

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 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

			US\$'000
Revenues from ordinary activities	up	24.0% to	78,481
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	49.4% to	28,360
Earnings Before Interest and Tax (EBIT)	up	55.0% to	25,480
Profit from ordinary activities after tax attributable to the owners of Altium Limited	up	57.6% to	23,441
Profit for the half-year attributable to the owners of Altium Limited	up	57.6% to	23,441

Dividends

On 21 August 2018, the directors declared a final dividend of AU 14 cents per share for the year ended 30 June 2018. The dividend was paid on 25 September 2018 and amounted to US\$13.3m.

The directors have declared an interim dividend of AU 16 cents per share (2017: AU 13 cents) for the half-year ended 31 December 2018. The dividend will be paid on 27 March 2019 based on a record date of 4 March 2019. This amounts to a total dividend of US\$14.8m based on the total number of shares outstanding.

Comments

The profit for the consolidated entity after providing for income tax amounted to US\$23,441,000 (31 December 2017: US\$14,873,000).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>90.53</u>	<u>79.53</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 2018 is attached.

6. Signed

Signed



Date: 18 February 2019

Aram Mirkazemi
Chief Executive Officer
Sydney

Altium Limited

ACN 009 568 772

Interim Report - 31 December 2018

Altium Limited
Directors' report
31 December 2018

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 2018.

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
Sergey Kostynsky
Wendy Stops

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 2019; worldwide product revenue grew by 24% to US\$78.1 million and profit before tax increased by 56% to US\$25.8 million. Profit after tax increased to US\$23.4 million, a 58% improvement compared to last half year, generating earnings per share (EPS) of US18.00 cents. Earnings before interest, tax, depreciation and amortization (EBITDA) grew by 49% to US\$28.4 million resulting in an EBITDA margin of 36.3%.

This strong performance positions us well to achieve our 2020 revenue target of \$200 million. All segments experienced double digit revenue growth leading to increased profits through the strong operating leverage inherent in the Altium business model.

The Altium balance sheet is strong. Operating cash flow contributed US\$26.8 million in the first half of fiscal 2019 and the Group ended the half year with a cash balance of US\$58.0 million after paying dividends of US\$13.3 million (2018: US\$12.5 million), and contingent consideration payments of US\$5.5 million (2018: US\$6.2 million) relating to prior period acquisitions. Cash management is an important part of our business model as we optimize operations whilst returning a meaningful dividend to shareholders.

Financial Highlights

- Revenue increased by 24% to US\$78.1 million.
- Operating expenses, excluding depreciation, amortisation and interest increased by 12% over the prior year, resulting in EBITDA margin of 36.3%.
- Net Profit after Tax (NPAT) increased by 58% to US\$23.4 million.
- Earnings per share (EPS) increased by 57% to US18.00 cents per share.
- Operating cash flow increased by 80% to US\$26.8 million.

Key Financial Results

	31 Dec 2018 US\$'000	31 Dec 2017 US\$'000	Change %
Revenue (excluding interest)	78,118	63,236	24%
Operating expenses (excluding depreciation, amortisation and interest)	(49,758)	(44,250)	12%
EBITDA	28,360	18,985	49%
EBITDA margin	36.3%	30.0%	
<i>EBITDA margin underlying*</i>	36.7%	33.1%	
Depreciation and amortisation	(2,880)	(2,541)	
Earnings before Interest and income tax	25,480	16,444	55%
Net Interest	279	32	
Profit before income tax	25,759	16,476	56%
Income tax expense	(2,318)	(1,603)	
Profit after income tax	23,441	14,873	58%
EPS cents	18.00	11.48	57%

* The underlying EBITDA margin excludes the re-measurement of contingent consideration and acquisition costs for US\$0.3 million (31 December 2017: US\$1.9 million).

	31 Dec 2018 US\$'000	31 Dec 2017 US\$'000	Change %
Product Revenue			
Altium Designer software licenses	27,427	21,765	26%
Altium Designer subscriptions	28,079	25,408	11%
Octopart search advertising	8,873	4,938	80%
TASKING software licenses	5,404	3,598	50%
TASKING maintenance	2,665	2,274	17%
Altium Nexus licenses	2,308	1,524	51%
Service and other revenue	3,362	3,729	-10%
Total Product Revenue	78,118	63,236	24%

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

	31 Dec 2018 US\$'000	31 Dec 2017 US\$'000	Change %
Product Sales			
Altium Designer licenses	27,943	22,705	23%
Altium Designer subscriptions	25,450	22,823	12%
Octopart search advertising	8,873	4,938	80%
TASKING licenses	4,851	3,124	55%
TASKING maintenance	3,229	2,286	41%
Altium Nexus licenses	2,177	1,241	75%
Service and other sales	3,331	3,187	5%
Total Sales	75,854	60,304	26%

Altium Limited
Directors' report
31 December 2018

Net Profit After Tax

Net profit after tax increased by 58% to US\$23.4 million from US\$14.8 million in the previous year.

The effective tax rate for the year was 9% (2017: 9.7%). This reflects the tax effect of the utilisation of the deferred tax asset recognised as a result of both temporary differences arising on relocation of Altium's core business assets to the USA and the effect of permanent differences associated with the transaction. Altium utilises the tax benefits and re-evaluates the valuation of the deferred tax asset on an annual basis.

Operational Highlights

During the first half of fiscal 2019, Altium achieved double-digit sales and revenue growth to reach US\$75.9 million in sales (an increase of 26%) and US\$78.1 million in product revenue (an increase of 24%).

The Altium Board and Systems business unit revenue grew to US\$58.4 million with increases in all regions. EMEA grew revenue by 16% and continued the transformation of its business model to direct transactional sales in key markets. The Americas achieved double-digit growth of 11% and China delivered outstanding revenue growth of 49% as Altium continued to scale up its sales organisation in the region. Altium has established a second sales office in Shenzhen and will open a third office in Beijing in the second half of fiscal 2019 to support growth in the future.

Altium Nexus delivered US\$2.4m in revenue with growth of 20% for the half year. Nexus is the Altium enterprise level product for customers who require structured collaboration with data management functionality. After early progress with existing Altium customers and our first competitive displacement with a significant automotive supplier, the opportunity and the challenge for Nexus is to scale up its go-to-market model. The Nexus team is working on increasing its capacity to support solutions sales for this customer set.

The number of Altium Designer licence new seats grew by 34% with a total 3,544 seats sold in first half of 2019. The subscription pool grew by 9% to reach 39,179 subscribers.

The Microcontrollers and Embedded Systems business grew revenue by 35% worldwide to US\$8.4 million for the first half of fiscal 2019. Our TASKING embedded software has enjoyed success through its association with Infineon, the semiconductor company that manufactures the TriCore and Aurix chipsets for the automotive industry.

The Altium electronic parts search and discovery business, Octopart, grew by 80% to US\$8.9 million in revenue for the first half year. Octopart delivers part level intelligence to the electronic design engineering community and is establishing itself as the number one brand associated with electronic parts search. Octopart has grown in strength since the business was acquired nearly three years ago and is integral to our strategy to transform electronic design and its realization.

Altium released Altium Designer 19 and further committed to Altium Nexus. These two products represent the core Altium technology to support and sustain our objective to achieve market leadership. Both products are built on the Altium X2 platform, with a high-speed engine and an enhanced user interface experience. Altium Designer 19 expands on Altium Designer 18 with new and powerful design technologies that simplify the process of creating the most complex designs to bring unification to the schematic, layout and post-design processes, all engineered to enhance productivity.

Altium also announced Altium 365, our first move to the cloud through a platform that provides the first step to connect the design space to the supply chain and manufacturing floor. This is consistent with our agenda to bring transformation to electronic design and its realization.

The Altium technology partnership with the SolidWorks division of Dassault Systemes is delivering revenue at the contract minimum. The product ramp is progressing slowly and is highly dependent on the SolidWorks Channel and marketing efforts. The Altium partnership with Dassault Systemes related to CATIA will provide a fully integrated ECAD capability within the CATIA high end MCAD tool.

Strategy

The Altium strategy to achieve PCB market leadership by 2020 based on multi-product, multi-channel capability is bearing fruit as we accelerate toward our 2020 revenue target of US\$200 million and EBITDA margin of 35% or better.

Our subscriber base continues to grow and will accelerate beyond 2020 as the systematisation of our transactional sales model and our next generation products gain traction, including the new Altium 365 cloud platform.

Altium Limited
Directors' report
31 December 2018

Altium is committed to delivering consistent financial performance based on our “*line and length*” strategy of double-digit revenue growth and expanding EBITDA margins. “Line and length” is the cornerstone of our engineering and go-to-market operations and the bedrock on which we are building other critical capabilities.

Outlook

Altium is dedicated to become the PCB design software market leader (in both dollars and seats) and to achieve US\$200 million in revenue by 2020. We have committed ourselves to achieve market dominance by 2025 and to enroll 100,000 subscribers by then. Specific drivers of growth include:

- The proliferation of electronics through the rise of smart connected devices will continue to drive growth for our business in the foreseeable future.
- Increase market share by winning business from customers using a competitors' product and by taking the majority of seats in customers who are entrants to electronic design.
- Continue to pursue partnership and M&A opportunities to support our long-term vision of creating a product design and realisation platform.

Key Risks

Altium recognises and deals with a variety of business risks. Altium has a framework in place which enables it to actively assess and manage risk on an ongoing basis. Neither the risks listed below nor the mitigating actions for them are a comprehensive list.

Strategic risk: Altium has articulated a clear strategy with deliverables well into the future. Our ability to execute on the strategy and deliver on our commitments are critical to future success. Altium devotes significant time and resources to the development, monitoring and review of its strategic direction. The process includes several activities including, dedicated strategy sessions at the board level, ongoing executive review of programs critical to strategy, dashboards to monitor and highlight progress and setbacks, and development of an in-house Business Development team to evaluate strategy and strategic alternatives

Financial, Compliance and Regulatory risk: Altium operates in several countries around the world and is subject to multiple regulatory and compliance regimes. Altium's continued ability to manage relations with key regulatory agencies in Australia, Europe and United States is essential to smooth operations. Altium works with several external experts world-wide to ensure compliance with specific accounting and regulatory reporting requirements, personal data privacy issues such as GDPR, tax and reporting compliance in Australia and around the world as well as export control requirements worldwide. This network of professionals as well as personnel on the ground in countries we operate helps to ensure ongoing compliance. This compliance framework is monitored and reviewed on a regular basis by the Audit Committee of the Board.

Security of sensitive information: There is an inherent risk related to the potential of cyber-attack on propriety information and customer data. Altium's business could be significantly impacted by security breaches of customer data through theft, destruction or misappropriation or release of confidential customer data and the potential of confidential propriety information being stolen. Altium has developed methodology for segregation of data, backup and critical access monitoring.

Ability to attract and retain key personnel: The success of Altium is dependent on the retention of key personnel and members of the senior management, product research and development teams. There is a risk Altium may not be able to attract and retain key personnel due to competitor recruitment pressures which could in turn affect the near term success of executing key strategic and operational goals. Altium's high performance culture and drive for results has been coupled with a program management methodology that mitigates reliance on single points of failure and enhances Altium's desirability as an employer of choice

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

No matter or circumstance has arisen since 31 December 2018 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
Directors' report
31 December 2018

Rounding of amounts

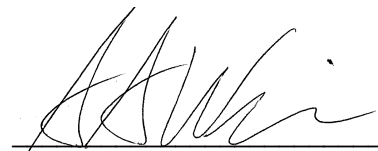
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain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

Auditor's independence declaration

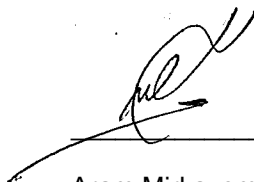
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

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

18 February 2019
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Altium Limited for the half-year ended 31 December 2018, 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 'Eliza Penny', with a stylized, flowing script.

Eliza Penny
Partner
PricewaterhouseCoopers

Sydney
18 February 2019

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Liability limited by a scheme approved under Professional Standards Legislation.

Altium Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 US\$'000	31 Dec 2017 US\$'000
Revenue	4	78,118	63,236
Interest Income		363	73
Expenses			
Employee benefits expense		(31,543)	(29,582)
Depreciation and amortisation expense	5	(2,880)	(2,541)
Share based payments		(2,779)	(682)
Travel expense		(2,598)	(2,270)
Marketing expense		(2,414)	(2,149)
Software and equipment expense		(2,386)	(1,828)
Rental and occupancy expense		(2,350)	(2,104)
Communication expense		(1,560)	(1,044)
Professional advice expense	5	(1,515)	(1,319)
Cost of services		(369)	(402)
Re-measurement of contingent consideration		(295)	(1,572)
Finance costs		(84)	(41)
Net foreign exchange gain		(20)	(113)
Other expenses		(1,929)	(1,186)
Profit before income tax expense		25,759	16,476
Income tax expense		(2,318)	(1,603)
Profit after income tax expense for the half-year attributable to the owners of Altium Limited		23,441	14,873
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(133)	(311)
Other comprehensive income for the half-year, net of tax		(133)	(311)
Total comprehensive income for the half-year attributable to the owners of Altium Limited		23,308	14,562
		Cents	Cents
Basic earnings per share		18.00	11.48
Diluted earnings per share		17.97	11.46

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 2018

	Note	Consolidated 31 Dec 2018 US\$'000	30 Jun 2018 US\$'000
Assets			
Current assets			
Cash and cash equivalents		58,025	52,459
Trade and other receivables		36,986	38,799
Tax receivables		1,374	984
Other assets		3,397	3,187
Total current assets		<u>99,782</u>	<u>95,429</u>
Non-current assets			
Trade and other receivables		1,370	1,952
Property, plant and equipment		6,653	5,712
Intangible assets	6	47,655	49,068
Deferred tax assets		81,489	82,120
Total non-current assets		<u>137,167</u>	<u>138,852</u>
Total assets		<u>236,949</u>	<u>234,281</u>
Liabilities			
Current liabilities			
Trade and other payables		7,834	12,147
Tax liabilities		2,296	772
Provisions	7	1,957	6,784
Deferred revenue		42,172	43,989
Total current liabilities		<u>54,259</u>	<u>63,692</u>
Non-current liabilities			
Deferred tax liability		5,266	5,566
Provisions	8	4,038	3,974
Deferred revenue		5,318	6,035
Other liabilities		1,968	2,098
Total non-current liabilities		<u>16,590</u>	<u>17,673</u>
Total liabilities		<u>70,849</u>	<u>81,365</u>
Net assets		<u>166,100</u>	<u>152,916</u>
Equity			
Contributed equity	9	126,058	125,635
Reserves		15,271	12,625
Retained profits		24,771	14,656
Total equity		<u>166,100</u>	<u>152,916</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 2018

Consolidated	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses 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 10)	-	-	(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>

Consolidated	Note	Contributed equity US\$'000	Reserves US\$'000	Retained profit US\$'000	Total equity US\$'000
Balance at 1 July 2018		125,635	12,625	14,366	152,626
Adjustment for change in accounting policy	2	-	-	290	290
Balance at 1 July 2018 - restated		125,635	12,625	14,656	152,916
Profit after income tax expense for the half-year		-	-	23,441	23,441
Other comprehensive income for the half-year, net of tax		-	(133)	-	(133)
Total comprehensive income for the half-year		-	(133)	23,441	23,308
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments		-	2,779	-	2,779
Shares issued on acquisition of Upverter Inc, net of transaction costs		424	-	-	424
Dividends paid (note 10)		-	-	(13,327)	(13,327)
Balance at 31 December 2018		<u>126,059</u>	<u>15,271</u>	<u>24,770</u>	<u>166,100</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 2018

		Consolidated	
	Note	31 Dec 2018	31 Dec 2017
		US\$'000	US\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		81,601	64,501
Payments to suppliers and employees (inclusive of GST)		(54,234)	(48,965)
Payment for expenses relating to acquisitions		-	(347)
		<u>27,367</u>	<u>15,189</u>
Interest received		363	73
Interest and other finance costs paid		(84)	(41)
Net income taxes paid		(831)	(348)
		<u>27,367</u>	<u>15,189</u>
Net cash from operating activities	12	<u>26,815</u>	<u>14,873</u>
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired		-	(2,799)
Payments for contingent and deferred considerations		(5,471)	(6,249)
Payments for property, plant and equipment		(2,481)	(1,592)
Payments for intangible assets		(13)	(231)
		<u>(7,965)</u>	<u>(10,871)</u>
Net cash used in investing activities		<u>(7,965)</u>	<u>(10,871)</u>
Cash flows from financing activities			
Dividends paid	10	(13,327)	(12,534)
Repayment of borrowings		(3)	(6)
		<u>(13,330)</u>	<u>(12,540)</u>
Net cash used in financing activities		<u>(13,330)</u>	<u>(12,540)</u>
Net increase/(decrease) in cash and cash equivalents		5,520	(8,538)
Cash and cash equivalents at the beginning of the financial half-year		52,459	44,273
Effects of exchange rate changes on cash and cash equivalents		46	290
		<u>58,025</u>	<u>36,025</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>58,025</u></u>	<u><u>36,025</u></u>

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

Altium Limited
Notes to the consolidated financial statements
31 December 2018

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 18 February 2019. 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 2018 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 2018 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.

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 – either over time or at a point in time – depending on when performance obligations are satisfied.

The Group has applied the new standard on 1 July 2018. The application of the standard did not result in any change to the recognition and measurement of revenue compared to the previous accounting policy for revenue.

Altium has one performance obligation for each of the revenue streams listed below and has applied the following revenue recognition methods.

Note 2. Significant accounting policies (continued)

1. *Software licences*: Revenue is recognised at a point in time on activation of the licence by the user. This is not changed from the prior policy.
2. *Subscription and maintenance*: Revenue is recognised over the period of the subscription. As the billing structure for customers is often bundled with licences and billed on activation, there is an allocation methodology applied to calculate the portion of revenue to be deferred.
3. *Search advertising*: Revenue is recognised on a price-per-click basis, this is when a user engages with the search result on the website by clicking on it.
4. *Services revenue - Training*: Revenue is recognised at the time the service is provided.
5. *Service revenue - Project services*: For fixed price contracts, the stage of completion is measured by reference to services performed to date as a percentage of total services to be performed. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus time spent on each contract.

For incremental costs incurred in obtaining a contract, such as sales commissions, Altium has chosen to apply the practical expedient available under the standard which permits immediate expensing when the underlying asset is amortised in one year or less. Given subscription periods are typically for 12- month periods, Altium has chosen this approach as an accounting policy election.

Where revenue is deferred for more than 12 months and an upfront commission has been paid. The commission is capitalised and amortised over the period of revenue recognition. Altium had US\$6.0 million in long-term deferred revenue as at June 2018 which resulted in an adjustment on 1 July 2018 of US\$0.3 million to capitalise commissions.

AASB 9 Financial Instruments

This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model based on expected credit losses for the impairment of financial assets. The Group has applied the new standard on 1 July 2018 using a simplified approach for measuring expected credit losses relating to trade receivables using a lifetime expected loss allowance. To measure the expected credit losses, trade receivables are grouped based on region and ageing. Customers with heightened credit risk are provided for specifically based on historical default rates and forward looking information. Where there is no reasonable expectation of recovery, balances are written-off. The application of the standard did not result in any significant impact on the measurement of the allowance for doubtful debtors.

The following new accounting standard and interpretation have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the group. The group's assessment of the impact of the new standard and interpretation is set out below. The date of adoption by the group will be 1 July 2019.

AASB 16 Leases

This 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.

Upon application of AASB 16, profit and loss metrics such as earnings before interest, tax, depreciation and amortisation (EBITDA) will be impacted. The consolidated cash flow statement will also be impacted as payments for the principal portion of the lease liability will be presented within finance activities. Altium is in the process of computing the estimated lease liability and right of use assets to be recognised on transition, including modelling the impact of the two transition methods, and is reviewing its systems requirements. This process will be finalised in 2019, ready for implementation in 2020. Whilst considerable progress has been made to assess the impact of adoption, Altium cannot reasonably estimate and quantify the impact of this standard.

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 at this time.

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

- Board and Systems;
- Microcontrollers and Embedded Systems; and
- Parts Analytics and Search.

The Board and Systems segment includes results from PCB business for the Americas, EMEA, Asia Pacific and Emerging Markets, Altium Nexus 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 Microcontrollers and Embedded Systems segment includes results from TASKING sales, operations and research and development.

The Parts Analytics and Search segment includes the results from Octopart.

The Board and Executive Team continue to consider the financial position of the business from a geographical perspective and as such the assets and liabilities of the group are presented by geographical region for the half year ended 31 December 2018 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.

Types of products and services

Revenue from segments comprise:

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

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

The operating segment information for prior year was restated to follow the current year segments as above for comparative purpose. This includes moving our Research and Development, Sales Operation as well as Marketing expenses from Corporate to Boards and Systems. Makers and Content was renamed to Parts Analytics and Search.

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 consolidated financial statements
31 December 2018

Note 3. Operating segments (continued)

Operating segment information

Consolidated statement of Financial performance 31 December 2018	Boards and Systems US\$'000	Microcontrollers and Embedded Systems US\$'000	Parts Analytics and Search US\$'000	Corporate US\$'000	Total US\$'000
Revenue					
Segment sales	58,687	8,293	8,603	-	75,583
Net adjustment for deferred revenue recognition	2,115	150	270	-	2,535
Interest income	-	-	-	363	363
Total revenue	60,802	8,443	8,873	363	78,481
EBITDA	30,145	5,662	6,004	(13,451)	28,360
Depreciation and amortisation	-	-	-	(2,880)	(2,880)
Net interest	-	-	-	279	279
Profit/(loss) before income tax expense	30,145	5,662	6,004	(16,052)	25,759
Income tax expense					(2,318)
Profit after income tax expense					23,441

Consolidated statement of Financial performance 31 December 2017	Boards and Systems US\$'000	Microcontrollers and Embedded Systems US\$'000	Parts Analytics and Search US\$'000	Corporate 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	52,029	6,259	4,948	73	63,309
EBITDA	24,027	3,874	2,397	(11,313)	18,985
Depreciation and amortisation	-	-	-	(2,541)	(2,541)
Net interest	-	-	-	32	32
Profit/(loss) before income tax expense	24,027	3,874	2,397	(13,822)	16,476
Income tax expense					(1,603)
Profit after income tax expense					14,873

Altium Limited
Notes to the consolidated financial statements
31 December 2018

Note 3. Operating segments (continued)

31 December 2018						
Consolidated statement of	Americas	EMEA	China	Asia Pacific	Corporate	Total
Financial position	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	35,166	27,270	10,615	5,067	363	78,481
Assets						
Segment assets	34,369	23,066	9,316	4,649	82,686	154,086
<i>Unallocated assets:</i>						
Deferred tax asset						81,489
Income tax receivables						1,374
Total assets						236,949
Liabilities						
Segment liabilities	25,970	23,466	3,748	4,597	5,495	63,276
<i>Unallocated liabilities:</i>						
Provision for income tax						2,297
Deferred tax liability						5,266
Borrowings						10
Total liabilities						70,849
30 June 2018						
Consolidated statement of	Americas	EMEA	China	Asia Pacific	Corporate	Total
Financial position	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	29,049	22,611	7,041	4,535	73	63,309
Assets						
Segment assets	37,664	25,762	6,914	6,499	74,338	151,177
<i>Unallocated assets:</i>						
Deferred tax asset						82,120
Income tax receivables						984
Total assets						234,281
Liabilities						
Segment liabilities	28,974	25,624	3,327	4,927	12,162	75,014
<i>Unallocated liabilities:</i>						
Provision for income tax						772
Deferred tax liability						5,566
Borrowings						13
Total liabilities						81,365

Altium Limited
Notes to the consolidated financial statements
31 December 2018

Note 4. Revenue

	Consolidated	
	31 Dec 2018	31 Dec 2017
	US\$'000	US\$'000
Software license revenue	35,290	25,930
Subscription and maintenance revenue	31,184	29,247
Search advertising	8,873	4,938
Service revenue	1,801	2,592
Other revenue	970	529
	<u>78,118</u>	<u>63,236</u>
Revenue	<u><u>78,118</u></u>	<u><u>63,236</u></u>

Note 5. Expenses

	Consolidated	
	31 Dec 2018	31 Dec 2017
	US\$'000	US\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Property, plant and equipment	<u>1,449</u>	<u>1,233</u>
<i>Amortisation</i>		
Customer relationships	668	668
Software	378	403
Intellectual property	<u>385</u>	<u>237</u>
Total amortisation	<u>1,431</u>	<u>1,308</u>
Total depreciation and amortisation	<u>2,880</u>	<u>2,541</u>
<i>Included in professional advice expense</i>		
Costs associated with the acquisition of Upverter Inc	-	347
Costs associated with the acquisition of PCB NG	<u>11</u>	<u>-</u>
	<u>11</u>	<u>347</u>

Altium Limited
Notes to the consolidated financial statements
31 December 2018

Note 6. Non-current assets - intangible assets

	Consolidated	
	31 Dec 2018	30 Jun 2018
	US\$'000	US\$'000
Goodwill - at cost	27,151	27,151
Intellectual property - at cost	7,361	7,354
Less: Accumulated amortisation	(1,723)	(1,336)
	<u>5,638</u>	<u>6,018</u>
Customer contracts - at cost	16,333	16,333
Less: Accumulated amortisation	(3,777)	(3,110)
	<u>12,556</u>	<u>13,223</u>
Software intangibles - at cost	3,450	3,710
Less: Accumulated amortisation	(1,140)	(1,034)
	<u>2,310</u>	<u>2,676</u>
	<u><u>47,655</u></u>	<u><u>49,068</u></u>

The Goodwill and intangible as asset balances are the result of business combinations.

Note 7. Current liabilities - provisions

	Consolidated	
	31 Dec 2018	30 Jun 2018
	US\$'000	US\$'000
Employee benefits	1,858	1,711
Contingent consideration	99	5,073
	<u>1,957</u>	<u>6,784</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. Final consideration payments relating to acquisition of Octopart, Premier EDA and Transfer BV were made in the half year ended 31 December 2018.

Note 8. Non-current liabilities - provisions

	Consolidated	
	31 Dec 2018	30 Jun 2018
	US\$'000	US\$'000
Employee benefits	16	12
Contingent consideration	3,849	3,789
Lease make good	173	173
	<u>4,038</u>	<u>3,974</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.

Altium Limited
Notes to the consolidated financial statements
31 December 2018

Note 9. Equity - Contributed equity

	Consolidated			
	31 Dec 2018	30 Jun 2018	31 Dec 2018	30 Jun 2018
	Shares	Shares	US\$'000	US\$'000
Ordinary shares - fully paid	<u>130,511,522</u>	<u>130,215,813</u>	<u>126,058</u>	<u>125,635</u>

Note 10. Equity – dividends

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

	Consolidated	
	31 Dec 2018	31 Dec 2017
	US\$'000	US\$'000
Final dividend for the year ended 30 June 2018 of AU 14 cents (30 June 2017 AU 12 cents)	<u>13,327</u>	<u>12,534</u>

The directors have declared an interim dividend of AU 16 cents per share (2017: AU 13 cents) for the half-year ended 31 December 2018. The dividend will be paid on 27 March 2019 based on a record date of 4 March 2019. This amounts to a total dividend of US\$14.8m based on the total number of shares outstanding.

Note 11. Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 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.

Note 12. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Profit after income tax expense for the half-year	23,441	14,873
Adjustments for:		
Depreciation and amortisation	2,880	2,541
Share-based payments	2,779	(204)
Unrealised foreign exchange differences	20	111
Change in operating assets and liabilities:		
Decrease in trade and other receivables	3,365	3,898
Decrease in deferred tax assets	330	514
Increase in prepayments	(321)	(523)
Decrease in trade and other payables	(4,102)	(3,832)
Increase in provision for income tax	1,131	741
Increase in other provisions	235	1,230
Decrease in deferred revenue	(2,943)	(4,476)
Net cash from operating activities	<u>26,815</u>	<u>14,873</u>

Altium Limited
Directors' declaration
31 December 2018

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 2018 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

18 February 2019
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 2018, 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 other explanatory notes and the directors' declaration for Altium Limited. The Group comprises the Company and the entities it controlled during that 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 Group's financial position as at 31 December 2018 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 Group's financial position as at 31 December 2018 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
18 February 2019