Lux IV SARL and its subsidiaries

For the three months ended 31 January 2021

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Contents

Marcel LUX IV SARL and its subsidiaries (“the SUSE Group”)

Interim Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 January 2021

		Three months ended 31 January 2021			Three months ended 31 January 2020		
Income statement:	**Notes**	**Headline US$’000**	**Separately reported items US$’000**	**Total US$’000**	**Headline US$’000**	**Separately reported items US$’000**	**Total US$’000**
Revenue	**7**	**126,418**	**-**	**126,418**	**102,257**	**-**	**102,257**
Cost of sales		(9,254)	-	(9,254)	(7,065)	-	(7,065)
Gross profit		**117,164**	**-**	**117,164**	**95,192**	**-**	**95,192**
Selling and distribution costs		(31,074)		(31,074)	(31,011)	-	(31,011)
Research and development costs		(19,881)	-	(19,881)	(18,614)	-	(18,614)
Administrative expenses		(44,415)	(4,617)	(49,032)	(20,361)	-	(20,361)
Reversal of / (impairment loss) on trade receivables		300	-	300	(505)	-	(505)
Operating profit before depreciation and amortisation		**22,094**	**(4,617)**	**17,477**	**24,701**	**-**	**24,701**
Amortisation of intangible assets	**11**	(35,421)	-	(35,421)	(31,145)	-	(31,145)
Depreciation – Property, plant and equipment		(1,150)	-	(1,150)	(773)	-	(773)
Depreciation/impairment – Right of use assets		(1,686)	-	(1,686)	(3,137)	-	(3,137)
Operating profit / (loss)		**(16,163)**	**(4,617)**	**(20,780)**	**(10,354)**	**-**	**(10,354)**
Finance costs		(6,597)	-	(6,597)	(16,943)	-	(16,943)
Finance income		2	-	2	8	-	8
Net finance costs		**(6,595)**	**-**	**(6,595)**	**(16,935)**	**-**	**(16,935)**
Share of losses on associate		(562)	-	(562)	(581)	-	(581)
Loss before tax		**(23,320)**	**(4,617)**	**(27,937)**	**(27,870)**	**-**	**(27,870)**
Taxation	**9**	4,382	529	4,911	4,956	-	4,956
Loss for the period		**(18,938)**	**(4,088)**	**(23,026)**	**(22,914)**	**-**	**(22,914)**
Attributable to:							
Equity shareholders of the parent		**(18,938)**	**(4,088)**	**(23,026)**	**(22,914)**	**-**	**(22,914)**
Non-controlling interests		-	-	-	-	-	-
Loss for the period		**(18,938)**	**(4,088)**	**(23,026)**	**(22,914)**	**-**	**(22,914)**
Earnings per share							
Basic and diluted (€)				(16.4)			(16.4)

The accompanying notes are integral part of these Interim Condensed Consolidated Financial Statements.

Marcel LUX IV SARL and its subsidiaries ("the SUSE Group")

Interim Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 January 2021

	Notes	Three months ended 31 January 2021 Headline US$'000	Three months ended 31 January 2021 Separately reported items US$'000	Three months ended 31 January 2021 Total US$'000	Three months ended 31 January 2020 Headline US$'000	Three months ended 31 January 2020 Separately reported items US$'000	Three months ended 31 January 2020 Total US$'000
Loss for the period		**(18,938)**	**(4,088)**	**(23,026)**	**(22,914)**	**-**	**(22,914)**
Other comprehensive income:							
Items not to be reclassified to income statement:							
Remeasurement of defined benefit pension schemes		(109)	-	(109)	1,301	-	1,301
Related tax impact		-	-	-	(348)	-	(348)
Items that may subsequently reclassify to income statement:							
Currency translation differences		(26,610)	-	(26,610)	4,066	-	4,066
Cash flow hedge – changes in fair value	**16**	(233)	-	(233)	(694)	-	(694)
Cash flow hedge – reclassified to income statement	**16**	2,214	-	2,214	940	-	940
Related tax impact		(451)	-	(451)	(60)	-	(60)
Other comprehensive losses for the period		**(25,189)**	**-**	**(25,189)**	**5,205**	**-**	**5,205**
Total comprehensive loss for the period		**(44,127)**	**(4,088)**	**(48,215)**	**(17,709)**	**-**	**(17,709)**
Attributable to:							
Equity shareholders of the parent		**(44,127)**	**(4,088)**	**(48,215)**	**(17,709)**	**-**	**(17,709)**
Non-controlling interests		-	-	-	-	-	-
Total comprehensive loss for the period		**(44,127)**	**(4,088)**	**(48,215)**	**(17,709)**	**-**	**(17,709)**

The accompanying notes are integral part of these Interim Condensed Consolidated Financial Statements.

Marcel LUX IV SARL and its subsidiaries ("the SUSE Group")

Interim Condensed Consolidated Statement of Financial Position

As at 31 January 2021

	Notes	As at 31 January 2021 US$'000	As at 31 October 2020 US$'000
Non-current assets			
Goodwill	**11**	2,573,318	2,134,881
Intangible assets	**11**	612,372	519,370
Property, plant and equipment		7,213	7,624
Right of use assets		13,561	13,677
Investment in associate		15,612	16,174
Derivative asset	**16**	3	11
Long-term pension assets		1,093	1,039
Other receivables		8,044	7,895
Deferred tax assets	**9**	126,043	107,347
Contract related assets		35,072	25,761
		3,392,331	**2,833,779**
Current assets			
Trade and other receivables		141,826	101,042
Current tax receivables		1,523	1,523
Cash and cash equivalents		44,787	94,933
Contract related assets		20,750	19,649
		208,886	**217,147**
Total assets		**3,601,217**	**3,050,926**
Current liabilities			
Trade and other payables		77,100	93,128
Borrowings	**12**	6,600	3,600
Lease liabilities		6,289	5,721
Provisions	**13**	6,813	7,199
Current tax liabilities		9,445	10,584
Deferred income – contract liabilities	**15**	303,834	246,485
		410,081	**366,717**
Non-current liabilities			
Borrowings	**12**	1,245,216	934,660
Lease liabilities		9,901	10,729
Provisions	**13**	2,361	2,329
Non-current tax liabilities		6,602	6,601
Deferred tax liabilities	**9**	98,771	68,695
Retirement benefit obligations		7,849	7,541
Share-based payments	**14**	39,139	13,019
Deferred income – contract liabilities	**15**	172,604	155,989
Derivative liabilities	**16**	23,212	25,440
Other payables		11,910	11,861
		1,617,565	**1,236,864**
Total liabilities		**2,027,646**	**1,603,581**
Net assets		**1,573,571**	**1,447,345**

Marcel LUX IV SARL and its subsidiaries ("the SUSE Group")

Interim Condensed Consolidated Statement of Financial Position

As at 31 January 2021

		As at 31 January 2021 US$'000	As at 31 October 2020 US$'000
Equity			
Share capital	**17**	14	14
Share premium	**17**	1,778,287	1,604,251
Retained losses		(154,410)	(130,824)
Other reserves	**14**	3,605	3,200
Hedging reserve	**16**	(10,817)	(12,798)
Foreign currency translation reserve		(43,108)	(16,498)
Total equity		**1,573,571**	**1,447,345**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

SUSE

Marcel LUX IV SARL and its subsidiaries ("the SUSE Group")

Interim Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 January 2021

	Notes	Share capital US$'000	Share premium US$'000	Retained losses US$'000	Other reserve US$'000	Cash flow Hedging reserve US$'000	Foreign currency translation reserve US$'000	Total equity US$'000
As at 1 November 2020		**14**	**1,604,251**	**(130,824)**	**3,200**	**(12,798)**	**(16,498)**	**1,447,345**
Loss for the period		-	-	(23,026)	-	-	-	**(23,026)**
Other comprehensive income/(expense) for the period		-	-	(560)	-	1,981	(26,610)	**(25,189)**
Total comprehensive income/(expense) for the period		**-**	**-**	**(23,586)**	**-**	**1,981**	**(26,610)**	**(48,215)**
Transactions recorded in equity:								
Contribution of capital	**17**	-	174,036	-	-	-	-	**174,036**
Equity settled share-based payments	**14**	-	-	-	405	-	-	**405**
Total transactions with owners		**-**	**-**	**-**	**405**	**-**	**-**	**174,441**
At 31 January 2021		**14**	**1,778,287**	**(154,410)**	**3,605**	**(10,817)**	**(43,108)**	**1,573,571**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

Marcel LUX IV SARL and its subsidiaries ("the SUSE Group")

Interim Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 January 2020

	Notes	Share capital US$'000	Share premium US$'000	Retained losses US$'000	Other reserve US$'000	Cash flow Hedging reserve US$'000	Foreign currency translation reserve US$'000	Total equity US$'000
As at 1 November 2019		**14**	**1,604,251**	**(80,037)**	**839**	**(11,961)**	**10,102**	**1,523,208**
Loss for the period		-	-	(22,914)	-	-	-	(22,914)
Other comprehensive income/(expense) for the period		-	-	893	-	246	4,066	5,205
Total comprehensive income/(expense) for the period		**-**	**-**	**(22,021)**	**-**	**246**	**4,066**	**(17,709)**
Transactions recorded in equity:								
Contribution of capital	**17**	-	-	-	-	-	-	-
Equity settled share-based payments	**14**	-	-	-	340	-	-	**340**
Total transactions with owners		**-**	**-**	**-**	**340**	**-**	**-**	**340**
At 31 January 2020		**14**	**1,604,251**	**(102,058)**	**1,179**	**(11,715)**	**14,168**	**1,505,839**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

SUSE

Marcel LUX IV SARL and its subsidiaries ("the SUSE Group")

Interim Condensed Consolidated Statement of Cash Flows

For the three months ended 31 January 2021

		Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
Loss for the period		**(23,026)**	**(22,914)**
Net finance costs		6,595	16,935
Taxation	**9**	(4,911)	(4,956)
Share of losses on associate		562	581
Operating loss for the period		**(20,780)**	**(10,354)**
Addback:			
Depreciation – Property, plant and equipment		1,150	773
Depreciation – Right of use assets		1,686	3,137
Amortization of intangible assets	**11**	35,421	31,145
Amortization of contract related assets		1,703	1,312
Contract liabilities - fair value haircut	**15**	3,889	6,496
Share based payments expense	**14**	25,978	2,112
Restructuring charges		1,481	-
Foreign exchange movements		731	1,387
Impairment (credit)/loss on trade receivables		(300)	505
Movements:			
Movements in trade receivables		(24,772)	(9,843)
Movements in other receivables		3,162	(2,363)
Movements in trade payables		(610)	(1,656)
Movements in other payables		(29,343)	23,177
Movement in other pensions		245	(763)
Movements in provisions		(1,834)	(1,089)
Movements in contract related assets		(12,116)	(6,725)
Movements in contract liabilities	**15**	43,712	15,357
Cash generated from operations		**29,403**	**52,608**
Interest paid		(14,013)	(13,741)
Interest received		2	9
Tax paid		(2,415)	(1,422)
Net cash inflow from operating activities		**12,977**	**37,454**
Cash flow from/(used in) investing activities			
Purchase of property, plant and equipment		(308)	(750)
Purchase and development of intangible assets	**11**	(2,897)	(25,731)
Acquisition of a business, net of cash	**10**	(489,908)	-
Net cash outflow from investing activities		**(493,113)**	**(26,481)**
Net cash (outflow)/inflow before financing activities		**(480,136)**	**10,973**

Marcel LUX IV SARL and its subsidiaries (“the SUSE Group”)

Interim Condensed Consolidated Statement of Cash Flows

For the three months ended 31 January 2021

		Three months ended 31 January 2021 US$’000	Three months ended 31 January 2020 US$’000
Cash flows from/(used in) financing activities			
Proceeds from contribution of capital	**17**	135,338	-
Proceeds from bank borrowings	**12**	300,000	-
Payment of arrangement fees	**12**	(4,008)	-
Repayment of bank borrowings	**12**	(900)	(900)
Payment of interest rate swap premia	**16**	(2,214)	(940)
Lease payments		(260)	(3,081)
Loan repaid by intermediary parent undertaking	**18**	1,500	-
Net cash inflow/(outflow) from financing activities		**429,456**	**(4,921)**
Net (decrease)/increase in cash and cash equivalents		**(50,680)**	**6,052**
Foreign exchange movements		534	(85)
Cash and cash equivalents at beginning of period		94,933	38,197
Cash and cash equivalents at end of period	**12**	**44,787**	**44,164**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

1. General information

Marcel LUX IV SARL (the "**Company**") is a private limited liability company (*société à responsabilité limitée*) incorporated and existing under the laws of the Grand Duchy of Luxembourg, with its registered office at 26A, Boulevard Royal, L-2449 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B225816.

The Company together with its wholly owned subsidiaries (the "**Group**" or the "**SUSE Group**") collectively represent the operations of SUSE. These Interim Condensed Consolidated Financial Statements of the Group are as at and for the three months ended 31 January 2021.

The principal activity of the Group is that of an enterprise software company. The Group is a pioneer in open source software which develops, markets and supports an enterprise grade *'Linux'* operating system, open source software defined infrastructure and application delivery solutions that give enterprises greater control and flexibility over their IT systems.

Information presented in the notes to these Interim Condensed Consolidated Financial Statements have been presented in a systematic manner and typically following the order of the line items in Interim Condensed Consolidated Statement of Comprehensive Income and Interim Condensed Consolidated Statement of Financial Position.

2. Basis of preparation

A. Basis of measurement

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting as adopted by the EU and* should be read in conjunction with the Group's last annual Consolidated Financial Statements as at and for the year ended 31 October 2020 ("last annual financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS" or "IFRS"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

B. Going concern

The Groups' sole manager and Leadership Team ("**Key Management Personnel**" or **"Management"**) consider that the Company and its subsidiaries have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these Interim Condensed Consolidated Financial Statements. This assessment was made with due regard to an impact assessment of the ongoing COVID-19 ("**Coronavirus**") pandemic, which initially emerged in March 2020.

Management does not currently envisage a significant impact from COVID-19.

(i) *Operations* – the Group operates in a virtual environment and has the system and processes that enables its employees and operations to continue to function in a remote environment across all departments and all geographical areas, the COVID-19 pandemic had limited impact on day-to-day operations.

2. Basis of preparation *(continued)*

B. Going concern *(continued)*

(ii) *Going concern* – the Group has sufficient resources to meet its obligations as they fall due. Currently there are no financial covenants applicable to the Group owing to the unutilised status of the Revolving Credit Facility as at 31 January 2021 and the date of approval of the Consolidated Financial Statements. As such, there are no risk of breach of financial covenants.

(iii) *Performance* –The vast majority of the planned future revenues for 2021 arise from subscription contracts. The business model is a recurring revenues model and we are currently not experiencing any significant change to our renewal rate. In FY20 and Q1 2021, the Group performed substantially in line with expectations and no significant slowdown has been noted in the current business. This is evident in key performance indicators of the Group like Annual Contract Value ("ACV") which was in line with expectation. Equally Group has not observed a significant deterioration in cash collections or illiquidity of its customers since the pandemic began.

(iv) *Impairment and overall business review-* Management view that significant non-current assets such as goodwill, intangible assets and deferred tax assets continue to be carried at an amount that is at least the recoverable amount. As the performance of the business to date coupled with future expected performance during the FY21 financial period is not expected to be significantly off budget there is no conditions for impairment.

While the status of the pandemic is constantly evolving, Management continues to monitor and observe performance to ensure changes in circumstances or events do not impact this assessment. Accordingly, they continue to adopt a going concern basis in preparing these Interim Condensed Consolidated Financial Statements of the Group.

C. Functional and presentational currency

The financial statements are presented in thousands of US Dollars (denoted as "**US$**"), which is the functional currency of the Company in addition to several principal subsidiaries of the Group.

3. Critical judgements and sources of estimation uncertainty

The preparation of these Interim Condensed Consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. In other respects, the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Condensed Consolidated Financial Statements are consistent with those disclosed in Note 3 *'Critical judgements and sources of estimation uncertainty'* in the last annual financial statements.

Management consider the following critical judgments to specifically relate to the period under review:

A. Identification and measurement of assets and liabilities acquired in a business combination

Goodwill and other intangible assets such as intellectual property and customer relationships are subject to allocation adjustments under the acquisition method accounting for business combinations. Management evaluate the best available evidence for the allocation and measurement of intangible assets.

Similarly, there is estimation uncertainty involved in the measurement of liabilities identified as part of a business combination. The recognition of acquired deferred revenue involved a step-down adjustment to reflect its fair value based on the cost to deliver the related service ("the Haircut" to deferred revenue). The process involved a 'bottom up approach' where the costs needed to fulfil the performance obligation are added to an appropriate profit margin. The costs to fulfil are reflective of those that market participants would incur to fulfil the service and do not include costs such as marketing, recruiting, and training, which are incurred prior to the business combination.

B. Fair value of Share-based payments

Measuring the fair value of share-based payment transactions requires the estimation and judgement in predicting the timing of vesting and the ultimate number of instruments that will vest over the life of a scheme.

The Group is considering a partial placing of the share capital on the Frankfurt Stock Exchange (IPO). As of the date of preparing these financial statements, no investment commitments have been received yet from external investors and therefore the final partial placement is still not 100% certain. It is currently not considered to be highly probable that the IPO transaction will take place. No changes have been made to the exit base case scenario at the current stage.

4. Significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those disclosed in Note 4 *'Significant accounting policies'* in the last annual financial statements.

5. Financial risk factors

The financial risk factors identified by the Group in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those disclosed in Note 29 *'Financial Risk Management'* in the last annual financial statements.

6. Segmental analysis

In accordance with IFRS 8 *Operating Segments*, the Group has derived the information for its segmental reporting using the information used by the Chief Operating Decision Makers ("CODMs") for the purposes of resource allocation and assessment of segment performance. The CODMs comprise the SUSE Leadership Team ("Key Management Personnel"). The Group is organized into a single reporting segment for the following reasons:

- All key decision-making and overall control is centralised;
- Only revenues (and not profits) are reviewed on a geographical level; and
- Costs of the Group are reviewed at a functional level.

As the Group comprises a single reporting segment, the results reported in these Interim Condensed Consolidated Financial Statements and accompanying notes relate to this single segment. Further disaggregation of the Group's total revenue is disclosed in Note 7. All segment revenue is derived wholly from external customers and, as the Group has a single reportable segment, inter-segment revenue is zero.

The Group is not dependent on any single customer for its revenue and no single customer in the current or prior periods, accounts for more than 10% of the Group's revenue. The total of non-current assets by region, other than financial instruments and deferred tax assets of the segment is as follows:

	As at 31 January 2021 US$'000	**As at 31 October 2020 US$'000**
Europe, Middle East and Africa	1,258,688	1,268,487
North America	2,001,463	1,451,873
Asia, Pacific and Japan	2,221	2,248
Greater China	3,429	3,326
Latin America	484	487
Sub-total	**3,266,285**	**2,726,421**
Derivative asset	3	11
Deferred tax assets	126,043	107,347
Total non-current assets	**3,392,331**	**2,833,779**

7. Revenue

Subscription revenue is recognized as a single performance obligation over the contractual term of a contract. In determining the transaction price, the Group considers the effects of reseller rebates to be the main source of variable consideration where certain customers are entitled to rebates on the basis of volume of unit sales generated within a period.

(a) Analysis of revenue from contracts with customers

	Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
Recognised over time:		
- Subscription revenue	121,320	96,922
Recognised at a point in time:		
- Subscription revenue	3,726	4,142
- Consulting revenue	1,372	1,193
Total revenue	**126,418**	**102,257**

On 15 March 2019, the Group acquired contract liabilities with a fair value of US$334.8 million. On 25 November 2020, the Group acquired contract liabilities with a fair value of US$26.4 million. The following table shows the impact of the acquisition accounting adjustment of the contract liability haircut on recognized revenues:

	Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
Effect of contract liability haircut:		
Recognized revenue before fair value adjustment	130,307	108,753
Contract liability haircut amortised	(3,889)	(6,496)
Total revenue	**126,418**	**102,257**

(b) Revenue by product type	Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
Core products	115,443	99,604
Emerging products	10,975	2,653
Total revenue	**126,418**	**102,257**

7. Revenue *(continued)*

(c) Revenue by route to market	Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
End user	101,314	78,830
Independent Hardware Vendor & Embedded	25,104	23,427
Total revenue	**126,418**	**102,257**

(d) Revenue by geographical location	Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
Europe, Middle East and Africa	60,831	49,176
North America	44,736	34,675
Asia, Pacific and Japan	8,879	7,727
Greater China	8,611	7,757
Latin America	3,361	2,922
Total revenue	**126,418**	**102,257**

8. Separately reported items

The Group has adopted a columnar presentation in its presentation of the Statement of Comprehensive Income in order to disaggregate items of specific importance from operations in the normal course (referred to as "Headline"). In doing so, Management considers that this gives a better indication of the underlying results of the ongoing business. Such items are those which are expected to have standalone significance and are typically confined to a single financial reporting period.

In determining this format, Management note IAS 1 *Presentation of Financial Statements* does not provide definitive guidance as to the format of the Interim Condensed Consolidated Statement of Comprehensive Income, but states key lines, which should be disclosed. It also encourages the disclosure of additional line items and the reordering of items presented on the face of the Interim Condensed Consolidated Statement of Comprehensive Income when appropriate for a proper understanding of the entity's financial performance.

	Three months ended 31 January 2021 US$'000	**Three months ended 31 January 2020 US$'000**
Separately reported items:		
Transaction costs (a)	2,843	-
Costs arising from a restructuring programme (b)	1,774	-
Reduction in tax indemnity asset recoverable	-	-
Expense items forming part of operating losses	**4,617**	**-**
Tax credit on transaction and restructuring costs	(529)	-
Total tax (credit) reported separately	**(529)**	**-**
Separately reported items, net	**4,088**	**-**

(a) Transaction costs of US$2.8 million *(three months ended 2020: US$ Nil)* for the three months ended 31 January 2021 relate to legal and other fees associated with the acquisition of Rancher.

(b) Restructuring costs of US$1.8 million *(three months ended 2020: US$ Nil)* for the three months ended 31 January 2021 relates to a program announced during the prior year to align the operations of the Group with its strategic objectives.

9. Taxation

The tax charge for the period is a credit of US$4.9 million (*three months ended 2020: US$5.0 million*) in respect of the loss before tax of US$27.9 million (*three months ended 2020: US$27.9 million*), which represents an effective tax rate of 17.6% (three months ended 2020: 17.8%). The tax rate is lower in the period compared to the statutory tax rates of the territories in which the Group operates is the result mainly of non-deductible Rancher acquisition costs, tax costs relating to Rancher post-acquisition restructuring and the partial disallowance of interest expenses in Germany.

A deferred tax asset of US$13.1 million was recognized in relation to US tax losses acquired from the Rancher business which are expected to be utilized in the long term. Secondly, deferred tax liabilities of US$30.8 million were recognized mainly relating to acquired intangible assets, which are not tax deductible.

10. Business combinations

Acquisition of the Rancher Group

Pursuant to the terms of the "Agreements and Plans of Merger" ("the Agreement") dated 6 July 2020, and with the completion date of 25 November 2020, the Group acquired 100% of the assets and liabilities of Rancher Labs Inc. and Rancher Federal Inc and their affiliates ("the Rancher Group") during the period. The acquired entities are non-listed entities headquartered in Cupertino, California.

(a) Transaction overview

The completion date of 25 November 2020 was established as the contractual date of control transfer owing to the fulfilment of certain obligations by the Group being met on this date under the Agreement. The Rancher Group is an industry-leading open source enterprise-grade platform for container management and storage and its integration into the SUSE Group is expected to achieve revenue and cost synergies. Assets and liabilities acquired as set out in (c) below are identified with reference to the books and records of Rancher as at 25 November 2020. Since its consolidation as of 25 November 2020, Rancher has contributed US$7.8 million to consolidated revenue and a loss of US$9.6 million to consolidated loss for the period. If the transaction had occurred on 1 November 2020, Management estimates that consolidated revenue for the SUSE Group would be US$131.1 million and consolidated losses for the period would be US$24.6 million.

(b) Purchase consideration

Per the Agreement, total consideration of US$583.7 million was satisfied in cash, transfer of shares of an intermediate parent company and a transfer of liabilities as at the date of acquisition. The purchase consideration transferred to the former owners of the Rancher Group was US$530.5 million which included cash of US$491.8 million and 28,443,517 shares in an intermediary parent undertaking of US$38.7 million. Subsequent to the reporting date a US$0.5 million completion adjustment was recorded which reduced the purchase consideration by the same amount.

	US$'000
Cash consideration:	
Cash transferred to former owners	491,809
Amounts paid to settle obligations to employees and third parties	53,164
Cash consideration paid and payable	**544,973**
Non-cash consideration	
Capital contribution (without issuance of shares)	38,698
Total consideration	**583,671**
Completion adjustment	(484)
Final purchase consideration	**583,187**

The consideration transferred in the acquisition is measured at fair value. Total shares in an intermediary parent undertaking of 28,433,517 comprised 2,844,352 ordinary shares and 25,599,165 preference shares measured at the December 2020 fair value of US$3.02 per ordinary share and US$1.18 per preference share.

Per the terms of completion of the Agreement, on behalf of the former shareholders of the Rancher Group, the Group settled the fair value of certain employee related (US$40.1 million) and third-party (US$13.1 million) liabilities identified at the date of acquisition totaling US$53.1 million. Consequently, the fair value of identified liabilities of the business are reduced by this amount.

10. Business combinations *(continued)*

Total consideration excludes transaction costs of US$8.9 million which have been expensed to the Income Statement in accordance with IFRS 3 *Business Combinations.* US$2.8 million was expensed in the three months ended 31 January 2021 and US$6.0 million in the last annual financial statements. Analysis of cash flows on acquisition (included in cash flows from investing activities) is as follows:

	US$'000
Cash outflow on investing activity:	
Cash consideration paid and payable	(544,973)
Net cash acquired	55,065
Net cash outflow on acquisition	**(489,908)**

(c) Identification of net assets acquired

The fair value of the identified assets and liabilities of the Rancher Group inclusive of a working capital completion adjustment of US$0.5 million as at the date of acquisition are as follows:

		25 November 2020
	Notes	**US$'000**
Identifiable assets at fair value		
Intangible assets	(i)	125,443
Property, plant and equipment	(ii)	59
Right-of-use assets	(iii)	324
Trade and other receivables	(iv)	14,916
Cash and cash equivalents	(b)	55,065
Deferred tax assets	(vi)	13,066
Total assets		**208,873**
Identifiable liabilities at fair value		
Trade and other payables	(iv)	6,643
Lease liabilities	(iii)	312
Deferred income – contract liabilities	(v)	26,363
Deferred tax liabilities	(vi)	30,805
Total liabilities		**64,123**
Net identifiable assets at fair value		**144,750**

10. Business combinations *(continued)*

(i) Intangible assets
Separately identifiable intangible assets of US$125.4 million meeting the definition of IAS 38 within the transaction consist of customer relationships (US$101.9 million), intellectual property (including technology and trademarks) of US$20.9 million and non-competition agreements (US$2.6 million).

Customer relationships were identified as a separable intangible asset under IAS 38 on the basis of customer relationships that have benefit that can be measured and are viewed by Management as valuable to a market participant. The fair value of the customer relationships was determined by a qualified specialist in applying an income approach method under IFRS 13, specifically using the 'Multi-period excess earnings method'. This method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. The method uses cash flow projections from financial budgets approved by Management covering a three-year period, a total contributory asset charge of 23.4%, after-tax discount rates applied to cash flow projections (which were in the range of 9.62% - 10.18%), the applicable long term growth rate for revenue (2%) and an analysis of customer longevity and expected attrition. Customer duration was established in reference to order history of the Group prior to acquisition.

Intellectual property (including technology and trademarks) were identified as a separable intangible asset under IAS 38. The fair value of intellectual property was determined using the 'Relief from royalty method'. Under this method the cash flows generated by an intangible asset are approximated to the royalties which the owner of the asset would save, in comparison to the alternative of licensing an equivalent asset.

Non-competition agreements were also identified as a separable intangible asset under IAS 38. The fair value of non-competition agreements was determined using the 'incremental cash flow method'. Under this method, the expected cash flows of the entity inclusive of the intangible asset being valued are compared to the equivalent cash flows of a comparable entity with the intangible asset.

Management have monitored these assumptions applied up to the date of approval of the Interim Condensed Consolidated Financial Statements and are satisfied that there is no underlying change to the assumptions since the valuation was performed.

(ii) Property, plant and equipment
The Group identified property, plant and equipment of US$0.1 million as part of the analysis of the transaction which primarily consist of office equipment, the fair value of which was measured on a replacement cost basis.

(iii) Right-of-use assets and lease liabilities
The Group analyzed the transaction to identify explicit and implied lease arrangement as defined by IFRS 16 *Leases.* Leases identified primarily relate to office premises. The present value of future lease payments of US$0.3 million corresponds to the right-of-use asset recognized. The leases identified as part of the transaction did not include any existing asset retirement obligations.

(iv) Other working capital assets
Other working capital assets are stated at their book value at the date of acquisition and are subject to working capital adjustments as set out in (c) below. Included within trade and other receivables are the fair value of trade receivables which amount to US$12.6 million. A fair value adjustment of US$0.4 million was made in respect of aged trade receivable balances which the Rancher Group does not expect to recover.

10. Business combinations *(continued)*

(v) Deferred income – contract liabilities
The Group acquired contract liabilities of US$26.4 million which included a step-down adjustment of US$3.4 million to reflect its fair value based on the costs to deliver the related service ("the Haircut" to deferred revenue). The process involved a 'bottom up approach' where the costs needed to fulfil the performance obligation are added to an appropriate profit margin. The key assumptions within this exercise involved analysis of the costs associated with the activities required to generate a sale. The costs to fulfil are reflective of those that market participants would incur to fulfil the service. US$0.7 million of the Haircut has been amortized to the Interim Condensed Consolidated Income Statement in line with the deferred income released.

(vi) Deferred tax asset and liabilities
Deferred tax assets of US$13.1 million and deferred tax liabilities of US$30.8 million were acquired. Refer to Note 9 *Taxation* for further details.

(d) Commitments and contingencies
On acquisition a commitment in respect of retention bonuses has arisen with annual vesting on the closing anniversary of the transaction over a 36-month period. The Group holds a future commitment as at 31 January 2021 of US$23.4 million in respect of service to be rendered by employees of the acquiree in future financial periods.

(e) Goodwill

	US$'000
Total consideration	583,187
Net identifiable assets acquired	(144,750)
Goodwill recognized on acquisition	**438,437**

Goodwill of US$438.4 million represents the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed and is considered final as at the date of approval of these Interim Condensed Consolidated Financial Statements. Goodwill is attributable mainly to the skills and technical talent of the Rancher Group's work force and synergies expected to be achieved. The goodwill arising from the acquisition of the Rancher Group that is expected to be tax deductible is US$ *nil.*

Acquisition in the prior year
The Group did not acquire any business in the twelve months ended 31 October 2020.

11. Goodwill and intangible assets

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Asset class	Remaining useful life at reporting date
Purchased software	Varies by contractual term of license
Development costs	9.5 years
Intellectual property	2.1 – 2.8 years
Customer relationships	4.8 – 5.0 years
Non-compete agreements	2.8 years

11. Goodwill and intangible assets *(continued)*

Intellectual property is amortized over the period in which the Group expects to derive benefit on the basis of technical obsolescence. Customer relationships are amortized on the basis of average contract duration reflecting the approximate mix of acquired customer contracts.

(a) Rollforward of goodwill and intangible assets

	Development costs US$'000	Purchased software US$'000	Intellectual property US$'000	Customer relationships US$'000	Non-compete agreements US$'000	Goodwill US$'000	Total US$'000
Current period							
Cost							
1 November 2020	**9,046**	**27,823**	**315,963**	**360,005**	**-**	**2,134,881**	**2,847,718**
Acquired in the period	1,044	1,853	-	-	-	-	**2,897**
Acquired through a business combination	-	-	20,928	101,883	2,632	438,437	**563,880**
FX movements	608	1,267	-	-	-	-	**1,875**
31 January 2021	**10,698**	**30,943**	**336,891**	**461,888**	**2,632**	**2,573,318**	**3,416,370**
Accumulated amortization							
1 November 2020	**788**	**7,125**	**113,278**	**72,276**	**-**	**-**	**193,467**
Charge for the period	282	2,006	18,613	14,374	146	-	**35,421**
FX movements	47	380	(80)	1,445	-	-	**1,792**
31 January 2021	**1,117**	**9,511**	**131,811**	**88,095**	**146**	**-**	**230,680**
Carrying value							
31 January 2021	**9,581**	**21,432**	**205,080**	**373,793**	**2,486**	**2,573,318**	**3,185,690**
1 November 2020	8,258	20,698	202,685	287,729	-	2,134,881	2,654,251

	Development costs US$'000	Purchased software US$'000	Intellectual property US$'000	Customer relationships US$'000	Non-compete agreements US$'000	Goodwill US$'000	Total US$'000
Prior year							
Cost							
1 November 2019	**-**	**2,871**	**315,963**	**360,035**	**-**	**2,134,881**	**2,813,750**
Acquired in the period	8,963	24,980	-	-	-	-	**33,943**
Acquired through a business combination	-	-	-	-	-	-	**-**
FX movements	83	(28)	-	(30)	-	-	**25**
31 October 2020	**9,046**	**27,823**	**315,963**	**360,005**	**-**	**2,134,881**	**2,847,718**
Accumulated amortization							
1 November 2019	**-**	**1,088**	**43,568**	**27,459**	**-**	**-**	**72,115**
Charge for the period	788	5,929	69,682	43,591	-	-	**119,990**
FX movements	-	108	28	1,226	-	-	**1,362**
31 October 2020	**788**	**7,125**	**113,278**	**72,276**	**-**	**-**	**193,467**
Carrying value							
31 October 2020	**8,258**	**20,698**	**202,685**	**287,729**	**-**	**2,134,881**	**2,654,251**
1 November 2019	-	1,783	272,395	332,576	-	2,134,881	2,741,635

11. Goodwill and intangible assets *(continued)*

(b) Carrying value assessment

The annual impairment test of goodwill is performed on a single Group operating segment level. This represents the Group as a whole, being a single operating segment under IFRS 8 *Operating Segments,* that is the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill had a carrying value of US$2,573.3 million *(31 October 2020: US$2,134.9 million)* as at the balance sheet date and is tested for impairment annually. The Group performed its annual impairment test as of '30 September 2020' during October 2020. As at 31 January 2021, no indicators of impairment were identified.

12. Borrowings

(a) Amounts outstanding at the reporting date

Current borrowings **Loan note description**	**Contractual Interest Terms**	**Effective interest rate**	**Contractual Maturity date**	**31 January 2021 US$'000**	**31 October 2020 US$'000**
USD 360,000,000 (B1)	LIBOR + 3.25%	6.46%	March 2026	3,600	3,600
EUR 300,000,000 (B2)	EURIBOR + 3.5%	4.03%	March 2026	-	-
USD 300,000,000 (SC)	LIBOR + 4%	4.98%	Nov 2027	3,000	-
USD 270,000,000 (2L)	LIBOR + 7%	10.45%	March 2027	-	-
USD 81,000,000 (RCF)	LIBOR/EURIBOR + 3%	5.68%	Sept 2025	-	-
Total current interest-bearing loans and borrowings				**6,600**	**3,600**

Non-current borrowings **Loan note description**	**Contractual Interest Terms**	**Effective interest rate**	**Contractual Maturity date**	**31 January 2021 US$'000**	**31 October 2020 US$'000**
USD 360,000,000 (B1)	LIBOR + 3.25%	6.46%	March 2026	337,664	338,037
EUR 300,000,000 (B2)	EURIBOR + 3.5%	4.03%	March 2026	355,258	340,156
USD 300,000,000 (SC)	LIBOR + 4%	4.98%	Nov 2027	295,644	-
USD 270,000,000 (2L)	LIBOR + 7%	10.45%	March 2027	256,650	256,467
USD 81,000,000 (RCF)	LIBOR/EURIBOR + 3%	5.68%	Sept 2025	-	-
Total current interest-bearing loans and borrowings				**1,245,216**	**934,660**
Total interest-bearing loans and borrowings				**1,251,816**	**938,260**

On 25 November 2020, the Group entered into a new Senior Facility agreement for USD$300.0 million and the full amount was drawndown on this date.

12. Borrowings *(continued)*

Total arrangement fees of US$42.8 million *(31 October 2020: US$38.6 million)* are included in the calculation of the amortized cost using the effective interest method. US$38.6 million are attributable to the origination of the B1, B2 and 2nd Lien loan notes and US$4.0 million is attributed to the origination of the loan note used in the acquisition of the Rancher Group.

(b) Reconciliation of Movement in Consolidated Net Leverage

The movement in Consolidated Net Leverage, which applies the definition as per the Group's loan agreements, comprises the net total of *(i)* current and non-current interest-bearing borrowings, *(ii)* unpaid software liabilities and *(iii)* cash and short-term deposits as set out below:

	Beginning of period US$'000	Acquisitions US$'000	Foreign exchange US$'000	Other movements US$'000	Cash flow US$'000	End of period US$'000
Related to borrowings:						
Interest bearing borrowings	**(938,260)**	(300,000)	(14,287)	(169)	900	**(1,251,816)**
Capitalized arrangement fees	**(38,584)**	-	-	(4,204)	-	**(42,788)**
Amortization of arrangement fees	**8,771**	-	-	1,338	-	**10,109**
Accrued interest	**-**	-	-	2,652	-	**2,652**
Gain on loan modification	**(5,937)**	-	-	-	-	**(5,937)**
Movement in borrowings	**(974,010)**	**(300,000)**	**(14,287)**	**(383)**	**900**	**(1,287,780)**
Related to other items:						
Other payables	**(18,814)**			232		**(18,582)**
Cash and cash equivalents	**94,933**		**-**	**-**	(50,146)	**44,787**
Consolidated net leverage	**(897,891)**	**(300,000)**	**(14,287)**	**(151)**	**(49,246)**	**(1,261,575)**

Other payables amounts relate to unpaid software liabilities of US$18.6 million *(31 October 2020: US$: 18.8 million)*. US$7.6 million is included in current payables and US$11.0 million (*31 October 2020: US$10.3 million)* in non-current payables. These amounts are included in the movement in other payables in the Interim Condensed Consolidated Statement of Cash Flows.

Proceeds of borrowings of US$300.0 million (*(three months ended 31 January 2020: US$ nil),* repayments of borrowings of US$0.9 million *(three months ended 31 January 2020: US$0.9 million)* together with payments of premia on interest rate swaps of US$2.2 million *(three months ended 31 January 2020:* US$0.9 million*)* and lease payments of US$0.3 million *(three months ended 31 January 2020:* US$3.1million*)* result in a net cash outflow from financing activities during the period of US$429.5 million.

(c) Net finance costs

Net finance costs for the period were US$6.6 million (three months ended 31 January 2020*: US$16.9 million).* Net finance costs predominantly relate to interest payable on external borrowings, amortization of arrangement fees and fair value losses on derivative instruments not qualified for hedge accounting net of interest income earned. The decrease in net finance costs for the three months ended 31 January 2021 in comparison to the prior period is attributed the revaluation of derivative liabilities.

13. Provisions

	As at 31 January 2021 US$'000	As at 31 October 2020 US$'000
Dilapidation provision	800	768
Loss-making operation	5,639	5,930
Restructuring provision	2,433	2,514
Legal provision	302	316
Total provisions	**9,174**	**9,528**
Split as:		
Current	6,813	7,199
Non-current	2,361	2,329
Total provisions	**9,174**	**9,528**

Dilapidation provisions relate to leased office buildings with contractual obligations to restore the premises to its original condition on lease expiration. The provision is expected to be fully utilised within 5 years.

A provision for loss-making operations was identified on acquisition. During the period, US$0.3 million of the provision was utilised reflecting the net cash cost of fulfilling the contractual obligations of the loss-making operation.

The restructuring provision includes the costs of initiatives to rationalise its operating activities. During the three-month period ended 31 January 2021 the Group recognized US$2.0 million which mainly includes employee termination benefits and is based on detailed plans announced by Management. US$1.4 million of the restructuring charge in the period is recorded within Separately Reported Items (Note 8), with the remaining US$0.6 million recorded within the Headline results of the Group. In addition, the Group utilized US$2.1 million of the provision during the period. The restructuring is expected to be completed by the end of FY21.

Legal provisions of US$0.3 million include Management's best estimate of the likely outflow of economic benefits associated with legal matters.

14. Share based payments

The Group incurred a share-based payment expense of US$26.0 million in the period *(three months ended 31 January 2020: US$2.1 million)* in respect of the following share-based payment schemes:

	Three months ended 31 January 2021 US$'000	Three months ended 31 January 2020 US$'000
Cash-settled share-based payment transactions (a)	25,573	1,772
Equity-settled share-based payment transactions (b)	405	340
Total expense arising from share-based payments	**25,978**	**2,112**

14. Share based payments *(continued)*

(a) Virtual Share Options Program

The Virtual Share Option Programme ("VSOP") is a cash-settled scheme in which employees can participate in the future share appreciation rights of the Group's equity. The programme terms include service and performance conditions to be satisfied before the Virtual Share Options ("VSOs") vest. Settlement of VSOs occurs only on an exit event or on expiration of the scheme, is in the form of cash and is in part dependent on the share prices of the Group as valued from an exit event therefore none of the VSOs are exercisable at 31 January 2021 *(31 January 2020: none)*.

The VSOP expires at the earlier of (i) 31 December 2026 or (ii) 3 months after the occurrence of an exit event. VSOs have an exercise price of between US$1.00 and US$1.40, being the fair values of a share on the date participants join the VSOP.

50% of VSOs granted are subject to a service condition and follow a graded vesting pattern over a contractual period of five years which implicitly will result in an acceleration should the exit occur within the anticipated timeframe. The other 50% of VSOs are dependent on the share price realized in an exit event, with none, some or all of these units vesting according to the terms of the scheme.

The liability under the VSOP is measured initially at the grant date and is re-measured at the end of each reporting period until settled. The fair value of the VSOP attributable to both market and service conditions was measured by applying a *Monte-Carlo* simulation. The fair value of the VSOP liability was US$39.1 million *(31 October 2020: US$13.1 million)* at the reporting date with the following movements in units recorded during the three months ended 31 January 2021:

	Three months ended 31 January 2021		**Three months ended 31 January 2020**	
	Units	**WAEP**	**Units**	**WAEP**
Outstanding at start of period	**72,639,801**		**72,497,570**	
Granted during the period	74,504,859	$1.40	4,113,762	$1.03
Cancelled during the period	(4,826,041)	($1.12)	(2,963,432)	($1.00)
Outstanding at the end of period	**142,318,619**	**$1.22**	**73,647,900**	**$1.00**

As at 31 January 2021, the service and performance condition were estimated to be satisfied for 43,504,424 units (*31 October 2020:* 33,807,121 *units*) based on services performed and expected exit price on date of exit.

In November 2020, the Group acquired the Rancher Group (see Note 10). As per the transaction agreement, the Group allocated 70,234,174 of VSOs to the employees of the former Rancher Group. All options granted had a strike price of $1.40.

The contractual life of the virtual options may extend to 31 December 2026, which corresponds to the remaining life of 5.9 years *(31 October 2020: 6.2 years)*.

14. Share based payments *(continued)*

The following lists the inputs into the Monte Carlo Simulation model for the valuation of the VSOP as of the reporting date:

Key input assumption	31 January 2021	31 October 2020
Exercise price	US$ 1.00 – US$ 1.40	US$ 1.00 – US$ 1.40
Spot price of an ordinary share	US$ 2.10	US$ 1.40
Risk free rate	0.14%	0.17%
Volatility	41.5%	38.6%
Expected dividend yield	0%	0%
Anticipated number of units vesting	87.5%	87.5%
Anticipated exit event at reporting date	March 2023	March 2023

The expected volatility of the share price was determined based on the peer group analysis.

Management estimated the spot price of an ordinary share of an intermediary parent, which is a reference price in the VSOP, at US$ 2.10 *(31 October 2020:* US$1.40). The increase of the spot price was caused by the improvement of the fair value of the Group as measured after taking into account expected synergies to arise from the acquisition of the Rancher Group. The increase of the ordinary share spot price was the major factor driving the VSO fair value increase to US$0.84 per unit as of the reporting date *(31 October 2020: US$0.39).*

(b) Management Investment Participation Programme

The Management Investment Participation Program ("MIPP") is an equity-settled group share based payment arrangement under which certain members of management have rights to subscribe for ordinary and preference shares of an intermediary parent company as a means of profit participation in return for services rendered to the Group. Members invest through two participation vehicles that own equity in that intermediary parent company. The purchase price per share paid by each member for initial grant of US$1.00 equals the price paid by the shareholder of the Company on initial investment. The purchase price for subsequent grant in December 2020 was US$3.02 per ordinary share.

There are two share categories in the parent company: ordinary shares and preferred shares. MIPP members are primarily invested in the ordinary shares, which result in higher return in the event of a favourable exit scenario. The MIPP agreement includes the call right for the Shareholder and the put right for the respective member in the scenario of a leaver event. MIPP members will receive a payment from the intermediary parent company (not the Company or Group) in an exit event. Given that the payment is settled outside of the Group with no obligation on the Group or its subsidiaries, the MIPP is classified as an equity-settled plan. The implicit service condition is that members remain with the Group up to such time that an exit event occurs. In a bad leaver scenario, the investment is repurchased by the Group at cost (or at a lower fair value). In a good leaver scenario, the investment is repurchased at the fair value of the shares on the leaving date. The intermediary parent company that administers the scheme has a call option on repurchasing units from members who leave the Group during the period. The share-based payments charge associated with leavers are accelerated and expensed in full at the respective reporting date.

14. Share based payments *(continued)*

(b) Management Investment Participation Programme *(continued)*

The total expense estimated to be recorded over the life of the scheme is U$6.5 million. The amount of MIPP award recognized in equity (within “Other reserves”) as at 31 January 2021 amounted to US$3.6 million *(31 October 2020:* US$3.2 million*)* with the following movements in ordinary share units recorded during the three-month period ended January 31, 2021:

	Three months ended 31 January 2021 No. of units	Three months ended 31 January 2020 No. of units
At beginning of period	**9,259,390**	**9,407,771**
Additional units granted during period	573,890	661,500
Units repurchased during period	-	(67,500)
At end of period	**9,833,280**	**10,001,771**

In the quarter ended 31 January 2021, none of the MIPP participants has left the Group.

Given the presence of preference shares at the investment level, the payoff on the scheme on the MIPP is similar to an option and a Black-Scholes Merton (“**BSM**”) model has been used to value the grant date fair value of the instruments granted. Set out below are the valuation inputs used in estimating the grant date fair value of instruments issued during the three months period ended January 31, 2021 and prior year period ended October 31, 2020:

Key input assumption	31 January 2021	31 October 2020
Weighted average purchase price of a unit	US$ 1.12	US$ 1.00
Weighted average fair value of a unit at respective grant date	US$ 1.78	US$ 1.70
Volatility	41.5%	35%
Expected dividend yield	0%	0%
Anticipated exit event at reporting date	March 2023	March 2023

15. Contract liabilities

Revenue billed but not recognized in the Statement of Comprehensive Income is classified as ‘contract liabilities - deferred income’. Contract liabilities primarily relates to undelivered subscription services on multi-year billed contracts.

	As at 31 January 2021 US$’000	As at 31 October 2020 US$’000
Presentation in Statement of Financial Position:		
Current	303,834	246,485
Non-current	172,604	155,989
Total contract liabilities	**476,438**	**402,474**

15. Contract liabilities *(continued)*

Contract liabilities as at 31 January 2021 were US$476.4 million *(*31 October 2020*: US$402.5 million)* and included an unamortized fair value reserve of US$15.8 million *(*31 October 2020*: US$16.5 million)* relating to deferred income acquired through business combinations.

Unbilled future performance obligations represent contracted revenue that has not yet been recognized and which includes amounts that will be invoiced and recognized as revenue in future periods. The remaining performance obligations were US$22.6 million as at 31 January 2021 *(31 October 2020: US$27.2 million).*

The movement in contract liabilities during the period is detailed as follows:

	As at 31 January 2021 US$’000	**As at 31 October 2020 US$’000**
Deferred income roll-forward:		
Beginning of period	**402,474**	**391,491**
Acquired during period	29,784	-
Fair value adjustment recorded on acquisition	(3,421)	-
Fair value of contract liabilities acquired	**26,363**	-
Plus:		
Amounts invoiced during period	173,309	458,314
Amounts recognized during period	(126,418)	(447,421)
Other adjustments	710	90
End of period	**476,438**	**402,474**

16. Financial risk management

The table below sets out the carrying amounts of financial assets and liabilities of the Group as at the reporting date:

Financial assets - current period	Amortised cost US$'000	FVOCI US$'000	FVTPL US$'000	Total US$'000
Non-current assets				
Derivative assets	-	-	3	3
Current assets				
Cash and cash equivalents	44,787	-	-	44,787
Trade receivables	115,493	-	-	115,493
Other receivables	13,963	-	-	13,963
As at 31 January 2021	**174,243**	**-**	**3**	**174,246**

Financial assets - prior period	Amortised cost US$'000	FVOCI US$'000	FVTPL US$'000	Total US$'000
Non-current assets				
Derivative assets	-	-	11	11
Current assets				
Cash and cash equivalents	94,933	-	-	94,933
Trade receivables	78,134	-	-	78,134
Other receivables	16,540	-	-	16,540
As at 31 October 2020	**189,607**	**-**	**11**	**189,618**

Financial liabilities - current period	Amortised cost US$'000	FVOCI US$'000	FVTPL US$'000	Total US$'000
Current liabilities				
Trade payables	6,133	-	-	6,133
Borrowings	6,600	-	-	6,600
Non-current liabilities				
Derivative liabilities	-	10,817	12,395	23,212
Borrowings	1,245,216	-	-	1,245,216
As at 31 January 2021	**1,257,949**	**10,817**	**12,395**	**1,281,161**

Financial liabilities – prior period	Amortised cost US$'000	FVOCI US$'000	FVTPL US$'000	Total US$'000
Current liabilities				
Trade payables	4,700	-	-	4,700
Borrowings	3,600	-	-	3,600
Non-current liabilities				
Derivative liabilities	-	12,798	12,642	25,440
Borrowings	934,660	-	-	934,660
As at 31 October 2020	**942,960**	**12,798**	**12,642**	**968,400**

16. Financial risk management *(continued)*

The Group does not hold any financial instruments that are classified as level 1 assets or liabilities as at 31 January 2021 *(*31 October 2020*: none)*.

Derivative financial instruments measured at fair value are classified as level 2 in the fair value measurement hierarchy as they have been determined using significant inputs based on observable market data. The fair values of financial derivatives are derived from forward interest rates based on yield curves observable at the reporting date together with the contractual interest rates.

Interest-bearing borrowings are initially measured at fair value, net of transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost using the Effective Interest Method. Interest-bearing borrowings are classified as level 2 in the fair value measurement hierarchy. Future cash outflows for principal and interest are discounted over the remaining term using market interest rates at the reporting date. The fair value of borrowings amounted to US$1,291.3 million (31 October 2020: US$976.4 million) as at 31 January 2021.

For other financial instruments such trade and other receivables, cash and cash equivalents, trade and other payables, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the current or prior periods.

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in credit risk, foreign currency risk, interest rate risk and liquidity risk. Risk management is carried out by Group Treasury under the direction of Management. Group Treasury identifies and evaluates financial risks alongside the Group's operating units.

The financial risk factors identified by the Group in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those disclosed in Note 29 *'Financial Risk Management'* in the last annual financial statements.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or financial institution fails to meet its contractual obligations and arises principally from the Group's receivables from customers and financial institutions. Financial instruments which potentially expose the Group to a concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 January 2021 US$'000	**As at 31 October 2020 US$'000**
Trade receivables	115,493	78,134
Cash and cash equivalents	44,787	94,933
Total	**160,280**	**173,067**

16. Financial risk management *(continued)*

(i) *Impairment of trade receivables*

The Group provides credit to customers in the normal course of business. Collateral is not required for those receivables, but on-going credit evaluations of customers' financial conditions are performed. The Group maintains a provision for impairment based upon the expected collectability of accounts receivable.

During the period a US$0.3 million *(three months ended 31 January 2020: US$ 0.5 million charge)* reversal of the loss allowance recognized in the Condensed Interim Consolidated Statement of Comprehensive Income. The Group applies the IFRS 9 Financial Instruments simplified approach to measure its expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers. The expected loss rates are based on the actual credit loss experience. These historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors. The Group has identified macro-economics, including the ongoing COVID-19 pandemic and country specific risks to be the most relevant factors and has adjusted the historical loss rates based on expected changes in these factors.

(ii) *Impairment of cash and cash equivalents*

Risk of counterparty default arising on cash and cash equivalents is controlled by banking with high quality institutions. The Group considers that its cash and cash equivalents have low credit risk based on the external ratings of the counterparties.

(b) Market risk

Market risk is the risk that changes in market prices will affect the Groups income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures. The impact of the current COVID-19 pandemic is detailed in Note 2.

The Group's treasury function aims to reduce exposures to interest rate, foreign exchange and other capital management risks, to ensure liquidity is available as and when required, and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments.

The Group manages its capital structure and adjusts considering changes in economic conditions and the requirements of the financial covenants associated with borrowings. The Group monitors capital using a debt/equity gearing ratio in accordance with its borrowing agreements. Consolidated Net Leverage, applying the definition in the Group's Senior Facilities Agreement and Second Lien Facility Agreement, comprises the net total of current and non-current interest-bearing borrowings, unpaid software liabilities and cash and short-term depositions.

No changes were made in the objectives, policies or processes for managing capital during the reporting period.

16. Financial risk management *(continued)*

(c) Hedging activities and derivatives

The Group is exposed to certain cash flow risks relating to its ongoing business operations and financing structure. The primary risks are managed using derivative instruments is interest rate risk. The fair value of derivative assets and liabilities as at 31 January 2021 was as follows:

	As at 31 January 2021		As at 31 October 2020	
	Derivative Assets US$'000	Derivative liabilities US$'000	Derivative Assets US$'000	Derivative liabilities US$'000
Derivative not designated as hedging instruments:				
— Interest rate caps	3	-	11	-
— Embedded derivative liability	-	12,395	-	12,642
Derivative designated as hedging instruments:				
— Interest rate swap	-	10,817	-	12,798
Total	**3**	**23,212**	**11**	**25,440**

(i) Embedded derivatives

During 2019, the Group entered into a US$270.0 million loan agreement with an interest rate of LIBOR +7%. An embedded LIBOR floor of 1% and prepayment option were separated and carried at fair value. The fair value of the embedded derivative was US$12.4 million *(31 October 2020: US$12.6 million)* at 31 January 2021.

(ii) Derivatives not designated as hedging instruments

During 2019, the Group entered a EUR 200 million EURIBOR interest rate cap and USD 105 million LIBOR interest rate cap to reduce interest rate volatility. Both interest rate caps have a termination date of 30 April 2022 and are designated at fair value through profit and loss. The fair values of these derivatives as at 31 January 2021, included in other financial assets was <US$0.01 million *(31 October 2020: US$0.01 million).*

(iii) Cash flow hedges

As at 31 January 2021, the Group had an interest rate swap agreement in place with a notional amount of US$315 million to hedge the exposure to variable interest in a US$360 million loan. Under this agreement, the Group pays a fixed rate of interest of 2.927% and receives interest at a variable rate equal to 1-month LIBOR on the notional amount. The agreement matures in April 2022. The amounts relating to items designated as hedging instruments as at 31 January 2021 were as follows:

	As at 31 January 2021 US$'000	As at 31 October 2020 US$'000
At beginning of period	12,798	11,961
Other comprehensive income:		
Cash flow hedge reserve	233	7,335
Payments reclassified to profit or loss	(2,214)	(6,498)
As at 31 January / 31 October	**10,817**	**12,798**

16. Financial risk management *(continued)*

The remaining portion of US$0.2 million *(31 October 2020: US$7.3 million)* in respect of the hedged instrument is deemed to be wholly effective and has been recognized in other comprehensive income. Premia paid of US$2.2 million *(31 October 2020: US$6.5 million)* have been recycled from the cash flow hedge reserve during the period.

17. Capital and reserves

(a) Share capital

At 31 January 2021, the subscribed capital of the Company was US$14,000 *(31 October 2020: US$14,000)* as represented by 1,400,000 *(31 October 2020: 1,400,000)* shares fully paid-up with a nominal value of US$0.01.

(b) Share premium

At 31 January 2021, the share premium of the Company amounted to US$1,778.3 million *(31 October 2020: US$1,604.3 million).* During the period, Marcel LUX III S.À R.L, the immediate parent company, made the following capital contributions without the issuance of shares to the Company which were unconditional and without rights to receive any repayment or redemption prior to liquidation:

— A first capital contribution of US$135,337,908 on 20th November 2020. This is included as an inflow in the financing activities section of the Interim Condensed Consolidated Statement of Cash Flows;
— A second capital contribution of US$38,698,541 on 25th November 2020. This was a non-cash item and further details are disclosed in Note 10.

(b) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

(c) Other reserve

The Management Investment Participation Program ("MIPP") is an equity-settled group share based payment arrangement under which certain members of management have rights to subscribe for ordinary and preference shares of an intermediary parent company as a means of profit participation in return for services rendered to the Group. Further details are disclosed in Note 14.

(d) Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

17. Capital and reserves *(continued)*

(e) Reserve requirements as a matter of Luxembourg Company Law

In accordance with relevant law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. The total loss for the period was US$23.0 million (three months ended 31 January 2020: *US$22.9 million*).

18. Related party transactions

To enable users of our financial statements to form a view on the effects of related party relationships on the Group, we disclose the related party relationship where control exists, irrespective of whether there have been transactions between related parties.

All transactions with related parties are conducted on an arm's-length basis and in accordance with normal business terms. Transactions between related parties that are Group subsidiaries are eliminated on consolidation.

(i) Ultimate controlling party

The ultimate controlling party of the Group is EQT VIII SCSp, a special limited partnership registered with the Luxembourg Register of Commerce and Companies under number B217 293.

(ii) Transactions with subsidiaries

All transactions between subsidiaries of the Group are in the normal course of business. Transactions between Group subsidiaries are eliminated on consolidation. Further details of the subsidiaries of the Group are included in Note 17 of the last annual financial statements.

(iii) Transactions with associate investments

All transactions with associate investments are in the normal course of business. There were no transactions with associate investments during the period.

(iv) Transactions with key management personnel

There were no other transactions with key management personnel during the period.

(v) Transactions with shareholders

US$1.5 million was loaned by the Group to Marcel LUX I S.À R.L. on 20 August 2020. This loan was repaid in full on 23 November 2020.

(vi) Transactions with other related parties

Pension contributions to Group schemes were disclosed in Note 26 of the last annual financial statements.

19. Commitments and Contingencies

(i) Directors and Officer insurance

The Group maintains insurance cover for all Directors' and Officers' of Group companies against liabilities which may be incurred by them while acting in that capacity at the Group's request.

(ii) External borrowings guarantee

The obligations of the obligor members of the Group under the external loan agreements (Senior Facilities Agreement, Second Lien Facilities Agreement and the related finance documents) are secured (subject to certain agreed security principles) by liens granted by obligor members of the Group over shares in obligors members of the Group, material intercompany receivables and material bank accounts.

The Group's guarantees under the external loan agreements include upstream, cross-stream and downstream guarantees by obligor members of the Group to each finance party under such agreements for the punctual performance by each other obligor member of the Group of their obligations under such agreements (subject to jurisdiction-specific guarantee limitations as set out therein).

(iii) Arising through a business combination

Details of any commitments or contingencies that have arisen through a business combination are disclosed in Note 10.

20. Post balance sheet events

(a) Ongoing impact of COVID-19

Management does not currently envisage a significant impact from the ongoing COVID-19 pandemic. An impact assessment performed by Management has analysed the risk posed by the pandemic. Further details are included in Note 2C 'Going Concern'.

While the status of the pandemic is constantly evolving, Management continues to monitor and observe performance to ensure changes in circumstances or events do not impact this assessment.

(b) Initial public offering ('IPO')

The Group is considering a partial placing of the share capital on the Frankfurt Stock Exchange ("the Offering"). As of the date of preparing these financial statements, no investment commitments have been received yet from external investors and therefore the final partial placement is still not 100% certain.

As detailed in note 14 and note 3 the employees of the Group participate in a virtual share options program ("VSOP"). The Offering will trigger an exit event under the scheme terms resulting in a settlement of VSOP obligations. The Group expects to recognize a VSOP expense based on the fair value of a VSO less the option holder's strike price at the date on which the Offering concludes. As the measurement of this expense is dependent on the offer price range achieved in the Offering, Management are unable to estimate the charge with sufficient precision as at the date of issue of these financial statements.

In the event of a partial placement, the legal form of the Company was changed to a Luxembourg public limited liability company *(société anonyme)*.

Appendix 1: Glossary of Key Terms

Key Term	Definition
Separately reported items	Separately reported items are items presented separately on the face of the Interim Condensed Consolidated Statement of Comprehensive Income to assist in a better understanding of the financial performance achieved for a given year.
Headline	Headline performance reported separately on the face of the Interim Condensed Consolidated Statement of Comprehensive Income is from continuing operations and before items reported separately on the face of the Interim Condensed Consolidated Statement of Comprehensive Income.
Consolidated net leverage	Consolidated Net Leverage, applying the definition in the Group's Senior Facilities Agreement and Second Lien Facility Agreement, comprises the net total of current and non-current interest-bearing borrowings, unpaid software liabilities and cash and short-term depositions.