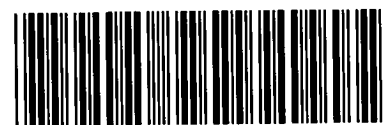


Financial Statements Parametric Technology (UK) Limited

For the year ended 30 September 2016

Registered number: 02513030

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Company Information

Directors	Charles Dunn Petra Heck
Company secretary	Charles Dunn
Company number	02513030 (England and Wales)
Registered office	Chester House Aerospace Boulevard Farnborough Aerospace Centre Farnborough GU14 6TQ
Auditor	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD

Strategic Report

For the year ended 30 September 2016

The directors present their strategic report on the company for the year ended 30 September 2016. This report has taken the small companies exemption to not prepare a strategic report in accordance with section 414B of the Companies Act 2006.

The business

The company offers solutions in the product lifecycle management, or PLM, market (product data management, collaboration and related solutions), the CAx market (computer-aided design, manufacturing and engineering (CAD, CAM and CAE) solutions) and the application lifecycle management (ALM) market.

Our software solutions provide our customers with an integral product development system that enables them to create digital product content, collaborate with others in the product development process, control product content, automate product development processes, configure products and product content, and communicate product information to people and systems across the extended enterprise and design chain.

Our solutions are complemented by our experienced services and technical support organisation, as well as resellers and other strategic partners. Our services and technical support organisations provide consulting, implementation and training support services to customers worldwide. Our resellers supplement our direct sales force to provide greater geographic and small and medium size account coverage.

Key performance indicators

Total revenue decreased by 9% (£2m) with licence revenue down by 32% (£1.1m); Subscription revenue, Software as a Service and Hosting revenue all increased contributing to a combined increase in revenue of £782k, maintenance revenue decreased by less than 0.1% (£31k) and services revenue decreased by 45% (£1.6m).

In 2015, we began offering our customers the option to purchase subscription licences for most of our products, whereby a fee paid for the right to use our software is inclusive of the right to receive support services throughout the subscription term. Transitioning a substantial portion of our business from a perpetual licensing model to a subscription licence model is a top priority for the company in the coming year and for several years to follow.

The decrease in gross profit in 2016 from 2015 by £729k (6%) is due to the decrease in total revenue, partially offset by a decrease in the transfer price for licence and maintenance revenues from 52% (2015) to 45% (average for the year). The company's loss for the financial year was £1.5m (2015: £143k loss).

The directors believe that the company has maintained its overall market share due to its broad engineering solution portfolio, the strategic acquisitions and continuous development and improvement of its products.

Position of the business and future developments

Based on 2016 results, current economic conditions and spending patterns and the competitive strength of our products, we believe we are well-positioned in the markets we serve.

During the previous year the company started offering the customers an alternative to buying perpetual licences; to use the products in a "subscription model". In due course it is likely that the sale of perpetual licences will be phased out entirely, and all PTC's software will be licenced on a subscription basis only. The company will be working with existing customers to convert their perpetual licences to a subscription licence. When selling perpetual licences, the revenue is recognised on the software being made available to the customer, when selling subscription licence, the revenue is recognised pro rata over the term of the subscription. During the change of business model, there is a gap in the revenue which will be deferred to future accounting periods. This is unique in the transitional period, but leads to a more sustainable and consistent turnover profile in the long run.

The directors, working closely with senior corporate management continue to drive the company's business. Parametric Technology (UK) Limited follows a strategy and goals that are in line with those of the ultimate parent

Strategic Report (continued)

For the year ended 30 September 2016

Position of the business and future developments (continued)

company, PTC Inc. That company carries out research and development activities, including developing new releases of PTC software that work together in a more integrated fashion and that include functionality enhancements desired by our customers and the markets that we serve as a whole. Additionally, acquisitions may serve to strengthen the market position. Those activities are carried out under the guidance of our ultimate parent company, PTC Inc.

During the year a restructuring program took place to reduce future costs, and to improve efficiency. The cost of the restructuring was £2.2m (2015: £1.1m), and affected 32 employees (2015: 18 employees).

During the year the company recognised an impairment charge on intangible assets in the total of £812k (2015: £1.3m) as the directors consider the assets to have a permanent diminution in value. See note 11 for further details.

Principal risks and uncertainties

The principal risk for the company is a downturn in the British Isles market for the products and services of the PTC Group. From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the PTC Group, which include those of the company, are discussed in PTC Inc.'s annual report which does not form part of this report.

The company's operations expose it to a variety of financial risks that include the effects of credit risk, changes in market prices, liquidity risk and interest rate cash flow risk.

Credit risk

The company has implemented policies that require appropriate credit checks on all potential customers before sales are made.

Market Prices

The PTC Group seeks to continually modify and enhance the company's products to keep pace with changing technology and address customers' needs, any failure to do so could reduce demand for the company's products.

Liquidity risk

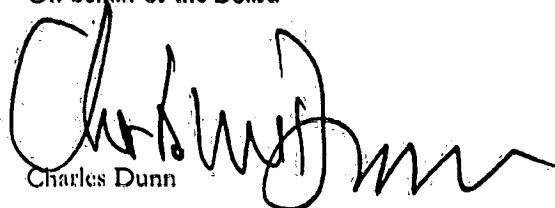
The ultimate parent company, PTC Inc., continues to provide financial support to ensure the company is able to meet all of its financial obligations.

Interest rate

The company has no debt outside of the PTC Group of companies. The company has no interest bearing debt as of 30 September 2016 (2015: £nil).

The company does not use derivative financial instruments and as such no hedge accounting is applied.

On behalf of the Board



Charles Dunn

Director

21 March 2017

Directors' report

For the year ended 30 September 2016

The directors present their report on the affairs of the company and the audited statutory financial statements of Parametric Technology (UK) Limited ("PTC") for the year ended 30 September 2016.

Employee information

Regular meetings are held between senior management and employee representatives to discuss matters of concern. Employees are kept well-informed about progress and position of the company by means of regular departmental meetings.

Employment of disabled persons

The company's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitude and abilities. Disabled employees receive appropriate training to promote their career development within the company. Employees who become disabled are retained in their existing posts where applicable or retrained for suitable alternative posts.

Directors

The directors of the company during the year to 30 September 2016 and up to the date of signing of the financial statements are as follows:

Charles Dunn
Petra Heck

The directors of the company had the benefit of a qualifying indemnity provision throughout the financial year ending 30 September 2016 and is currently in force.

Dividends

The directors do not recommend the payment of a dividend (2015: £nil).

Going concern

PTC Inc., the company's ultimate parent, has confirmed its intention to provide sufficient working capital to the company to enable it to carry on its business without a significant curtailment of its operations for the foreseeable future and at least for the next 12 months from the date of approval of the financial statements. On this basis, the directors consider it appropriate for the financial information to be prepared on a going concern basis.

Research and development

The company has considerable R&D developments that result in several product upgrades. Innovation and development of existing technologies is and will be an ongoing activity.

Statement of Directors' responsibilities

The Directors are responsible for preparing the 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 (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", 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 these

Directors' report (continued)

For the year ended 30 September 2016

Statement of Directors' responsibilities (continued)

financial statements, the Directors are required to:

- select suitable accounting policies for the company financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

Provision of information to auditor

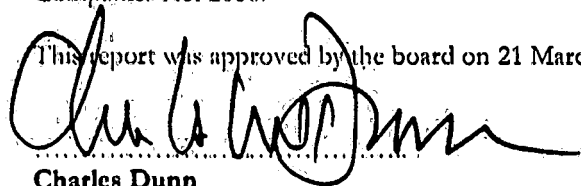
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

Auditor

Mazars LLP was appointed as the Company's external auditor commencing with the 2016 financial year and its appointment was approved by shareholders on 25 September 2016 in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 21 March 2017 and is signed on its behalf.



Charles Dunn

Director

Company registration no: 02513030

Independent Auditor's Report

To the members of Parametric Technology (UK) Limited

We have audited the financial statements of Parametric Technology (UK) Limited for the year ended 30 September 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes. 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 FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland".

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, 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 Ethical Standards for Auditors. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its loss 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 United Kingdom and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion the information given in 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 Parametric Technology (UK) 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.



Samantha Russell (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date: 24 March 2017

Profit and loss account

For the year ended 30 September 2016

	Note	2016 £'000	2015 £'000
Turnover	5	19,469	21,431
Cost of sales		<u>(7,893)</u>	<u>(9,126)</u>
Gross profit		11,576	12,305
Administrative expenses		(20,549)	(19,823)
Other operating income		<u>10,489</u>	<u>9,715</u>
Operating profit excluding exceptional items		1,516	2,197
Exceptional items - employee restructuring	22	(2,210)	(1,098)
Exceptional items - goodwill impairment	11	(812)	(1,255)
Interest receivable and similar income	7	-	13
Loss on ordinary activities before taxation	6	<u>(1,506)</u>	<u>(143)</u>
Tax on loss on ordinary activities	9	-	-
Loss for the financial year		<u>(1,506)</u>	<u>(143)</u>
Other comprehensive income			
Recharge in respect of share options granted to employees	24	<u>(223)</u>	<u>(259)</u>
Total comprehensive loss for the financial year		<u>(1,729)</u>	<u>(402)</u>
Loss for the year attributable to:			
Owners of the parent		(1,506)	(143)
Total comprehensive loss for the year attributable to:			
Owners of the parent		(1,729)	(402)

All amounts relate to continuing operations.

The notes on pages 11 to 30 form part of these financial statements and include significant accounting policies.

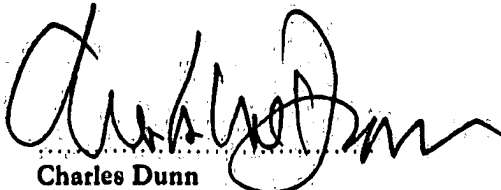
Balance sheet

As at 30 September 2016

Registered number: 02513030

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	11	4,149	5,758
Tangible assets	12	835	1,087
		<u>4,984</u>	<u>6,845</u>
Current assets			
Debtors: amounts falling due within one year	13	10,273	6,988
Debtors: amounts falling due after more than one year	13	256	242
Cash at bank and in hand		418	978
		<u>10,947</u>	<u>8,208</u>
Creditors: amounts falling due within one year	14	<u>(11,617)</u>	<u>(9,300)</u>
Net current liabilities		<u>(670)</u>	<u>(1,092)</u>
Total assets less current liabilities		4,314	5,753
Creditors: amounts falling due after more than one year	15	(151)	(121)
Provisions for liabilities	16	(381)	(121)
Net assets		<u>3,782</u>	<u>5,511</u>
Capital and reserves			
Called up share capital	18	188	188
Share premium account	19	37,281	37,281
Profit and loss account	19	<u>(33,687)</u>	<u>(31,958)</u>
		<u>3,782</u>	<u>5,511</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 21 March 2017.


Charles Dunn
 Director

Statement of changes in equity

As at 30 September 2016

	Note	Called-up share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance as at 1 October 2014		188	37,281	-	(31,556)	5,913
Loss for the year		-	-	-	(143)	(143)
Stock based compensation		-	-	752	-	752
Recharge in respect of share options granted to employees	24	-	-	(752)	(259)	(1,011)
Total comprehensive income		-	-	-	(402)	(402)
Balance as at 30 September 2015		188	37,281	-	(31,958)	5,511
Loss for the year		-	-	-	(1,506)	(1,506)
Stock based compensation		-	-	672	-	672
Recharge in respect of share options granted to employees	24	-	-	(672)	(223)	(895)
Total comprehensive income		-	-	-	(1,729)	(1,729)
Balance as at 30 September 2016		188	37,281	-	(33,687)	3,782

The notes on pages 11 to 30 form part of these financial statements and also include significant accounting policies.

Notes to the financial statements

For the year ended 30 September 2016

1. Company information

Parametric Technology (UK) Ltd is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is Chester House, Aerospace Boulevard, Farnborough Aerospace Centre, Farnborough, GU14 6TQ. The financial statements have been prepared using sterling as the presentation currency rounded to the nearest thousand.

2. Basis of preparation

These financial statements for the year ended 30 September 2016 have been prepared in accordance with FRS 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' issued by the Financial Reporting Council, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis, unless otherwise stated.

This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 26 for an explanation of the transition.

In preparing these financial statements, the company has taken advantage of the disclosure exemptions, as permitted by FRS 102 paragraph 1.12. The company has therefore complied with the applicable conditions, including providing notification of the use of exemptions to the company's shareholders who have not objected to the use of such disclosure exemptions.

The company has taken advantage of the following exemptions in preparing the Company financial statements:

- (i) from preparing a Cash Flow Statement in accordance with Section 7 'Cash Flow Statements';
- (ii) from providing the financial instrument disclosures, required under paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as this information is provided in the Limited consolidated financial statement;
- (iii) from disclosing the company's key management personnel compensation, as required by paragraph 7 of Section 33 'Related Party Disclosures'; and
- (iv) from disclosing share based payment arrangements, required under paragraphs 26.18(c), 26.19 to 26.21 and 26.23 concerning its own equity instruments.

Going concern

PTC Inc., the company's ultimate parent, has confirmed its intention to provide sufficient working capital to the company to enable it to carry on its business without a significant curtailment of its operations for the foreseeable future and at least for the next 12 months from the date of approval of these financial statements. On this basis, the directors consider it appropriate for the financial information to be prepared on a going concern basis.

Notes to the financial statements (continued)

For the year ended 30 September 2016

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumption are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

The most important accounting judgments and estimates that we made in preparing the financial statements involved:

- Revenue recognition,
- Valuation of goodwill and intangibles

Revenue Recognition

Our sources of revenue include: (1) subscription, (2) support, (3) perpetual license and (4) professional services. We record revenues for software related deliverables in accordance with the guidance provided, by ASC 985-605, Software-Revenue Recognition and revenues for non-software deliverables in accordance with ASC 605-25, Revenue Recognition, Multiple-Element Arrangements when the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred (electronic distribution), (3) the fee is fixed or determinable, and (4) collection is probable. We exercise judgment and use estimates in connection with determining the amounts of software license and services revenues to be recognised in each accounting period. Our primary judgments involve the following:

- determining whether collection is probable;
- assessing whether the fee is fixed or determinable;
- determining whether service arrangements, including modifications and customization of the underlying software, are not essential to the functionality of the licensed software and thus would result in the revenue for license and service elements of an agreement being recorded separately; and
- determining the fair value of services and support elements included in multiple-element arrangements, which is the basis for allocating and deferring revenue for such services and support.

Our software is distributed primarily through our direct sales force. In addition, we have an indirect distribution channel through alliances with resellers. Revenue arrangements with resellers are generally recognised on a sell-through basis; that is, when we deliver the product to the end-user customer. We record consideration given to a reseller as a reduction of revenue to the extent we have recorded revenue from the reseller. We do not offer contractual rights of return, stock balancing, or price protection to our resellers, and actual product returns from them have been insignificant to date. As a result, we do not maintain reserves for reseller product returns.

Notes to the financial statements (continued)

For the year ended 30 September 2016

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Revenue Recognition (continued)

At the time of each sale transaction, we must make an assessment of the collectability of the amount due from the customer. Revenue is only recognised at that time if management deems that collection is probable. In making this assessment, we consider customer credit-worthiness and historical payment experience. At that same time, we assess whether fees are fixed or determinable and free of contingencies or significant uncertainties. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction, including transactions with payment terms that extend beyond our customary payment terms, and our collection experience in similar transactions without making concessions, among other factors. If the fee is determined not to be fixed or determinable, revenue is recognised only as payments become due from the customer, provided that all other revenue recognition criteria are met. Our software license arrangements generally do not include customer acceptance provisions. However, if an arrangement includes an acceptance provision, we record revenue only upon the earlier of (1) receipt of written acceptance from the customer or (2) expiration of the acceptance period.

Generally, our contracts are accounted for individually. However, when contracts are closely interrelated and dependent on each other, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts.

Subscription

Subscription revenue includes revenue from two primary sources: (1) subscription-based licenses, and (2) cloud services. Subscription-based licenses include the right for a customer to use our licenses, which may be on premise or in the cloud, and receive related support for a specified term and revenue is recognised rateably over the term of the arrangement. When sold in arrangements with other elements, vendor-specific objective evidence ("VSOE") of fair value is established for the subscription-based licenses through the use of a substantive renewal clause within the customer contract for a combined annual fee that includes the term-based license and related support. Cloud services reflect recurring revenues that include fees for hosting and application management of customers' perpetual or subscription-based licenses. Generally, customers have the right to terminate the cloud services contract and take possession of the licenses without a significant penalty.

Support

Support contracts generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates and bug fixes. Support revenue is recognised rateably over the term of the support contract on a straight-line basis.

Perpetual License

Under perpetual license arrangements, we generally recognise license revenue up front upon shipment to the customer. We use the residual method to recognise revenue from perpetual license software arrangements that include one or more elements to be delivered at a future date when evidence of the fair value of all undelivered elements exists, and the elements of the arrangement qualify for separate accounting as described below. Under the residual method, the fair value of the undelivered elements (i.e., support and services) based on our VSOE of fair value is deferred and the remaining portion of the total arrangement fee is allocated to the delivered elements (i.e., perpetual software license). If evidence of the fair value of one or more of the undelivered elements does not exist, all revenues are deferred and recognised when delivery of all of those elements has occurred or when fair values can be established. We determine VSOE of the fair value of services and support revenue based upon our recent pricing for those elements when sold separately. For certain transactions, VSOE is determined based on a substantive renewal clause within a customer contract. Our current pricing practices are influenced primarily by product type, purchase volume, sales channel and customer location. We review services and support sold separately on a periodic basis and update, when appropriate, our VSOE of fair value for such elements to ensure that it reflects our recent pricing experience.

Notes to the financial statements (continued)

For the year ended 30 September 2016

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Revenue Recognition (continued)

Professional Services

Our software arrangements often include implementation, consulting and training services that are sold under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software, we record revenue separately for the license and service elements of these arrangements, provided that appropriate evidence of fair value exists for the undelivered services (i.e. VSOE of fair value). We consider various factors in assessing whether a service is not essential to the functionality of the software, including if the services may be provided by independent third parties experienced in providing such services (i.e. consulting and implementation) in coordination with dedicated customer personnel, and whether the services result in significant modification or customization of the software's functionality. When professional services qualify for separate accounting, professional services revenues under time and materials billing arrangements are recognised as the services are performed. Professional services revenues under fixed-priced contracts are generally recognised as the services are performed using a proportionate performance model with hours or costs as the input method of attribution.

When we provide professional services that are considered essential to the functionality of the software, the arrangement does not qualify for separate accounting of the license and service elements, and the license revenue is recognised together with the consulting services using the percentage-of-completion method of contract accounting. Under such arrangements, consideration is recognised as the services are performed as measured by an observable input. In these circumstances, we separate license revenue from service revenue for income statement presentation by allocating VSOE of fair value of the consulting services as service revenue, and the residual portion as license revenue. Under the percentage-of-completion method, we estimate the stage of completion of contracts with fixed or "not to exceed" fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When total cost estimates exceed revenues, we accrue for the estimated losses when identified. The use of the proportionate performance and percentage-of-completion methods of accounting require significant judgment relative to estimating total contract costs or hours (hours being a proxy for costs), including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed and anticipated changes in salaries and other costs.

Training services include on-site and classroom training. Training revenues are recognised as the related training services are provided.

Notes to the financial statements (continued)

For the year ended 30 September 2016

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Valuation of Intangibles including goodwill

We test intangibles for impairment on a yearly basis or circumstances change that would, more likely than not, reduce the fair value of a reporting segment below its carrying value. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in our use of the acquired assets or a significant change in the strategy for our business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, or a reduction of our market capitalisation relative to net book value.

To conduct our impairment test, the fair value of each reporting unit is compared to its carrying value. If the reporting unit's carrying value exceeds its fair value, we record an impairment loss equal to the difference between the carrying value of goodwill and its implied fair value. We estimate the fair values of our reporting units using discounted cash flow valuation models. Those models require estimates of future revenues, profits, capital expenditures, working capital, terminal values based on revenue multiples, and discount rates for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans and industry data. When completing our annual goodwill impairment review for 2016 we concluded that an impairment charge was required. An adjustment of the value was recorded of totally £812k (2015: £1.3m), for more details see note 4.2 and 11.

4. Principal accounting policies

4.1. Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree plus costs directly attributable to the business combination.

Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities is recognised as goodwill. If the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination the excess is recognised separately on the face of the balance sheet immediately below goodwill.

Notes to the financial statements (continued)

For the year ended 30 September 2016

4. Principal accounting policies (Continued)

4.2. Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible assets are amortised over the following useful economic lives:

- Goodwill 10 to 11 years
- Customers lists & trademarks 7 to 10 years

Intangible assets are reviewed annually for signs of impairment. Where there are signs of impairment the carrying value is compared to the recoverable amount based on expected future cash flows.

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

If the net fair value of the identifiable assets and liabilities acquired exceeds the cost of a business combination, the excess up to the fair value of non-monetary assets acquired is recognised in profit or loss in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in profit or loss in the periods expected to be benefitted.

4.3. Tangible assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their expected useful lives, using the straight-line method. The rates applicable are:

- Furniture and equipment 3 years
- Computer hardware and software 3 years
- Leasehold improvements Over the lease term

4.4. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

4.5. Financial Instruments

Basic financial instruments are measured at transaction price and subsequently measured at amortised cost using the effective interest method. A Financial asset or liability that is repayable on demand is measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

4.6. Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

4.7. Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the company recognises annual rent expense equal to amounts owed to the lessor.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

Notes to the financial statements (continued)

For the year ended 30 September 2016

4. Principal accounting policies (Continued)

4.8. Provisions for liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

The company recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

4.9. Turnover

Turnover is derived from licensing PTC's software products and from service revenue consisting of training, consulting and maintenance. Perpetual licence revenue is recognised upon contract execution, provided PTC's obligations to make the software available to the customer have been met, fees are fixed or determinable and collection is probable. Turnover from subscription licences and software maintenance is recognised monthly over the contract period. Turnover from consulting and training is recognised upon performance.

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.

Turnover that is due on services rendered but not billed is recognised within the same accounting period in which the cost of providing that services is also recognised, and is included in accrued income.

The company provides software support and subscription licenses, for which the company invoices in advance. Income billed in advance is initially deferred, and turnover is recognised on a straight line basis over the term of the contract. On a case by case basis training and consulting services are invoiced prior to service delivery. Turnover in these cases is recognised when the service is delivered.

4.10. Other operating income

Other operating income includes charges for the provision of training and other services to group companies and the reimbursement of research and development expenditure incurred by Parametric Technology (UK) Limited on behalf of other group companies.

Notes to the financial statements (continued)

For the year ended 30 September 2016

4. Principal accounting policies (Continued)

4.11. Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the company is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the company has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.12. Employee benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

4.13. Foreign currency translation

In preparing the financial statements, transactions in currencies other than the functional currency of the company (foreign currencies) are recognised at the spot rate at the dates of the transactions, or at an average rate where this rate approximates the actual rate at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Notes to the financial statements (continued)

For the year ended 30 September 2016

4. Principal accounting policies (Continued)

4.14. Research and development

Research and development expenditure is written off in the profit and loss account in the period in which it is incurred.

4.15. Share based payments

The PTC group issues equity-settled share based payments to certain employees of the company. Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on estimates of shares that will eventually vest. At each balance sheet date, the company revises its estimates of the number of equity settled share based payments that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

5. Turnover

Turnover, analysed geographically between markets, was as follows:

	2016 £'000	2015 £'000
United Kingdom	18,793	20,406
Rest of the world	676	1,025
	<u>19,469</u>	<u>21,431</u>

Turnover, analysed by category, was as follows:

	2016 £'000	2015 £'000
Licence revenue	2,358	3,463
Subscription revenue	488	95
Software as a Service revenue	254	63
Hosting revenue	387	189
Maintenance revenue	14,053	14,084
Training and consulting revenue	1,929	3,537
	<u>19,469</u>	<u>21,431</u>

Notes to the financial statements (continued)

For the year ended 30 September 2016

6. Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after:

	2016 £'000	2015 £'000
Amortisation of intangible assets	797	951
Depreciation of tangible assets	420	286
Operating lease rentals:		
-plant and machinery	46	16
-other	715	720
Research and development	(6,365)	(5,676)
Foreign exchange gains	(79)	(31)
Fees payable to the company's auditor for the audit of the company's annual accounts	26	45
Fees payable to the company's auditor for other services:		
- Tax compliance services	19	6
Exceptional items:		
- Employee restructuring	2,210	1,098
- Goodwill impairment	812	1,255

7. Interest receivable and similar income

	2016 £'000	2015 £'000
Interest receivable on customer invoices	-	13

Notes to the financial statements (continued)

For the year ended 30 September 2016

8. Directors and employees

Staff costs during the year were as follows:

	2016 £'000	2015 £'000
Wages and salaries	13,376	12,699
Social security costs	1,670	1,651
Stock based compensation (note 24)	672	752
Other pension costs (note 21)	510	561
	<u>16,228</u>	<u>15,663</u>

The company operates a stakeholder defined contribution pension scheme for the benefit of the employees and directors. The assets of the scheme are administered by an independent pensions provider.

The average number of employees of the group during the year was:

	2016 Number	2015 Number
Sales	35	46
General administration	13	12
Support services	42	55
Technical development	70	66
	<u>160</u>	<u>179</u>

No directors are remunerated for their services as directors of Parametric Technology (UK) Limited (2015: £nil). No directors were entitled to retirement benefits under any pension scheme at 30 September 2016 (2015: none). The directors are employed by the group and their services to the company are incidental.

Notes to the financial statements (continued)

For the year ended 30 September 2016

9. Tax on loss on ordinary activities

	2016 £'000	2015 £'000
Analysis of tax charge for the period		
<i>Current tax</i>		
UK Corporation Tax at 20.00%	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	s
Tax on results on ordinary activities	-	-
Provision for deferred tax		
<i>Movement in Provision</i>		
Provision at start of period	-	-
Deferred tax charged in Statement of comprehensive income for the period	-	-
Provision at end of the year	-	-
Deferred tax asset not recognised	(7,550)	(8,597)
Reconciliation of tax charge		
Loss on ordinary activities before tax	(1,506)	(143)
Tax on loss on ordinary activities at standard CT rate of 20.00% (2015: 20%)	(301)	(29)
Effects of:		
Fixed assets differences	4	-
Expenses no deductible for tax purposes	13	393
Adjustments to brought forward values	50	-
Other permanent differences	(45)	-
Timing differences not recognised in the computation	(8)	-
Adjust closing deferred tax to average rate of 20.00%	1,332	-
Deferred tax not recognised	(1,047)	(364)
Tax charge for the period	-	-

Notes to the financial statements (continued)

For the year ended 30 September 2016

10. Dividends

The directors do not recommend the payment of a dividend (2015: £nil).

11. Intangible fixed assets

	Trademarks £'000	Customer lists £'000	Goodwill £'000	Total £'000
Cost				
At 1 October 2015	29	2,704	16,651	19,384
At 30 September 2016	29	2,704	16,651	19,384
Amortisation and impairment				
At 1 October 2015 (restated)	11	492	13,123	13,626
Charge for the year	-	325	472	797
Impairment loss	18	580	214	812
At 30 September 2016	29	1,397	13,809	15,235
Net book amount at 30 September 2016	<u>-</u>	<u>1,307</u>	<u>2,842</u>	<u>4,149</u>
Net book amount at 30 September 2015	<u>18</u>	<u>2,212</u>	<u>3,528</u>	<u>5,758</u>

Amortisation of intangible assets is included in administrative expenses.

An impairment loss on goodwill and customer lists of £812k (2015: £1.3 million) was recognised, as an exceptional item during the period, on the goodwill from the acquisitions of MKS and Servigistics and the customer lists of Servigistics and Enigma. The impairment was as a result of lower related revenue than initially expected.

The amortisation and impairment balances brought forward at 1 October 2015 have been restated to correct a misallocation of the impairment on Enigma Customer lists against goodwill in the notes to the financial statements for the year ended 30 September 2015.

Notes to the financial statements (continued)

For the year ended 30 September 2016

12. Tangible fixed assets

	Furniture and equipment £'000	Computer hardware & software £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 October 2015	52	1,782	341	2,175
Additions	3	168	2	173
Disposals	-	(5)	-	(5)
At 30 September 2016	55	1,945	343	2,343
Depreciation				
At 1 October 2015	28	906	154	1,088
Charge for the year	10	388	22	420
Disposals	-	-	-	-
At 30 September 2016	38	1,294	176	1,508
Net book amount at 30 September 2016	17	651	167	835
Net book amount at 30 September 2015	24	876	187	1,087

Notes to the financial statements (continued)

For the year ended 30 September 2016

13. Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	3,635	4,681
Amounts owed by group undertakings	5,487	1,340
Other debtors	8	178
Prepayments and accrued income	1,143	789
	<u>10,273</u>	<u>6,988</u>
Amounts falling due after more than one year:		
Other debtors	<u>256</u>	<u>242</u>

Amounts owed by group undertakings relate to the recharge of costs borne by the company on behalf of other group entities. They are unsecured, repayable on demand and bear interest computed on the daily balance at a rate equivalent to LIBOR rate plus 0.5% (where PTC (IFSC) Limited, a PTC Inc. group company registered in Ireland, is the Lender) or at a rate equivalent to LIBOR rate minus 0.5% (where the company is the Lender) on a basis of 360 days. PTC (IFSC) Limited or an agent on its behalf shall advise the company of such interest rate at the end of each month.

14. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	154	112
Amounts owed to group undertakings	839	79
Taxation and social security	1,109	981
Accruals and deferred income	9,515	8,128
	<u>11,617</u>	<u>9,300</u>

Amounts owed to group undertakings relate to the recharge of costs borne by other group entities on behalf of the company. They are unsecured and repayable upon demand.

15. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Long term deferred income	<u>151</u>	<u>121</u>

Notes to the financial statements (continued)

For the year ended 30 September 2016

16. Provisions for liabilities

	Onerous lease	Dilapidations	Total
	£'000	£'000	£'000
At 1 October 2015	-	(121)	(121)
Additions	(224)	(36)	(260)
At 30 September 2016	<u>(224)</u>	<u>(157)</u>	<u>(381)</u>

Onerous lease provision

The Onerous lease provision includes the unavoidable lease payments and related office support costs due on two facilities that have been restructured during the year ended 30 September 2016.

Since 30 June 2016, the entire Swindon facility is no longer utilised. The lease expiration date is 11 August 2020 with an early termination option on 8 May 2019. The total provision included at 30 September 2016 is £151k.

As of 30 September 2016, one floor of the Birmingham facility is no longer utilised. The lease expiration date is 28 May 2018, with no early termination option. The total provision included at 30 September 2016 is £73k.

Dilapidations provision

The dilapidations provision includes the estimated restoration costs for all six leased facilities, including the two restructured facilities. The provisions are accrued on a straight line basis over the initial lease term.

Notes to the financial statements (continued)

For the year ended 30 September 2016

17. Deferred taxation

The unrecognised deferred taxation liability is as follows:

	2016 £'000	2015 £'000
Accelerated capital allowances	(1,551)	(1,461)
Short term timing differences	(142)	(124)
Losses	(5,857)	(7,012)
Total deferred tax not recognised	<u>(7,550)</u>	<u>(8,597)</u>
At 1 October 2015	(8,597)	(8,916)
Utilisation of losses	1,155	444
Other deferred tax movements	(108)	(89)
Prior year adjustment	-	(36)
At 30 September 2016	<u>(7,550)</u>	<u>(8,597)</u>

In the directors' opinion it is uncertain as to when and whether the deferred tax liability will crystallise and accordingly it has not been recognised.

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. In addition, changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 26 October 2015.

18. Called up share capital

	2016 £'000	2015 £'000
Allotted and fully paid:		
188,203 (2015: 188,203 (restated)) ordinary shares of £1 each	<u>188</u>	<u>188</u>

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the company.

19. Reserves

Share premium account

This reserve represents any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Profit and loss account

This reserve represents the cumulative profits and losses.

Other reserves

This reserve represents the equity incentive plan outlined in note 24.

Notes to the financial statements (continued)

For the year ended 30 September 2016

20. Leasing commitments

The company's future minimum operating lease payments are as follows:

	2016		2015	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Within one year	698	17	605	20
Between one and five years	957	2	820	19
Total	<u>1,655</u>	<u>19</u>	<u>1,425</u>	<u>39</u>

21. Pension commitments

The company operates a number of defined contribution pension schemes. The assets of the schemes are held in independently administered funds. The contributions to the schemes payable by the company for the year were £0.5m (2015: £0.6m). The contributions outstanding as at the balance sheet date were £0.1m (2015: £0.1m).

22. Employee Restructuring

In October 2015 the corporate management of PTC Inc. announced that the company will progress with the strategy that has been transforming PTC into a key player in the world of smart connected products. The review of how to best configure the company's resources in order to support the new strategy and business model necessitated changes to the workforce that resulted in reductions and reassignment of a number of roles, while resources in other areas of the company have been expanding.

During the year a restructuring program took place to reduce future costs, and to improve efficiency. The cost of the restructuring was £2.2m (2015: £1.1m), and affected 32 employees (2015: 18 employees).

23. Related party transactions

The Company is a wholly owned subsidiary of Parametric Holdings (UK) Limited, and as such has taken advantage of the exemption permitted by FRS 102 section 33 'Related party disclosures' not to provide disclosures of transactions entered into with wholly owned members of the group. The company undertakings are included within the consolidated financial statements of PTC Inc., which are publicly available and can be obtained from its registered office at Chester House, Aerospace Boulevard, Farnborough Aerospace Centre, Farnborough GU14 6TQ.

Notes to the financial statements (continued)

For the year ended 30 September 2016

24. Equity incentive plan

The 2000 Equity Incentive Plan (2000 Plan) of the ultimate holding company, PTC Inc. provides for the grants of non-qualified and incentive stock options, common stock, restricted stock, restricted stock units and stock appreciation rights to its employees, directors, officers and consultants. The United Kingdom employees participate in this plan.

The company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognised over the period during which an employee is required to provide service in exchange for the award.

Until 2005, the company generally granted stock options. For those options, the option exercise price was typically the fair market value at the date of grant, and they generally vested over three years and expire ten years from the date of grant. The fair value of options was estimated at the date of grant using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. No stock options have been granted since 2005 to United Kingdom employees. There were no stock option movements during the last two years.

Restricted Stock Units

Since 2005, the parent company has awarded restricted stock units as the principal equity incentive awards for the company's employees. Each restricted stock unit represents the contingent right to receive one share of PTC Inc. common stock. The fair value of restricted stock units is based on the fair market value of PTC Inc. stock on the date of grant, and they are generally vested over a three-year period.

The fair value of restricted stock units granted in the year was \$1.5m (2015: \$1.5m).

A reconciliation of restricted stock unit movements over the year to 30 September is shown below:

	2016		2015	
	Shares	Weighted average grant date price	Shares	Weighted average grant date price
Outstanding at 1 October	73,868	\$ 34.17	79,175	\$ 27.57
Granted	42,325	\$ 35.85	39,817	\$ 38.12
Transfers in				
Transfers out				
Vested	(37,342)	\$ 31.87	(38,271)	\$ (38.57)
Forfeited	(8,358)	\$ 35.41	(6,853)	\$ (29.47)
Outstanding at 30 September	<u>70,493</u>	<u>\$ 36.24</u>	<u>73,868</u>	<u>\$ 34.17</u>

Note – the weighted average exercise prices are in US Dollar (exchange rate of 1.4293).

Notes to the financial statements (continued)

For the year ended 30 September 2016

24. Equity incentive plan (continued)

The total charge for the year relating to employee restricted stock-based compensation was £671,936 (2015: £752,246), £788,026 of which related to equity-settled share-based payment transactions, offset with a £116,091 release of the other reserves balance relating to Stock options, all of which were fully exercised by 2016.

A movement of £223k has been recognised directly in the Profit and Loss Account. This movement relates to the release of the other reserves balance of £116k relating to stock options, which are now fully exercised, and the statutory adjustment of £107k to disclose the stock based compensation as the expense for the year.

As each restricted stock grant vests, PTC Inc. cross charge the costs associated at the prevailing market value of the stock at point of vesting.

25. Ultimate parent undertaking and controlling party

The company's immediate parent company at 30 September 2016 was Parametric Holdings (UK) Limited, a company incorporated in the United Kingdom.

The ultimate parent undertaking and the parent of the smallest and largest group for which group financial statements are prepared and of which Parametric Technology (UK) Limited is a member, is PTC Inc., a company incorporated in the Commonwealth of Massachusetts.

Copies of these consolidated financial statements can be obtained from:

Parametric Technology (UK) Limited
Chester House, Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6TQ

PTC Inc. is the ultimate controlling party.

26. Transition to FRS 102

This is the first financial year that the Company has presented its financial statements in accordance with FRS 102 'The Financial Reporting Framework Applicable in the UK and Republic of Ireland' ("FRS 102"). For financial years up to and including the year ending 30 September 2015, the Company prepared its financial statements in accordance with old UK GAAP.

Under FRS 102 there is the option not to use all the new headings and terminology of the financial statements in which Parametric Technology (UK) Limited has decided to adopt this exemption.

Changes to FRS 102 adoption

There have been no FRS 102 adjustments noted in the adoption from UK GAAP to FRS 102. The Company's equity as at 1 October 2014 and 30 September 2015 therefore remains unchanged as a result of transition to FRS 102.