

Altium Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Altium Limited
ACN:	009 568 772
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

			US\$'000
Revenues from ordinary activities	up	30.0% to	63,309
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	51.3% to	18,985
Earnings Before Interest and Tax (EBIT)	up	52.2% to	16,444
Profit from ordinary activities after tax attributable to the owners of Altium Limited	up	50.8% to	14,873
Profit for the half-year attributable to the owners of Altium Limited	up	50.8% to	14,873

Dividends

	Amount per security AU Cents	Franked amount per security AU Cents
Final dividend for the year ended 30 June 2017	12.000	-

On 28 August 2017, the Directors declared a final dividend of AU 12 cents per share for the year ended 30 June 2017. The dividend was paid on 2 October 2017 and amounted to US\$12.5million.

The directors have declared an interim dividend of AU 13 cents per share (2016: AU 11 cents) for the half-year ended 31 December 2017. The dividend will be paid on 28 March 2018 based on a record date of 5 March 2018. This amounts to a total dividend of US\$13.4million based on the total number of shares outstanding.

Comments

The profit for the consolidated entity after providing for income tax amounted to US\$14,873,000 (31 December 2016: US\$9,862,000).

3. Net tangible assets

	Reporting period US Cents	Previous period US Cents
Net tangible assets per ordinary security	<u>73.71</u>	<u>76.41</u>

4. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.


5. Attachments

Details of attachments (if any):

The Interim Report of Altium Limited for the half-year ended 31 December 2017 is attached.

6. Signed

Signed _____


Aram Mirkazemi
Chief Executive Officer
Sydney

Date: 19 February 2018

Altium Limited

ACN 009 568 772

Interim Report - 31 December 2017

Altium Limited
Directors' report
31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Altium Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were directors of Altium Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Samuel Weiss (Chairman)
Aram Mirkazemi
Raelene Murphy
Lynn Mickleburgh
Sergiy Kostynsky (appointed effective 1 January 2018)
Wendy Stops (appointed effective 1 February 2018)
Dr David Warren (retired 31 December 2017)

Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of the development and sales of computer software for the design of electronic products. There were no significant changes in the nature of these activities during the half-year.

Review of operations

Overview

Altium delivered strong results in the first half of fiscal 2018, worldwide product revenue grew by 30% to US\$63.2 million and profit before tax increased by 53% to US\$16.5 million. Profit after tax increased to US\$14.9 million, a 51% improvement year on year, generating earnings per share (EPS) of 11.48 cents. Earnings before interest, tax, depreciation and amortization (EBITDA) grew by 51% to US\$19.0 million resulting in an EBITDA margin of 30%. The performance in the first half of fiscal 2018 positions Altium to continue to generate double-digit growth and expand EBITDA margins in line with our 2020 commitments.

Altium is focused on a disciplined process related to spending. Spending increased by 23% in the first half of fiscal 2018 over prior period to US\$44.2 million. This increase includes the cost of direct sales in some EMEA markets as well as non-recurring expenses for earn-out adjustments and acquisition costs of US\$1.9 million which when normalized would result in a spending growth of US\$42.3 million.

Altium's EBITDA margin of 30% includes costs associated with one-time events such as re-structuring, acquisitions and earn-out adjustments which contributed (3.1%) to our underlying EBITDA margin, the resulting 33.1% underlying EBITDA is 3.4% higher than the comparable percentage in first half of fiscal 2017.

Altium's balance sheet is strong; operating cash flow contributed US\$14.9 million in the first half of fiscal 2018 and Altium ended the half year with a cash balance of US\$36.0 million after paying dividends of US\$12.5 million (2016: US\$9.8 million), completing the Upverter acquisition for a total cash consideration of US\$2.8 million and contingent consideration payments of US\$6.2 million (2016: US\$2.5 million) relating to prior period acquisitions.

Altium delivered growth across multiple fronts: our PCB subscription pool grew by 4% to 35,977 active subscribers, Americas PCB grew 17%, EMEA PCB grew by 29% (in local Currency), China PCB delivered a 30% growth in revenue compared to first half of fiscal 2017. Altium Designer seat count grew 22% with 2,650 licenses sold. Our TASKING business continues to perform well, achieving a 21% growth in revenue for the first half of fiscal 2018. Octopart has maintained momentum with growth of 42% to reach first half revenue of \$4.9 million in fiscal 2018.

The US Government recently passed the Tax Cuts and Jobs Act which contains significant tax reform measures, including a decrease in the USA federal corporate tax rate from 35% to 21% and other measures that expand the tax base. Consequently, Altium has reviewed the valuation of the deferred tax asset (DTA) that arises from future deductibility of amortisation of Intellectual Property. The effect of applying a lower tax rate to the DTA has been offset by the elimination of interest deductibility (from 1 July 2018) resulting in a faster utilisation of the amortisation benefit.

Subject to further review and analysis, Altium's preliminary assessment of the total reform package is that a change in Altium's effective tax rate is unlikely to be material for financial year 2018.

Financial Highlights

- Revenue increased by 30% to US\$63.2 million, including a 35% increase in Altium Designer license revenue.
- Net Profit after Tax (NPAT) increased by 51% to US\$14.9 million.
- Operating expenses, excluding depreciation, amortisation and interest increased by 23% over the prior year, resulting in 51% increase in EBITDA.
- Earnings per Share (EPS) increased by 50% to US 11.48 cents per share.

Key Financial Results

	31 Dec 2017	Consolidated 31 Dec 2016	Change
	US\$'000	US\$'000	%
Revenue (excluding interest)	63,236	48,650	30%
Operating expenses (excluding depreciation, amortisation and interest)	(44,250)	(36,105)	23%
EBITDA	18,985	12,545	51%
EBITDA margin	30.0%	25.8%	
Depreciation and amortisation	(2,541)	(1,739)	
EBIT	16,444	10,806	52%
Net Interest	32	(21)	
Profit before income tax	16,476	10,785	53%
Income tax expense	(1,603)	(923)	
Profit after income tax	14,873	9,862	51%
EPS (cents)	11.48	7.64	50%

	31 Dec 2017	31 Dec 2016	Change
	US\$'000	US\$'000	%
Product Revenue			
Altium Designer software licenses	21,765	16,075	35%
Altium Designer subscriptions	25,408	20,605	23%
TASKING software licenses	3,598	2,971	21%
TASKING maintenance	2,274	1,812	25%
Service revenue	2,681	1,692	58%
Search advertising	4,938	3,485	42%
Altium Nexus	1,524	463	229%
Other	1,048	1,547	(32%)
Total Product Revenue	63,236	48,650	30%

For more details on revenue, refer to Note 4 of the interim report.

Altium Limited
Directors' report
31 December 2017

	31 Dec 2017 US\$'000	31 Dec 2016 US\$'000	Change %
Product Sales			
Altium Designer licenses	22,705	17,211	32%
Altium Designer subscriptions	22,823	17,917	27%
TASKING licenses	3,124	2,810	11%
TASKING maintenance	2,286	1,723	33%
Service sales	2,332	1,621	44%
Search advertising	4,938	3,576	38%
Altium Nexus	1,241	421	195%
Other	855	1,724	(50%)
Total Sales	60,304	47,003	28%

Net profit after tax increased by 51% to US\$14.9 million from US\$9.9 million in the previous year.

Operational Highlights

During the first half of fiscal 2018, Altium achieved double-digit sales and revenue growth to reach US\$60.3 million in sales (an increase of 28%) and US\$63.2 million in product revenue (an increase of 30%).

Altium's Board and Systems revenue grew to US\$50.1 million with increases in all regions. EMEA grew revenue by 29% (Euros) and continued the transformation of its business model to direct transactional sales in key markets. The America's achieved a strong first half performance of 17% growth. China continued its strong run to deliver revenue growth of 30% for the first half of fiscal 2018.

The number of Altium Designer licenses sold increased by 22% resulting in 2,650 seat licenses sold in the first half of fiscal 2018. Altium's subscription pool grew by 4% to reach 35,977 subscribers. The run-rate of growth of the subscription pool is above that required to achieve Altium's 2020 financial goal of US\$200 million in total revenue and US\$150 million in PCB revenue.

Altium's Microcontrollers and Embedded Systems revenue grew by 21% worldwide to US\$6.3 million in first half of fiscal 2018. Our TASKING business continues to perform with disciplined focus on our core business with Infineon leveraging TriCore and Aurix chipsets for the automotive industry.

The Makers and Content segment, including Octopart, grew by 42% to US\$4.9 million in revenue during the first half of fiscal 2018, Octopart has grown in strength since the business was acquired nearly two years ago and is the engine that drives Altium's content strategy. Octopart delivers supply chain intelligence to the electronic design engineering community and aims to be the number one brand associated with electronic parts search. Upverter, acquired during the period, is now part of the Makers and Content Segment.

The Altium technology partnership with the SolidWorks division of Dassault Systemes to deliver a new electronic CAD product that is tightly integrated with the SolidWorks mechanical CAD product provides a unique platform for the design of intelligent products. This product, SolidWorks PCB, was released on 1 July 2016. Results for SolidWorks PCB in the first half of fiscal 2018 are at the contract minimum. Altium believes the product ramp will be slow and highly dependent upon SolidWorks positioning of the product in the SolidWorks Channel. The partnership with SolidWorks will expand the influence and market reach of Altium beyond the historic PCB market.

Altium is working with Dassault Systemes to combine Altium's electronic CAD (ECAD) expertise with Dassault's enterprise capability. Work is underway with the Dassault Systemes CATIA division to form a partnership to integrate Altium's ECAD capability into Dassault's high-end CATIA product.

Altium's R&D division underpins Altium's multi-product, multi-segment strategy. During the half year Altium released Altium Designer 18 and a new high-end PCB product, Nexus (with comprehensive collaboration and data management capability). These two products represent Altium's continued commitment to enhance and expand our capabilities in support of our core customer base as well as to provide services for companies with teams of engineers who need to collaborate and share

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design data. Both products are built on Altium's new X2 platform (a high speed engine with a user interface experience in an "Adobe" like-way).

Strategy

The pursuit of PCB market leadership by 2020 is the singular point of focus for Altium. The company is rolling out new products, pursuing strategic partnerships and executing an M&A strategy to increase Altium's market reach.

Altium is committed to delivering consistent financial performance based on the successful execution of its "line and length" strategy and the achievement of double-digit sales and revenue growth while expanding margin at the same time.

Improvement in the transactional sales model through greater systemisation, the extension of the direct sales model key markets in EMEA as well as the high-release R&D culture drive EBITDA margin expansion every year.

Outlook

Altium's business is impacted positively by the rise of smart connected devices and the emerging market for the Internet of Things.

Altium is dedicated to achieving market leadership in PCB design software by 2020 (in both dollars and seats) and achieving US\$150 million in PCB revenue and US\$200 million in total revenue. Specific drivers of growth will include:

- Creation of a range of PCB tools that provide more targeted solutions for all segments of the market.
- Delivery of consistent (annual) updates to our products with new features and capabilities for our customers.
- Leverage of partners to expand Altium's reach into new markets.
- The pursuit of acquisitions that will support Altium's bid for PCB market leadership.
- Rigorous adherence to a high performance culture throughout the company.

Risk

Factors that may impact sales growth include foreign currency fluctuations, delays in product development, commercial viability of new products, delays in the establishment of a high performance sales organisation and the global economy.

The major currency risk is the EUR/USD rate due to the large proportion of sales made in Europe. A depreciation of the EUR against the USD would have a negative impact on group sales and revenue.

The timing of new product releases is a key factor in new license and subscription growth. New technologies in releases carry inherent risks of delay and quality. Forward planning of the technology requirements for each release and disciplined project management and quality assurance processes mitigate these risks.

As the company diversifies its product base the risk of the commercial viability of new products increases. This risk will be mitigated through in depth market research, as well as continued investment in R&D and a nimble approach to product development to keep pace with market demands.

Sales of PCB and TASKING software solutions require lengthy lead times and sophisticated engagement with customers. Failure to recruit, hire and train the Altium direct sales force, the new enterprise solution sales team and re-seller partners in a timely and effective manner could reduce revenue growth. This risk is mitigated through the due diligence process prior to appointing a new sales representative or reseller and comprehensive training, upon appointment and continuously thereafter.

New financial risks can arise from expanding the geographic reach of the company, broadening the customer base through acquired product lines or new services, and inheriting new or unique contract terms through merger and acquisition activity.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Matters subsequent to the end of the financial half-year

Apart from the dividend declared, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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Directors' report
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Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Samuel Weiss
Chairman



Aram Mirkazemi
Chief Executive Officer

19 February 2018
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Altium Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Altium Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'EP' followed by a stylized flourish.

Eliza Penny
Partner
PricewaterhouseCoopers

Sydney
19 February 2018

Altium Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 US\$'000	31 Dec 2016 US\$'000
Revenue	4	63,309	48,694
Expenses			
Employee benefits expense		(29,582)	(23,779)
Depreciation and amortisation expense	5	(2,541)	(1,739)
Travel expense		(2,270)	(2,257)
Marketing expense		(2,149)	(1,136)
Rental and occupancy expense		(2,143)	(1,779)
Software and equipment expense		(1,828)	(1,133)
Re-measurement of contingent consideration		(1,572)	-
Professional advice expense	5	(1,319)	(1,028)
Communication expense		(1,044)	(891)
Shared based payments		(682)	(1,233)
Cost of services		(402)	(301)
Net foreign exchange gain		(113)	441
Finance costs		(2)	(65)
Restructuring costs	5	-	(1,811)
Other expenses		(1,186)	(1,198)
Profit before income tax expense		16,476	10,785
Income tax expense		(1,603)	(923)
Profit after income tax expense for the half-year attributable to the owners of Altium Limited		14,873	9,862
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(311)	(508)
Other comprehensive income for the half-year, net of tax		(311)	(508)
Total comprehensive income for the half-year attributable to the owners of Altium Limited		14,562	9,354
		US Cents	Cents
Basic earnings per share		11.48	7.64
Diluted earnings per share		11.46	7.64

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Altium Limited
Consolidated statement of financial position
As at 31 December 2017

	Note	Consolidated 31 Dec 2017 US\$'000	30 Jun 2017 US\$'000
Assets			
Current assets			
Cash and cash equivalents		36,025	44,273
Trade and other receivables		32,770	32,631
Tax receivables		20	41
Other assets		3,097	2,861
Total current assets		<u>71,912</u>	<u>79,806</u>
Non-current assets			
Trade and other receivables		1,030	2,531
Property, plant and equipment		5,524	5,054
Intangible assets	6	45,799	40,459
Deferred tax assets	7	82,165	82,946
Total non-current assets		<u>134,518</u>	<u>130,990</u>
Total assets		<u>206,430</u>	<u>210,796</u>
Liabilities			
Current liabilities			
Trade and other payables		7,307	10,179
Tax liabilities		1,863	1,008
Provisions	8	3,702	7,600
Deferred revenue		37,378	38,436
Total current liabilities		<u>50,250</u>	<u>57,223</u>
Non-current liabilities			
Deferred tax liability		5,923	5,276
Provisions	9	188	703
Deferred revenue		6,000	6,958
Other liabilities		2,283	674
Total non-current liabilities		<u>14,394</u>	<u>13,611</u>
Total liabilities		<u>64,644</u>	<u>70,834</u>
Net assets		<u>141,786</u>	<u>139,962</u>
Equity			
Contributed equity	10	125,177	125,177
Reserves		11,759	12,275
Retained profits		4,850	2,510
Total equity		<u>141,786</u>	<u>139,962</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Altium Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2017

Consolidated	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Balance at 1 July 2016	125,177	10,394	(4,776)	130,795
Profit after income tax expense for the half-year	-	-	9,862	9,862
Other comprehensive income for the half-year, net of tax	-	(508)	-	(508)
Total comprehensive income for the half-year	-	(508)	9,862	9,354
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	1,233	-	1,233
Dividends paid (note 11)	-	-	(9,830)	(9,830)
Balance at 31 December 2016	<u>125,177</u>	<u>11,119</u>	<u>(4,744)</u>	<u>131,552</u>
Consolidated	Contributed equity US\$'000	Reserves US\$'000	Retained profit US\$'000	Total equity US\$'000
Balance at 1 July 2017	125,177	12,275	2,510	139,962
Profit after income tax expense for the half-year	-	-	14,873	14,873
Other comprehensive income for the half-year, net of tax	-	(311)	-	(311)
Total comprehensive income for the half-year	-	(311)	14,873	14,562
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	(204)	-	(204)
Dividends paid (note 11)	-	-	(12,534)	(12,534)
Balance at 31 December 2017	<u>125,177</u>	<u>11,760</u>	<u>4,849</u>	<u>141,786</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Altium Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2017

		Consolidated	
	Note	31 Dec 2017	31 Dec 2016
		US\$'000	US\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		64,501	54,397
Payments to suppliers and employees (inclusive of GST)		(48,965)	(39,268)
Payment for expenses relating to acquisitions		(347)	(72)
		<u>15,189</u>	<u>15,057</u>
Interest received		73	44
Interest and other finance costs paid		(41)	(65)
Net income taxes paid		(348)	(1,320)
		<u>14,873</u>	<u>13,716</u>
Net cash from operating activities	14	<u>14,873</u>	<u>13,716</u>
Cash flows from investing activities			
Payments on contingent and deferred considerations		(6,249)	(2,467)
Payment for purchase of business, net of cash acquired	12	(2,799)	(472)
Payments for property, plant and equipment		(1,592)	(2,548)
Payments for intangible assets	6	(231)	-
		<u>(10,871)</u>	<u>(5,487)</u>
Net cash used in investing activities		<u>(10,871)</u>	<u>(5,487)</u>
Cash flows from financing activities			
Dividends paid	11	(12,534)	(9,830)
Repayment of borrowings		(6)	(28)
		<u>(12,540)</u>	<u>(9,858)</u>
Net cash used in financing activities		<u>(12,540)</u>	<u>(9,858)</u>
Net decrease in cash and cash equivalents		(8,538)	(1,629)
Cash and cash equivalents at the beginning of the financial half-year		44,273	38,139
Effects of exchange rate changes on cash and cash equivalents		290	(162)
		<u>36,025</u>	<u>36,348</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>36,025</u></u>	<u><u>36,348</u></u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial report covers Altium Limited as a consolidated entity consisting of Altium Limited and its controlled entities. The financial report is presented in US dollars, which is Altium Limited's presentation and functional currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Altium Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 6.03, Level 6,
Tower B, The Zenith,
821 Pacific Highway,
Chatswood, NSW 2067
Australia

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 19 February 2017. The directors have the power to amend and reissue the financial report.

Altium makes extensive use of internet-enabled communications to ensure that its corporate reporting is timely, complete and available globally at minimum cost to the company with maximum immediacy for shareholders and other stakeholders. All press releases, financial reports and other information are available at the investors section on the Altium website: www.altium.com. For queries in relation to Altium's reporting, please email investor.relations@altium.com.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

AASB 15 Revenue from contracts with customers

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. When adopted, the standard will affect the group's accounting for its revenue contracts such as bundled sales. The detailed assessment performed to date does not indicate that there will be a material impact on the group's revenue when the standard is adopted. The date of adoption by the group will be 1 July 2018.

Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. While the group has yet to undertake a detailed assessment it is unlikely that there will be any material change to the accounting for these assets currently held by the group. The date of adoption by the group will be 1 July 2018.

AASB 16 Leases

The new standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The group has initiated steps to collect data on operating leases held across the group to analyse and assess the overall impact. Although the group has yet to quantify the effect of the new standard, the following impacts are expected:

- the total assets and liabilities on the balance sheet will increase with a decrease in net total assets, due to the reduction of the capitalised asset being on a straight line basis whilst the liability reduces by the principal amount of repayments. Net current assets will show a decrease due to an element of the liability being disclosed as a current liability;
- interest expenses will increase due to the unwinding of the effective interest rate implicit in the lease. Interest expense will be greater earlier in a leases life due to the higher principal value causing profit variability over the course of a lease life. This effect may be partially mitigated due to number of leases held in the Group at different stages of their terms; and
- operating cash flows will be higher as repayment of the principle portion of all lease liabilities will be classified as financing activities.

Note 3. Operating segments

Description of segments

Management has determined the operating segments based on the reports used by the Board and Executive Team to make strategic decisions and review operational performance.

The Board and Executive Team consider the financial performance of the business based on product types and the overall economic characteristics of industries which the company supplies and, have identified three operating segments:

- Board and Systems;
- Micro-controllers and Embedded Systems; and
- Makers and Content.

The Board and Systems segment includes results from the PCB business for the Americas, EMEA, Asia Pacific and Emerging Markets as well as other products sold through partner channels. The Emerging Markets region includes results from PCB business for the China, Russia and India regions.

The Micro-controller and Embedded Systems segment includes results from TASKING sales, operations and research and development.

The Makers and Content segment includes the results from Octopart.

The Board and Executive Team also review the financial position of the business from a geographical perspective and the assets and liabilities of the group are presented by geographical region for both year ended 31 December 2017 and the comparative period.

Segment sales represent invoiced sales. These are subsequently adjusted for the deferred component which is recognised over the service period to arrive at revenue. Revenue is management's key metric in understanding the results by segment.

Note 3. Operating segments (continued)

Types of products and services

Revenue from segments comprise:

- Software license revenue
- Subscription and maintenance revenue
- Search advertising
- Services including training and project revenue

The chief operating decision maker assesses the performance of individual segments on earnings before interest expense, tax expense, depreciation and amortisation (EBITDA).

Intersegment transactions

Transactions between segments are excluded from the segment information and do not form part of the reports used by the Board and Executive Team.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Altium Limited
Notes to the financial statements
31 December 2017

Note 3. Operating segments (continued)

Operating segment information

Consolidated statement of financial performance 31 December 2017	Boards and Systems US\$'000	Micro- controllers and Embedded Systems US\$'000	Makers and Content US\$'000	Other segments US\$'000	Total US\$'000
Revenue					
Segment sales	49,376	5,980	4,948	-	60,304
Net adjustment for deferred revenue recognition	2,653	279	-	-	2,932
Interest income	-	-	-	73	73
Total revenue	<u>52,029</u>	<u>6,259</u>	<u>4,948</u>	<u>73</u>	<u>63,309</u>
EBITDA	38,644	3,875	2,242	(25,776)	18,985
Depreciation and amortisation	-	-	-	(2,541)	(2,541)
Net interest	-	-	-	32	32
Profit/(loss) before income tax expense	<u>38,644</u>	<u>3,875</u>	<u>2,242</u>	<u>(28,285)</u>	<u>16,476</u>
Income tax expense					(1,603)
Profit after income tax expense					<u>14,873</u>

Consolidated statement of financial performance 31 December 2016	Boards and systems US\$'000	Micro- controllers and Embedded systems US\$'000	Makers and Content US\$'000	Other segments US\$'000	Total US\$'000
Revenue					
Segment sales	38,304	4,626	3,576	497	47,003
Net adjustment for deferred revenue recognition	833	532	(91)	122	1,396
Other revenue	251	-	-	-	251
Interest income	-	-	-	44	44
Total revenue	<u>39,388</u>	<u>5,158</u>	<u>3,485</u>	<u>663</u>	<u>48,694</u>
EBITDA	25,856	1,702	1,462	(16,475)	12,545
Depreciation and amortisation	-	-	-	(1,739)	(1,739)
Net interest	-	-	-	(21)	(21)
Profit/(loss) before income tax expense	<u>25,856</u>	<u>1,702</u>	<u>1,462</u>	<u>(18,235)</u>	<u>10,785</u>
Income tax expense					(923)
Profit after income tax expense					<u>9,862</u>

Altium Limited
Notes to the financial statements
31 December 2017

Note 3. Operating segments (continued)

31 December 2017						
Consolidated statement of financial position	Americas US\$'000	EMEA US\$'000	Emerging Markets US\$'000	Asia Pacific US\$'000	Other segments US\$'000	Total US\$'000
Assets						
Segment assets	28,110	20,285	6,677	3,660	65,513	124,245
<i>Unallocated assets:</i>						
Deferred tax asset						82,165
Income tax receivables						20
Total assets						<u>206,430</u>
Liabilities						
Segment liabilities	21,145	21,900	2,595	2,827	8,391	56,858
<i>Unallocated liabilities:</i>						
Provision for income tax						1,863
Deferred tax liability						5,923
Total liabilities						<u>64,644</u>
30 June 2017						
Consolidated statement of financial position	Americas US\$'000	EMEA US\$'000	Emerging Markets US\$'000	Asia Pacific US\$'000	Other segments US\$'000	Total US\$'000
Assets						
Segment assets	21,323	17,326	5,668	3,205	80,287	127,809
<i>Unallocated assets:</i>						
Deferred tax asset						82,946
Income tax receivables						41
Total assets						<u>210,796</u>
Liabilities						
Segment liabilities	24,545	21,464	986	2,005	15,531	64,531
<i>Unallocated liabilities:</i>						
Provision for income tax						1,008
Deferred tax liability						5,276
Borrowings						19
Total liabilities						<u>70,834</u>

Altium Limited
Notes to the financial statements
31 December 2017

Note 4. Revenue

	Consolidated	
	31 Dec 2017	31 Dec 2016
	US\$'000	US\$'000
<i>Product revenue</i>		
Software license revenue	25,930	21,088
Subscription and maintenance revenue	29,247	21,985
Search advertising	4,938	3,485
Service revenue	2,592	1,692
Other revenue	529	400
	<u>63,236</u>	<u>48,650</u>
<i>Other revenue</i>		
Interest Income	73	44
Revenue	<u><u>63,309</u></u>	<u><u>48,694</u></u>

Note 5. Expenses

	Consolidated	
	31 Dec 2017	31 Dec 2016
	US\$'000	US\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Property, plant and equipment	<u>1,233</u>	<u>1,024</u>
<i>Amortisation</i>		
Customer relationships	668	522
Software	403	-
Intellectual property	<u>237</u>	<u>193</u>
Total amortisation	<u>1,308</u>	<u>715</u>
Total depreciation and amortisation	<u>2,541</u>	<u>1,739</u>
<i>Restructuring costs</i>		
Cost associated with moving to a direct sales model in EMEA	-	800
Cost associated with the re-organisation of Tasking product development	-	719
Legal fees	<u>-</u>	<u>292</u>
Total restructuring costs	<u>-</u>	<u>1,811</u>
<i>Included in professional advice expense</i>		
Costs associated with the acquisition of Upverter Inc	347	-
Costs associated with the acquisition of Transfer B.V.	<u>-</u>	<u>72</u>
	<u>347</u>	<u>72</u>

Note 6. Non-current assets - intangible assets

	Consolidated	
	31 Dec 2017	30 Jun 2017
	US\$'000	US\$'000
Goodwill - at cost	22,989	19,612
Intellectual property - at cost	3,968	3,979
Less: Accumulated amortisation	(920)	(680)
	<u>3,048</u>	<u>3,299</u>
Customer contracts - at cost	16,333	16,333
Less: Accumulated amortisation	(2,442)	(1,775)
	<u>13,891</u>	<u>14,558</u>
Software intangibles - at cost	6,802	3,518
Less: Accumulated amortisation	(931)	(528)
	<u>5,871</u>	<u>2,990</u>
	<u><u>45,799</u></u>	<u><u>40,459</u></u>

The Goodwill and intangible assets have arisen as a result of business combinations. For further details of business combinations completed in this half year refer to note 12 of this interim financial report.

Note 7. Non-current assets - deferred tax assets

The US Government recently passed the Tax Cuts and Jobs Act which contains significant tax reform measures, including a decrease in the USA federal tax rate from 35% to 21%. Consequently, Altium has reviewed the valuation of the deferred tax asset (DTA) that arises from future deductibility of amortisation of Intellectual Property. The effect of applying a lower tax rate to the DTA has been offset by a faster utilisation of the amortisation benefit as a result of interest deductions being denied from 1 July 2018.

Subject to further review and analysis, Altium's preliminary assessment of the total reform package is that a change in Altium's effective tax rate is unlikely to be material for financial year 2018.

Note 8. Current liabilities - provisions

	Consolidated	
	31 Dec 2017	30 Jun 2017
	US\$'000	US\$'000
Employee benefits	1,627	1,451
Contingent consideration	2,075	6,149
	<u>3,702</u>	<u>7,600</u>

Contingent consideration

The provision represents the obligation to pay contingent consideration following the acquisition of a business or assets. It is measured at the present value of the estimated liability.

Altium Limited
Notes to the financial statements
31 December 2017

Note 9. Non-current liabilities - provisions

	Consolidated	
	31 Dec 2017	30 Jun 2017
	US\$'000	US\$'000
Employee benefits	10	98
Contingent consideration	-	535
Lease make good	178	70
	<u>188</u>	<u>703</u>

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Note 10. Equity - Contributed equity

	Consolidated			
	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017
	Shares	Shares	US\$'000	US\$'000
Ordinary shares - fully paid	<u>130,215,813</u>	<u>130,215,813</u>	<u>125,177</u>	<u>125,177</u>

Note 11. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2017	31 Dec 2016
	US\$'000	US\$'000
Final dividend for the year ended 30 June 2017 of AU 12 cents (30 June 2016 AU 10 cents)	<u>12,534</u>	<u>9,830</u>

The directors have declared an interim dividend of AU 13 cents per share (2016: AU 11 cents) for the half-year ended 31 December 2017. The dividend will be paid on 28 March 2018 based on a record date of 5 March 2018. This amounts to a total dividend of US\$13.4m based on the total number of shares outstanding.

Note 12. Business combinations

On 25 August 2017, the company acquired 100% of the issued shares in Upverter Inc., a Canadian based developer of cloud based, collaborative electronics design system software for a fair value consideration of CAD6,937,500 (US\$5,540,000).

Note 12. Business combinations (continued)

Upverter Inc

Details of the acquisition of Upverter Inc. are as follows:

	Fair value US\$'000
Cash and cash equivalents	19
Trade and other receivables	9
Plant and equipment	1
Software	3,053
Trade and other payables	(3)
Deferred tax liability	(916)
	<hr/>
Net assets acquired	2,163
Goodwill	3,377
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>5,540</u>
Representing:	
Cash paid or payable to vendor	2,824
Deferred consideration	2,716
	<hr/>
	<u>5,540</u>
	<hr/>
Acquisition costs expensed to profit or loss	<u>347</u>

The total fair value consideration is split into cash of CAD3,536,100 (US\$2,824,000) and deferred consideration over a three year period payable via the issuance of Altium Limited shares to the equivalent of CAD3,401,400 (US\$2,716,000).

Acquisition related costs of US\$347,000 are included in professional advice expense in profit or loss.

Note 13. Events after the reporting period

Apart from the dividend declared as disclosed in note 11, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Altium Limited
Notes to the financial statements
31 December 2017

Note 14. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	31 Dec 2017	31 Dec 2016
	US\$'000	US\$'000
Profit after income tax expense for the half-year	14,873	9,862
Adjustments for:		
Depreciation and amortisation	2,541	1,735
Net loss on disposal of non-current assets	-	8
Share-based payments	(204)	1,233
Unrealised foreign exchange differences	111	639
Change in operating assets and liabilities:		
Decrease in trade and other receivables	3,898	5,882
Decrease/(increase) in deferred tax assets	514	(7)
Increase in prepayments	(523)	(645)
Decrease in trade and other payables	(3,832)	(2,337)
Increase/(decrease) in provision for income tax	741	(390)
Increase/(decrease) in other provisions	1,230	(773)
Decrease in deferred revenue	(4,476)	(1,491)
	<u>14,873</u>	<u>13,716</u>
Net cash from operating activities	<u>14,873</u>	<u>13,716</u>

Altium Limited
Directors' declaration
31 December 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Samuel Weiss
Chairman



Aram Mirkazemi
Chief Executive Officer

19 February 2018
Sydney



Independent auditor's review report to the members of Altium Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Altium Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected explanatory notes and the directors' declaration for Altium Limited. The consolidated entity comprises the Company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Altium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Altium Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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A handwritten signature in black ink, appearing to read 'EPenny', with a stylized flourish at the end.

Eliza Penny
Partner

Sydney
19 February 2018