BMC Software Limited

Report and Financial Statements
for the year ended 31 March 2016

Corporate information

Company registration number
1927903

Directors
Arno J ter Avest (The Netherlands)
T Cory Bleuer (USA)
James J Corcoran (United Kingdom)

Registered office
E² Eskdale Road
Winnersh
Wokingham
Berkshire
RG41 5TS

Auditors
Ernst & Young LLP
The Paragon
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Strategic report

For the year ended 31 March 2016

The Directors herewith present their strategic report for the year ended 31 March 2016.

Review of the business

The principal activity of BMC Software Limited ("the Company") during the year continued to be to provide support services to BMC Software Distribution B.V., a member of the BMC Software Group ("Group"), which consists of the sale, installation and support of certain software packages and related training. There are no plans for the Company to amend its trade in the foreseeable future.

The income statement for the year ended 31 March 2016 and the statement of financial position at that date are set out on pages 10 and 12 respectively. The profit on ordinary activities for the year before tax amounted to £6,037,192 (2015: profit of £4,153,052). After a taxation charge of £1,381,268 (2015: £1,266,455), a profit of £4,655,924 (2015: £2,886,597) has been added to the reserves.

The Company's key financial and other performance indicators during the year were as follows:

	2016	*2015*	*Change*
	£	*£*	*%*
Turnover	71,214,920	69,751,036	+2%
Operating profit	6,059,552	4,180,173	+45%
Profit after tax	4,655,924	2,886,597	+61%
Equity shareholder's funds	33,249,748	28,597,488	+16%
Current assets as % of current liabilities ('quick ratio')	169%	127%	+33%
Average number of employees	330	340	-3%

Turnover increased by 2% due to an increase of 4% in agency fees and rechargeable expenses offset by a decrease of 5% in the provision of professional services and training fees. Professional services and training fees were lower than in the prior year due to the completion of some large projects in the prior year, as well as declining licence sales to new customers in the current year.

Operating profit increased by 45% due to the increase in turnover, as well as a decrease in the cost of sales and administration expenses.

Profit after tax increased by 61%, as the overall profit increased and the effective tax rate decreased from 30% to 23%.

Equity shareholder's funds increased by 16%, mainly due to the profit generated in the year.

The quick ratio has increased by 33%, mainly due to the decrease in payables to other group undertakings.

The total average monthly number of employees decreased by 3% during the year, compared to the prior year. The Company started the year with 346 employees and ended with 325, an overall decrease of 6%. A global headcount reorganisation caused the headcount total to drop by 11 in the first quarter of the year.

The Company faces a challenging macroeconomic environment, and continued its focus on its customers' needs to reduce costs, increase business impact, improve service quality, manage risk and provide greater transparency.

The Company derives the majority of its income from a commission agency fee payable by BMC Software Distribution B.V. plus those expenses rechargeable to BMC Software Distribution B.V. In addition training and professional services revenue is received directly from customers, net of value added tax.

The Company pays particular adherence to minimise the impact on the environment from its activities, whilst continuing to address health, safety and economic issues.

Strategic report – (continued)

For the year ended 31 March 2016

Review of the business – (continued)

During the year the Company adopted Financial Reporting Standard ("FRS") 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland and has taken advantage of the disclosure exemptions allowed under this standard. The Company's shareholder was notified of and did not object to the adoption of FRS 102. There was no impact as a result of the transition to FRS 102. Refer to note 20 in the accompanying financial statements for further information.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as – competitive, legislative and financial instruments risk.

Competitive risk

The industry as a whole in which the Company operates remains highly competitive and is dominated by a small number of large multi-national companies, the size of which could make future consolidation of the industry a possibility.

Legislative risk

In the EMEA region, the software installed and professional services delivered to customers are not required to meet any specific European Union standards. However, the products are sold subject to our reliance on certain copyrights, patents, trademarks, trade secrets, confidentiality procedures and contractual procedures being in place to protect the Group's intellectual property rights.

It may be possible for unauthorized third parties to misappropriate, copy or pirate certain portions of the Group's products or to reverse engineer or obtain and use technology or other information regarded as proprietary by the Group. The Group's intellectual property rights may not survive a legal challenge regarding their validity nor provide sufficient protection to the Group in case of any legal action. Failure to maintain the Group's intellectual property rights in any jurisdiction (whether in a legal challenge or otherwise) could have a material impact on the Group's business and financial results, and any such legal challenges or actions could become costly. In addition, the laws or practices of certain countries do not protect the Group's proprietary rights to the same extent as do the laws of the United States. Changes in laws protecting intellectual property rights in any jurisdiction could have material consequences for the Group's business and financial results. Similarly, the Group's success and ability to compete are also dependent upon the ability to operate without infringing upon the proprietary rights of others. Third parties may claim that current or future products or services infringe upon their intellectual property rights. Any such claim, with or without merit, could be costly to defend and may have a significant effect on the Group's business and its financial results.

Financial instruments risk

The Directors have considered and reviewed the provisions relating to the financial risk management objectives and policies of the Company, including any associated use of financial instruments. As part of this review, the Directors have also considered the exposure of the Company to price risk, credit risk, liquidity risk and cash flow risk, in order that an overall assessment can be made of the Company's assets, liabilities, results for the year and its financial position at the end of the year.

Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Group are implemented by the Group's European financial shared service centre. The centre has a policy and procedures manual that sets out specific

Strategic report – (continued)

For the year ended 31 March 2016

Principal risks and uncertainties – (continued)

guidelines to manage credit, liquidity and price risk and circumstances where it would be appropriate to use financial instruments to manage these risks.

Price risk arises on financial instruments because of changes in, for example, interest rates or foreign currency exchange rates. The Company is exposed to price risk as a result of the activities of competitors and this high level of competition can reduce the margins of the Company.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Group to which the Company belongs has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is continuously reassessed by the credit control department.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Directors continuously review the amounts owed to and from subsidiary and related Group undertakings and take action as required to repatriate or make good any intercompany accounts as necessary in order to meet the Company's obligations.

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability such as future interest payments on a variable rate debt. The Company has a policy of maintaining both interest-bearing and non-interest bearing intercompany debt, periodically settled, to finance the Company's short-term operations. The Directors, under the direction of the Group, will revisit the appropriateness of this policy should the Company's operations change in size or nature.

The Company does not use derivative contracts.

Approved on behalf of the Board

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AJ ter Avest
Director

Date: 1 August 2016

Directors' report

For the year ended 31 March 2016

Registered No. 1927903

The Directors herewith present their report for the year ended 31 March 2016.

Directors of the Company

The current Directors are shown on page 1.

Dividends

The Directors do not recommend the payment of a dividend for the current year.

Future developments

It is the intention of the Directors to continue to develop the current activities of the Company and to contribute to the global policy of being able to innovate and aggressively drive efficiencies throughout the Group, in order to operate in a rapidly changing industry. The Directors intend to continue to develop the current activities of the Company with a view to increasing future profitability, and consider that they are well placed within the market to meet these challenges and continue to do so in the subsequent financial year.

Events since the Statement of Financial Position date

There were no significant events affecting the Company since the year end.

Financial instruments

Details of the risks of financial instruments are provided in the strategic report on page 3.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described above on pages 3 and 4.

The Directors have prepared the financial statements on a going concern basis as they expect that the Company will continue in operational existence for the foreseeable future. BMC Software Finance, Inc., the Company's indirect parent undertaking, has given irrevocable guarantees to provide financing to the Company which will allow the Company to meet its obligations as they fall due and further the Company's development. It is on this basis that the Directors deem it appropriate to prepare the financial statements on a going concern basis.

Directors' liabilities

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act

Directors' report – (continued)

For the year ended 31 March 2016

2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Political donations

The Company has not made political donations during the financial year ended 31 March 2016.

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

When existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim,

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception. Certain employees receive an annual bonus related to Group performance and to their individual contribution.

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

Ernst & Young LLP is deemed to be reappointed as the auditor of the Company in accordance with the provisions of Section 487(2) of the Companies Act 2006.

Approved on behalf of the Board

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AJ ter Avest

Director

Date: 1 August 2016

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of BMC Software Limited

We have audited the financial statements of BMC Software Limited for the year ended 31 March 2016 which comprise the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic and Directors' Reports and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report

to the members of BMC Software Limited - (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Eleri James (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

Date: 5th August *2016*

INCOME STATEMENT

For the year ended 31 March

	Note	2016 £	2015 £
TURNOVER	2	71,214,920	69,751,036
COST OF SALES – professional services		(12,038,388)	(12,274,493)
GROSS PROFIT		59,176,532	57,476,543
Administrative expenses		(53,116,980)	(53,296,370)
OPERATING PROFIT	3	6,059,552	4,180,173
Interest receivable	5	5,563	2,398
Interest payable and similar charges	6	(27,923)	(29,519)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		6,037,192	4,153,052
Tax on profit on ordinary activities	7	(1,381,268)	(1,266,455)
PROFIT FOR THE FINANCIAL YEAR		4,655,924	2,886,597

All profits are derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March

	2016 £	2015 £
Profit for the financial year	4,655,924	2,886,597
Revaluation of retained earnings in foreign branches	(58,050)	(42,844)
Total other comprehensive (loss)	(58,050)	(42,844)
Total comprehensive income for the year	4,597,874	2,843,753

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March

	Called up share capital £	*Share premium account* £	*Profit and loss account* £	*Total equity* £
At 1 April 2014	201	25,176,645	421,321	25,598,167
Profit for the year	-	-	2,886,597	2,886,597
Other comprehensive (loss)	-	-	(42,844)	(42,844)
Total comprehensive income for the year	-	-	2,843,753	2,843,753
Share-based payments	-	-	458,130	458,130
Share-based charges settled	-	-	(302,562)	(302,562)
At 31 March 2015	201	25,176,645	3,420,642	28,597,488
Profit for the year	-	-	4,655,924	4,655,924
Other comprehensive (loss)	-	-	(58,050)	(58,050)
Total comprehensive income for the year	-	-	4,597,874	4,597,874
Share-based payments	-	-	700,035	700,035
Share-based charges settled	-	-	(645,649)	(645,649)
At 31 March 2016	201	25,176,645	8,072,902	33,249,748

STATEMENT OF FINANCIAL POSITION

As at 31 March

	Note	2016 £	2015 £
FIXED ASSETS			
Tangible assets	8	2,588,620	3,144,095
Investments in subsidiary	9	21,237,100	21,237,100
		23,825,720	24,381,195
CURRENT ASSETS			
Debtors:			
- amounts falling due within one year	10	23,200,556	23,803,622
- amounts falling due after one year	10	153,345	43,773
		23,353,901	23,847,395
Cash at bank and in hand		4,323,630	4,952,182
		27,677,531	28,799,577
CREDITORS: amounts falling due within one year	11	(16,402,780)	(22,727,879)
NET CURRENT ASSETS		11,274,751	6,071,698
TOTAL ASSETS LESS CURRENT LIABILITIES		35,100,471	30,452,893
CREDITORS: amounts falling due after more than one year	12	(1,525,979)	(1,573,865)
PROVISIONS FOR LIABILITIES	14	(324,744)	(281,540)
NET ASSETS		33,249,748	28,597,488

	Note	2016 £	2015 £
CAPITAL AND RESERVES			
Called up share capital	15	201	201
Share premium account	16	25,176,645	25,176,645
Profit and loss account	16	8,072,902	3,420,642
EQUITY SHAREHOLDER'S FUNDS		33,249,748	28,597,488

Approved on behalf of the board on 1 August 2016

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AJ ter Avest

Director

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

1. ACCOUNTING POLICIES

a) *Statement of compliance*

BMC Software Limited ("the Company") is a limited liability company incorporated in England. The Registered Office is E² Eskdale Road, Winnersh, Wokingham, Berkshire RG41 5TS.

The Company's financial statements have been prepared in compliance with Financial Reporting Standard 102 ("FRS 102") as it applies to the financial statements of the Company for the year ended 31 March 2016.

In the current year, the Company transitioned from previously extant UK GAAP to FRS 102 as at 1 April 2014. The transition to FRS 102 had no effect on the reported financial position and results of the Company.

b) *Basis of preparation and change in accounting policy*

The financial statements of BMC Software Limited were authorised for issuance by the Board of Directors on 26 July 2016.

The financial statements have been prepared in accordance with applicable accounting standards. The financial standards are prepared in sterling (£) which is the functional currency of the Company.

c) *Cash flow statement*

Section 1.12(b) of FRS 102 exempts 'qualifying entities' from the requirement to prepare a cash flow statement under Section 3.17(d). A qualifying entity is a member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation. The Company has availed of this exemption.

d) *Non-preparation of Group financial statements*

These financial statements present information about the Company as an individual undertaking and not about its Group. The Company has availed of the exemption under Section 400 of the Companies Act 2006 from preparing and delivering consolidated financial statements. The results of the Company and its subsidiary undertakings are included in the consolidated financial statements of the Group company, BMC Software Finance, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. The consolidated financial statements of BMC Software Finance, Inc. are available from 2103 CityWest Boulevard, Houston, Texas, 77042, USA.

e) *Judgements and key sources of estimation uncertainty*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for turnover and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

Operating lease commitments

The Company has entered into commercial leases and as a lessee it obtains use of property, plant and equipment. The classification of such leases as operating or finance leases requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position. Further details can be found in note 13.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

1. ACCOUNTING POLICIES - (continued)

e) *Judgements and key sources of estimation uncertainty – (continued)*

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the Company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. Management will make estimates relating to what these incremental costs will be. The value in use calculation is based on a discounted cash flow model. Management makes judgements relating to the discount rate used for the discounted cash flow model as well as the growth rate for extrapolation purposes, and management estimates the expected future cash flows used in the model.

Taxation

The Company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 7.

f) *Significant accounting policies*

Investments in subsidiaries

Investments in subsidiary undertakings are stated at cost, and where necessary, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Leasehold improvements	- over the shorter of the lease term and 40 years
Computer equipment	- over 3 years (if cost is greater than US$2.5k)
Office equipment	- over 5 years
Furniture and fixtures	- over 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If computer equipment does not meet the criteria above, it is expensed in the year of acquisition.

Revenue recognition

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

1. ACCOUNTING POLICIES - (continued)

f) Significant accounting policies – (continued)

Professional services revenue, which principally relates to implementation, integration and education services associated with the Group's products, is derived under both time-and-material and fixed fee arrangements and in most instances is recognised on a proportional performance basis based on days of effort. If no discernible customer deliverable exists until the completion of the professional services, the completed performance method is applied and the recognition of professional services revenue is deferred until completion of the services, which is typically evidenced by a signed completion letter from the customer.

Research and development

Expenditures for research and development are expensed in the year in which they are incurred.

Provision for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are initially recorded in the Company's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to £ at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at the transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

The fair value of long-term debtors and creditors that carry no interest is estimated as the present value of all future cash flows discounted using the prevailing market rates of interest for a similar instrument with a similar credit rating.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

1. ACCOUNTING POLICIES - (continued)

f) *Significant accounting policies – (continued)*

Leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. A corresponding liability is recognised in the Statement of financial position for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Pensions and other post-retirement benefits

Pension benefits are funded over the employees' years of service by way of contributions to a defined contribution scheme. Contributions are recognised in the profit and loss account in the period in which they become payable.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value is determined using an appropriate pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, incorporating a) the expense related to the portion of awards for which the vesting period has expired, b) for awards with performance conditions, management's best estimate of the achievement of the performance conditions, and c) management's best estimate of unvested awards that will ultimately vest (considering, in the case of awards with market conditions, that awards are considered vested whether or not the market condition is ultimately satisfied). The movement in cumulative expenses since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

2. TURNOVER

Turnover represents a commission agency fee payable by BMC Software Distribution B.V. plus those expenses rechargeable to BMC Software Distribution B.V. In addition training and professional services revenue is received directly from customers, net of value added tax. An analysis of turnover by activity is shown below.

	2016	*2015*
	£	*£*
Agency fees and rechargeable expenses	54,009,983	51,717,656
Training	3,180,921	3,196,951
Professional services	14,024,016	14,836,429
	71,214,920	69,751,036

Disclosure of geographical turnover by reference to its destination, as well as its origin, is in the opinion of the Directors considered to be seriously prejudicial to the interests of the Company. Consequently, this information is not disclosed.

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2016	*2015*
	£	*£*
Depreciation of owned assets	697,063	677,724
Depreciation of assets held under finance leases	70,195	99,377
	767,258	777,101
Foreign currency exchange differences	(277,289)	314,073
Operating lease rentals - land and buildings	1,255,721	1,240,505

The auditor's remuneration of Euro 19,500 (2015: Euro 21,858) is borne by a Group undertaking.

4. STAFF COSTS

a) Staff costs

	2016	*2015*
	£	*£*
Wages and salaries	42,251,761	40,942,784
Social security costs	5,024,580	5,106,510
Other pension costs	2,578,041	2,545,811
	49,854,382	48,595,105

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

4. STAFF COSTS – (continued)

Included in wages and salaries is the expense related to share-based payments of £700,035 (2015: £458,130) which arose from transactions accounted for as equity-settled share-based payment transactions.

The Company operates a defined contribution pension scheme. The other pension costs charge represents contributions payable by the Company to the fund.

The average monthly number of employees during the year was made up as follows:

	2016 *No.*	*2015* *No.*
Sales	148	149
Marketing	8	9
Customer support	158	164
Administration	16	18
	330	340

b) Directors' remuneration

	2016 *£*	*2015* *£*
Aggregate remuneration in respect of qualifying services	345,140	420,340
Aggregate amounts receivable under long term incentive plans	-	-

	2016 *No.*	*2015* *No.*
Number of Directors who received shares in respect of qualifying services	-	-
Number of Directors who exercised share options	-	-
Number of Directors accruing benefits under defined benefit schemes	-	-

In respect of the highest paid Director:

	2016 *£*	*2015* *£*
Aggregate remuneration	345,140	420,340
Accrued pension at the end of the year	1,423	1,423
Accrued lump sum amounts at the end of the year	-	-

The highest paid Director did not exercise share options during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

5. INTEREST RECEIVABLE

	2016 £	2015 £
Interest receivable on cash at bank	5,563	2,398

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £	2015 £
Finance charges payable under finance leases	27,923	29,519

7. TAX

a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2016 £	2015 £
Current tax:		
UK corporation tax at 20% (2015: 21%)	1,283,316	862,989
Adjustment in respect of previous years	233,192	(130,111)
Foreign tax	32,438	186,301
Total current tax	1,548,946	919,179
Deferred tax:		
Origination and reversal of timing differences	(138,250)	132,087
Deferred tax rate change	14,329	5,530
Adjustment in respect of previous years	(99,058)	304,055
Foreign tax	55,301	(92,963)
Other movements	-	(1,433)
Total deferred tax	(167,678)	347,276
Tax on profit on ordinary activities (note 7b)	1,381,268	1,266,455

b) Factors affecting the tax charge:

The tax assessed on the profit on ordinary activities for the year is different from the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are reconciled below:

	2016 £	2015 £
Profit on ordinary activities before tax	6,037,192	4,153,052
Profit on ordinary activities before tax multiplied by average rate of corporation tax 20% (2015: 21%)	1,207,438	872,141

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

7. TAX - (continued)

Effects of:		
Expenses not deductible for tax purposes	41,527	55,466
(Excess deduction)/non deductible expenses in respect of share-based awards	(3,742)	284,949
R&D expenditure credit taxed in prior periods	(41,798)	-
R&D relief	-	(147,465)
Adjustment in respect of prior periods	134,134	173,944
Foreign tax suffered, less foreign tax credited against UK tax	29,351	23,323
Deferred tax rate change	14,329	5,530
Other movements	29	(1,433)
Tax on profit on ordinary activities	1,381,268	1,266,455

c) Factors that may affect future tax charges

The UK corporation tax rate is 20%, effective 1 April 2015. This was a reduction of 1% from the previous year.

On 18 November 2015, Finance (No.2) Act 2015 received Royal Assent and as a result reductions in the UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020 were enacted.

At the balance sheet date, the changes in the tax rate to 19% and to 18% have no effect on current liabilities arising prior to the effective date of change. As the 19% and 18% tax rates were enacted before the balance sheet date, these rates have been applied to the deferred tax asset at year end.

The Company is under audit by HM Revenue & Customs for the year ended 31 March 2012. It is not possible at this stage to estimate what additional tax liability, if any, might arise from this audit.

d) Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2016 £	*2015* £
Included in debtors (note 10)	374,385	222,492
Accelerated capital allowances	46,795	18,061
Share-based awards	190,057	10,399
Pension	64,321	66,437
Vacation accrual	15,547	15,701
Other	16,859	-
	333,579	110,598
Foreign (South Africa)	40,806	111,894
Provision for deferred tax	374,385	222,492

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

7. TAX - (continued)

	£
At 1 April 2015	222,492
Deferred tax in the income statement	167,678
Other movements (foreign currency exchange movements in South Africa)	(15,785)
At 31 March 2016	374,385

Deferred tax assets have been recognised only to the extent that the Directors believe that there is sufficient evidence that there will be suitable taxable profits in the future against which the deferred tax assets can be recovered.

The Company expects deferred tax assets of £79,962 to reverse in the year ending 31 March 2017.

8. TANGIBLE ASSETS

	Computer equipment	*Office equipment*	*Furniture and fixtures*	*Leasehold improve-ments*	*Total*
	£	*£*	*£*	*£*	*£*
Cost:					
At 1 April 2015	1,370,880	226,163	751,900	2,980,339	5,329,282
Additions	132,374	6,190	-	73,084	211,648
Disposals	-	-	-	-	-
Revaluations	707	-	234	-	941
At 31 March 2016	1,503,961	232,353	752,134	3,053,423	5,541,871
Depreciation:					
At 1 April 2015	1,049,932	85,041	237,708	812,506	2,185,187
Provided during the year	190,100	45,105	150,355	381,698	767,258
Disposals	-	-	-	-	-
Revaluations	639	-	167	-	806
At 31 March 2016	1,240,671	130,146	388,230	1,194,204	2,953,251
Carrying amount:					
At 31 March 2016	263,290	102,207	363,904	1,859,219	2,588,620
At 1 April 2015	320,948	141,122	514,192	2,167,833	3,144,095

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

8. TANGIBLE ASSETS – (continued)

Included in the amounts for computer equipment above are the following amounts relating to leased assets.

	£
Cost:	
At 1 April 2015	361,224
Additions	66,442
At 31 March 2016	427,666
Depreciation:	
At 1 April 2015	259,072
Depreciation provided in the year	70,195
At 31 March 2016	329,267
Carrying amount:	
At 31 March 2016	98,399
At 1 April 2015	102,152

9. INVESTMENTS IN SUBSIDIARY

	2016	*2015*
	£	£
Interest in subsidiary (unlisted at lower of cost or market value)		
At 1 April and 31 March	21,237,100	21,237,100

During the year, management performed an impairment review on the fair market value of the investment in subsidiary. In the opinion of the Directors, the value to the Company of its interest in subsidiary is not less than the book amount shown above.

The Company had the following wholly-owned subsidiary at 31 March 2016:

Company name	**Holding**	**Nature of Business**
BMC Software GmbH (Germany)	Ordinary shares	Sales and marketing

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

10. DEBTORS

Amounts falling due within one year are:

	2016 £	*2015* £
Trade debtors	3,368,841	4,430,524
Amounts owed by Group undertakings	18,104,380	18,280,498
Other debtors	816,272	227,668
Prepayments and accrued income	648,414	650,475
Deferred tax (note 7(d))	246,504	203,396
Corporation tax	16,145	11,061
	23,200,556	23,803,622

Amounts falling due after one year are:

	2016 £	*2015* £
Prepayments and accrued income	25,464	24,677
Deferred tax (note 7(d))	127,881	19,096
	153,345	43,773

Regular cash settlement of amounts due from Group undertakings occur on a quarterly basis.

11. CREDITORS: amounts falling due within one year

	2016 £	*2015* £
Obligations under finance leases	56,689	64,389
Trade creditors	498,585	714,430
Amounts owed to group undertakings	1,571,790	8,057,949
Other taxes and social security	2,523,714	2,369,450
Accruals and deferred income	10,826,952	11,155,153
Corporation tax	925,050	366,508
	16,402,780	22,727,879

12. CREDITORS: amounts falling due after more than one year

	2016 £	*2015* £
Accruals and deferred income	1,467,704	1,521,631
Obligations under finance leases	58,275	52,234
	1,525,979	1,573,865

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

13. OBLIGATIONS UNDER LEASES

The Company uses finance leases to acquire computer equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments due under finance leases are as follows:

	2016	*2015*
	£	*£*
Amounts payable:		
Not later than one year	59,614	77,483
Later than one year and not later than five years	64,036	55,604
	123,650	133,087
Less: finance charges allocated to future periods	10,356	11,014
	113,294	122,073

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016	*2015*
	£	*£*
Not later than one year	1,477,399	1,337,999
Later than one year but not later than five years	5,003,271	4,966,284
Later than five years	1,933,560	3,017,045
	8,414,230	9,321,328

14. PROVISIONS FOR LIABILITIES

	Rental Loss Retirement Obligation
	£
At 1 April 2015	281,540
Amounts added to the provision	43,204
At 31 March 2016	324,744

The above provision arises on the office premises which the Company leases from third parties. The rental loss retirement obligations arise on the Company's office premises in Victoria, London which require the premises to be returned in their original state when the lease ends in 2020, and on the office premises in Winnersh, whose lease ends in 2023. The amount represents a per square foot charge based on commercial rates obtained from third parties.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

15. CALLED UP SHARE CAPITAL

	2016	2015
	£	£
Authorised, allotted, called up and fully paid:		
201 ordinary shares of £1 each	201	201

16. RESERVES

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Profit and loss account

This reserve contains the balance of retained earnings to carry forward, net of the distributed dividends.

17. FINANCIAL INSTRUMENTS

Section 1.8 and Section 1.12(c) of FRS 102 exempt 'qualifying entities which are not financial institutions from the requirement to disclose financial liabilities that are held at fair values that are either part of a trading portfolio or are derivatives. The Company has availed of this exemption.

	2016	2015
	£	£
Financial assets that are debt instruments measured at amortised cost		
Other debtors (including receivables from Group undertakings)	21,473,221	22,711,022
	21,473,221	22,711,022

	2016	2015
	£	£
Financial liabilities that are debt instruments measured at amortised cost		
Finance leases	114,964	116,623
Trade creditors	498,585	714,430
Payables to Group undertakings	1,571,790	8,057,949
	2,185,339	8,889,002

18. PARENT UNDERTAKINGS, CONTROLLING PARTIES AND RELATED PARTY TRANSACTIONS

The immediate parent undertaking and immediate controlling party is BMC Software, Inc., a company incorporated in the United States of America (USA). The parent undertaking of the smallest and largest group of undertakings for which Group financial statements are drawn up, and of which the Company is a member, is BMC Software Finance, Inc. Copies of the consolidated financial statements of BMC Software Finance, Inc. are available to the public from 2103 CityWest Boulevard, Houston, Texas, 77042, USA. The ultimate parent undertaking and ultimate controlling party is Boxer Parent Company Inc., a company incorporated in the USA.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

18. PARENT UNDERTAKINGS, CONTROLLING PARTIES AND RELATED PARTY TRANSACTIONS – (continued)

Section 1.12(e) and Section 33.1A of FRS 102 exempt 'qualifying entities' from the requirement to prepare 'Related party disclosures', provided for by Section 33. The Company has availed of this exemption.

19. EVENTS AFTER THE REPORTING DATE

There are no important events affecting the Company since the year end.

20. TRANSITION TO FRS 102

During the current year, the Company transitioned to FRS 102 from previously extant UK GAAP as at 1 April 2014. The transition to FRS 102 had no impact on the equity shareholder's funds as at 1 April 2014 and 31 March 2015, and no impact on the income statement for the year ended 31 March 2015.

Transitional relief

On transition to FRS 102 from previous UK GAAP, the Company has taken advantage of transitional relief as follows:

Business combinations

The Company has elected not to apply Section 19, Business Combinations and Goodwill, to business combinations that were effected before the date of transition to FRS 102.

Share-based payment transactions

The Company has availed of the exemption provided under Section 1.12(d) not to apply the disclosure requirements under Section 26, Share-based Payment.

Investments in subsidiaries

The Company has elected to treat the carrying amount of investments in subsidiaries under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.

Lease incentives

The Company has not applied paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. It has continued to recognise any residual benefit or cost associated with these lease incentives on the same basis that applied prior to transition to FRS 102.