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Review of operations and activities

Group overview

Business overview

Altium Limited is a global developer and supplier of design tools of electronics design software for the Microsoft Windows environment. Altium is focused exclusively on providing high-quality, cost effective design solutions for mainstream engineers, designers and developers involved in the building of electronics products.

Altium's business model is built upon selling to a large number of customers (as opposed to a smaller number of large customers) and because Altium can spread its development costs over a large number of customers, it is able to provide these design tools at aggressive prices. Altium's business model also ensures it does not restrict technology to only the most expensive product lines or to an elite group of customers, but rather, Altium makes its technology available to and useable by all professional electronic engineers. Only Altium holds the unique market position of exclusively focusing on affordable and accessible technology for the mass market of professional electronics engineers.

Altium was founded in 1985 (in Hobart, Tasmania) and today has a staff of over 250 employees. The company is headquartered in Sydney and operates a number of direct sales and support offices in Australia, the United States, Japan and Europe, a support office in China, as well as maintaining a large reseller network in all other major markets.

Products

Altium's products offer a range of solutions covering hardware and software design processes that help engineers and their companies deliver smarter and more cost effective electronics products to market faster. Altium's software products are used by engineers for the design of electronic devices found in many of today's newest electronic and consumer products across a broad range of industries including telecommunications, automotive, aerospace, defence, medicine, science and consumer electronics.

Altium's products are packaged as a complete 'out-of-the-box' electronic product solution and include Altium Designer (of which Nexar, Protel, CAMtastic and CircuitStudio are licensing options), P-CAD and TASKING brands. Built on Altium's unique Design Explorer (DXP) technology integration platform, Altium Designer incorporates all the technologies and capabilities necessary for complete electronic product development within a single design environment. Altium Designer is sold through a range of flexible licensing options, enabling the customer to purchase groups of functionality that tailor to their specific needs. P-CAD is sold as a professional tool for board layout specialists and a wide range of TASKING toolsets are sold to those engineers specialising in embedded software development. Altium also sells the NanoBoard, the electronic industry's first vendor-independent FPGA-based development board, which complements Altium Designer, in providing a complete electronic product development and test system.

Review of operations and activities

Industry

As an international company, Altium Limited is part of the global Electronics Design Automation (EDA) industry, which services the global electronics industry. The focus of the EDA industry is to provide advanced computer software-based design applications, intellectual property and tools that are used to automate the design, analysis and implementation of electronics hardware and embedded systems software. The hardware design portion of the industry is generally divided into two sections: integrated circuit (IC) or chip design and board-level or PCB design.

The EDA industry is primarily driven by demand from the worldwide electronics industry where there is the constant pressure for companies to deliver products that are faster, more sophisticated and cheaper to manufacture. This pressure drives chip makers to develop smaller, smarter, faster electronic devices to meet these demands. This in turn places pressure on board-level designers, who must deal with the increased complexity that these devices bring to PCB implementation. This then provides the EDA industry with the opportunity to develop tools that deal with this complexity and automate the design process, allowing engineers to tap into the potential of new devices whilst maintaining or shortening product design cycles.

EDA and software development tools emerge as the key enabling technologies in the wider electronics industry. Managing the complexity of the design process without the automation that EDA tools bring would not be possible in a realistic time frame. EDA vendors address the challenges associated with design automation in many ways, such as developing new design tools and design methodologies, upgrading existing design tools, enabling productivity improvements, making the design process easier, increasing automation and integrating separate design processes into a single design flow.

Technology development

With significant technology developments reaching commercialisation over the past year, Altium focused on consolidating its technology and development of its position. The release of the company's technology in recent years has redefined the process of electronic product development moving more electronics functionality from 'hard' design into 'soft' design, enabling easy manipulation and change of the design throughout the design process. Given such a significant change in design methodology Altium has focused attention on moving electronics engineers to this new design paradigm.

Markets

Altium's major markets for its products are the United States (38%), Europe (40%) and Asia (16%). With less than 5% of Altium's revenue generated in Australia and a large proportion of costs in Australian dollars, Altium is exposed to the risk of fluctuations in international currency markets.

Competitors

Altium's competition comes from other companies that provide software tools for electronics design.

Companies offering competitive products vary in scope and breadth:

- Altium competes against specific business units of Mentor Graphics Corp. (NASDAQ: MENT) and Cadence Design Systems, Inc. (NYSE and NASDAQ: CDN). These two large North American-based companies have worldwide distribution networks that are primarily focused on high-end chip and board design solutions for large corporations. However, they also offer integrated EDA tool solutions – some of which are in the same market segments as Altium's tools.
- In the US, Germany and Japan, Altium competes with a number of local EDA companies that primarily market their products domestically.
- Globally Altium also competes with a number of companies that are developing design automation applications for specific aspects of the electronics design process. These so called 'point tool' vendors specialise in narrow focused, single use tools, as opposed to providing complete and integrated EDA tool solutions.

Marketing and sales

Altium's customer base consists of electronics designers, engineers and embedded software developers worldwide. They range from working as small independent design bureaus to being part of large multinational corporations.

Altium's strategic marketing focuses on building brand awareness and communicating the benefits that uniquely distinguish its offerings from those of other EDA vendors. A key objective of this strategy is to also generate leads for the direct sales and support centres.

Altium utilises a wide variety of communication channels for messaging including public relations, direct marketing, telemarketing, websites, online multi-media demonstrations, live web demonstrations, technical presentations and product demonstrations at tradeshow and industry events, as well as advertising (print and online) in key electronic industry publications worldwide.

Altium employs a direct approach to selling its products. Altium sells and licenses its products through a worldwide direct sales force in all its major markets worldwide and uses a network of key resellers to cover sales in the rest of the world. These sales and support centres provide both pre and post sales product support.

Altium also provides prospective customers with a free evaluation software license which forms a key part of the sales process. Unlike typical trial software that limits functionality or features, Altium's software evaluation is a fully-functional 30-day product license, allowing easy exploration of the features and electronics design capabilities of Altium's design solutions.

Review of operations and activities

Product license model

Altium's primary product licensing arrangement is based on a perpetual model. A perpetual license is when the customer pays the initial fee for the software license and they then have the right to use that software in perpetuity. In addition, Altium offers its perpetual license customers access to free service packs for the life of that product version.

Unlike most EDA vendors, Altium provides its customers with flexibility in the way they choose to maintain their software investments. Users can upgrade their software on a per-release basis as it suits individual needs, or stay current with an annual pre-paid upgrade subscription. This automatically entitles them to any new versions of the software released during the one-year timeframe.

All Altium product licenses are available as standalone or floating network versions, giving customers complete flexibility within working arrangements and the option to choose a licensing scheme that best fits their business needs.

Research and development

In this age of intense global competition, innovation is vital for Altium and its customers alike. Altium's research and development teams continuously strive to push the limits of technology and work to create products that support engineers in their efforts to keep pace with new developments and technologies for electronics design.

Altium's technology development teams span a wide spectrum of activities in the areas of software and platform development, testing, documentation, product knowledge and hardware and software design techniques. Their focus is to create design solutions for engineers that enhance productivity and are easy to use.

Altium's research and development group operates internationally with its two main centres in Australia and the Netherlands, as well as a number of specialised teams working in Australia and the United States.

Review of financial performance

Sales revenue

The company reported revenues from operating activities for the 2005 financial year of \$40 million; slightly lower than the \$40.5 million for the previous year, however underlying product sales (excluding the effects of exchange rates) continued to improve. The table below demonstrates an increase in each of the major markets other than a minor drop in the United States. Strong growth in the South East Asian region was achieved as a direct result of the momentum gained by the company's representative office in Shanghai, China.

Sales in local currencies:

Region	2005 \$'000	2004 \$'000	Percentage change
Product sales			
USA (US dollars)	11,514	11,757	(2.1%)
Europe (Euro)	8,554	7,807	9.6%
Japan (Japanese yen)	236,999	220,609	7.4%
South East Asia (US dollars)	2,636	1,711	54.1%
Australia (Australian dollars)	1,518	1,401	8.4%
Consulting services			
Consulting (Euro)	1,582	2,166	(27.0%)

US sales in the June quarter were adversely affected by a restructure of the company's US sales operations. These changes are expected to facilitate an improvement in performance in both the short and medium term.

When looking at underlying sales on a product by product basis, growth was strong for the Altium Designer product range, which includes the Protel, Nexar, CircuitStudio and Unified licensing options. Within the Tasking and P-CAD product ranges, underlying sales were in line with the previous year.

Impact of exchange rate fluctuations

The Australian dollar has experienced a strong increase in value over the past twelve months when compared to major currencies across the globe. This appreciation significantly impacted the sales revenue generated. Although sales revenue booked in local currencies was increased by 4% over the previous financial year, reported revenue in Australian dollars actually fell by 1%.

US dollar exchange rates during the financial year:

	USD
30 September 2004	0.7166
31 December 2004	0.7797
31 March 2005	0.7704
30 June 2005	0.7616

Management of costs

The company acted to preserve operating cash flows and performance and continued to decrease costs in the 2005 financial year. Cash running costs (operating costs and research and development costs) were reduced by 2% to \$37.7 million in addition to the 9% reduction in the previous year.

The company maintained its overall spending on research and development as it believes continued investment is vital to preserve the company's competitive edge. However, the amount of research and development costs capitalised in relation to the integration of acquired technology decreased resulting in an additional \$1.8 million expense in the financial year.

The company has now completed the integration of all acquired technology and does not intend to undertake any additional integration work in the immediate future, consequently all research and development costs will be expensed as incurred.

Amortisation of intangible assets

The Directors believe that as a result of significant investment and development activity over recent years, leading to the release of the Nexar and other 2004 product versions and more recently with the launch of Altium Designer, the company is in a strong position to harness the opportunities that the evolving electronics design industry presents.

In addition, the Directors believe that the value of the company's intangible assets is higher than their current carrying value and that this value will be demonstrated, over the next few years, by improved financial performance.

Given the one off, non-cash write down of the intangible assets of the company in the prior year, there is no longer a charge relating to amortisation of goodwill in the year ended 30 June 2005. This has resulted in a decrease in amortisation of \$5.2 million. Due to the completion and subsequent commercialisation of all remaining integration projects, an amortisation expense of \$0.6 million was incurred for technology not previously amortised.

The overall change in amortisation and depreciation for the year was a decrease by \$4.6 million or 45%.

For further information relating to the write down of non-current assets please refer to note 11.

Review of operations and activities

Review of financial position

Capital structure

There have been no changes to the capital structure during the year ended 30 June 2005. For further detail on the company's capital structure, refer to note 18 to the financial statements.

Cash flows from operations

The cash position of the consolidated entity at 30 June 2005 was broadly in line with the previous year despite the appreciation of the Australian dollar against the Euro and US dollar.

Cash outflows from investing activities decreased for the year by \$1.9 million primarily due to a decrease in capitalised research and development activities. As a result, there was a corresponding increase in payments to trade creditors, other suppliers and employees.

During the year there were no dividends paid or shares bought back as part of the share buy-back scheme, consequently there was a significant decrease in cash outflows from financing activities compared to the previous corresponding period.

Investment for future performance

New product initiatives

During the period Altium announced a key change to its brand positioning with the launch of 'Altium Designer'. Altium has introduced Altium Designer to better reflect the unified nature of its overall DXP-based design system, which provides a single, integrated application that encompasses all of the capabilities necessary for electronic product development.

Prior to May 2005, the company's DXP products were sold as discrete brands. Customers are still able to purchase groups of features and functionalities as a 'license to use'. (These are licensed under the previous standard product brand feature sets). Additional customer feature licensing sets can easily be added as required.

The directors believe that the availability of relatively low cost, high-capacity, high-performance programmable devices will allow fixed design elements to move into a 'soft' domain. To take advantage of the benefits that this shift offers the company believe a unified approach to product development is required and this is represented by Altium Designer.

Continued investments in research and development

During the year Altium continued its investment in research and development activities. While the company's commitment to research and development was broadly in line with the previous year, profitability was negatively impacted by a decrease in expenses capitalised in line with Altium's accounting policy.

	2005 \$'000	2004 \$'000
Research and development costs expensed	11.1	9.4
Research and development costs capitalised	0.5	2.4
Total investment in research and development	11.6	11.8

While Altium has completed its integration program reducing amounts capitalised in relation to the integration of acquired technology into future products, it intends to continue its focus on research and development of new technology in order to create future growth for the company.

Regulatory environment

For details regarding impending regulatory changes in accounting standards refer to note 32 in the notes to the financial statements section of this report.

Legal

At the date of this report there are no significant legal issues affecting the company.

Health and safety

Altium is committed to providing its employees with a healthy and safe working environment and has in place a comprehensive occupational health and safety program.

Corporate governance

Corporate governance information is included on page 21 of the Annual Financial Report.

Statement of compliance

The above report includes disclosures as recommended in The Group of 100 Incorporated publication: Guide to Review of Operations and Financial Condition.

Directors' report

The Directors of Altium Limited present their report on the consolidated entity consisting of Altium Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005.

Directors

The following persons were directors of Altium Limited during the whole of the financial year and up to the date of this report:

Carl J Rooke
Nicholas M Martin
Kayvan Oboudiyat
William A Bartee
David M Warren

Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director on 28 February 2005. Bruce W Edwards resigned as Non-executive Director on 15 July 2005.

Dr Steven G Duvall was a Non-executive Director throughout the financial year and resigned as Non-executive Director on 15 July 2005.

Darren Charles was an Executive Director throughout the financial year and resigned as Executive Director on 15 July 2005. Darren Charles continues in his capacity as Chief Financial Officer and Chief Operating Officer at the date of this report.

Principal activities and review of operations

The consolidated entity's principal activities during the year continued to be that of the design, development and sale of computer software for the design of electronic products.

Refer to the Review of operations and activities on page 3 – 9 for further commentary.

<u>Results</u>	<u>CONSOLIDATED</u>	
	2005	2004
	\$'000	\$'000
Loss from ordinary activities before income tax	(3,455)	(88,515)
Income tax benefit	2,364	495
Loss from ordinary activities after income tax	(1,091)	(88,020)

<u>Earnings per share</u>	<u>CONSOLIDATED</u>	
	2005	2004
	cents	cents
Basic earnings per share	(1.2)	(99.9)
Diluted earnings per share	(1.2)	(99.9)

Dividends

Dividends paid to members during the financial year were as follows:

	PARENT	
	2005 \$'000	2004 \$'000
An ordinary dividend for the year ended 30 June 2003 of 2 cents per share unfranked paid on 30 September 2003	-	1,761
	-	1,761

The directors did not declare a dividend for the financial year ended 30 June 2005.

Information on directors

Director	Experience	Special responsibilities	Interests in Altium Limited shares and options	
			Ordinary shares	Options
Carl J Rooke* FCA FAICD, Non-executive Director	Non-executive Director for 15 years. Chairman for 6 years. Managing Partner of Horwath Tas Pty. Former Chairman of Horwath Australia.	Non-executive Chairman. Chairman of the remuneration and nomination committees. Member of the audit and risk management committee.	465,365	320,000
Nicholas M Martin* Chief Executive Officer	Chief Executive Officer and Founder. Executive Director for 18 years.	Chief Executive Officer. Member of the nomination committee.	22,444,000	-
Kayvan Oboudiyat* BE (Hons) GDA MAICD Executive Vice Chairman	Executive Vice Chairman from 8 April 2005, Joint Chief Executive Officer for 6 years prior and Managing Director for the 2 years prior. Former Senior Executive in the International Business Unit of Telstra.	Executive Vice Chairman. Company Secretary.	1,187,500	2,400,000
William A Bartee* BS MBA JD, Non-executive Director	Non-executive Director for 6 years. Former Investment Director of Macquarie Technology Funds Pty Limited.	Chairman of the audit and risk management committee. Member of the remuneration and nomination committees.	-	160,000
David M Warren* BSc (Hons) MAIP MAICD, Non-executive Director	Executive Director for 13 years, resigned as Executive Director and was appointed Non-executive Director 2 August 2004.	Member of audit and risk management, nomination and remuneration committees.	5,523,000	-

Directors' report

Information on directors (continued)

Director	Experience	Special responsibilities	Interests in Altium Limited shares and options	
			Ordinary shares	Options
Dr Steven G Duvall* Ph.D. MS BS, Intel Fellow, Non-executive Director	Non-executive Director for 2.5 years. Director Strategic Investment for Intel Australia in Asia Pacific Region.	Member of the audit and risk management committee until his resignation on 15 July 2005. Member of remuneration committee from 7 April 2005 until his resignation on 15 July 2005.	-	80,000
Dr Steven G Duvall resigned as Non-executive Director on 15 July 2005.				
Darren Charles* Executive Director, Chief Financial Officer and Chief Operating Officer	Executive Director and Chief Financial Officer for 4 years, Chief Operating Officer for 1.5 years.	Chief Financial Officer and Chief Operating Officer.	167,050	811,090
Darren Charles resigned as Executive Director on 15 July 2005. Darren Charles continues in his capacity as Chief Financial Officer and Chief Operating Officer at the date of this report.				
Bruce W Edwards* Non-executive Director	Executive Director for 3.5 years, Non-executive Director for 0.5 years, President of Altium Inc.	None	100,000	150,000
Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director on 28 February 2005. Bruce W Edwards resigned as Non-executive Director on 15 July 2005.				

*All directors hold no other current directorships and have no former directorships in the last 3 years.

Directors' meetings

The number of meetings of the company's board of directors held during the year ended 30 June 2005 and up to the date of this report attended by each director were:

	Full meetings of directors	Audit and risk management	Meetings of committees	
			Nomination	Remuneration
Number of meetings held	6	3	2	2
Number of meetings attended by:				
Carl J Rooke	6	3	2	2
Nicholas M Martin	6	-*	1	-*
Kayvan Oboudiyat	5	-*	1*^	1**
William A Bartee	6	3	1	2
Dr Steven G Duvall	6	3***	-*	1***
Darren Charles	6	-*	-*	-*
Bruce W Edwards	5	-*	-*	-*
David M Warren	6	-*	6	6

* Not a member of the relevant committee.

** Kayvan Oboudiyat resigned as member of remuneration committee on 7 April 2005 and was replaced by Dr Steven G Duvall.

*** Dr Steven G Duvall replaced Kayvan Oboudiyat as member of remuneration committee on 7 April 2005. On 15 July 2005 Dr Steven G Duvall resigned as member of audit and risk management, nomination and remuneration committees and was replaced by David M Warren.

**** David M Warren replaced Dr Steven G Duvall as member of audit and risk management, nomination and remuneration committees on 15 July 2005.

^ Kayvan Oboudiyat attended a nomination committee meeting by invitation.

Remuneration report

Directors' and senior executives'

The remuneration committee is responsible for advising the board on remuneration policies and packages for board members and senior executives. Members of the remuneration committee are Carl J Rooke, William A Bartee and David M Warren.

Remuneration of directors and senior executives is determined so as to ensure that the package properly reflects the relevant person's duties and responsibilities and that the package is competitive to attract and retain services of high quality management. Remuneration packages include a base salary, superannuation and other benefits. Directors and executives are also eligible to participate in the company's option plans. Options offered to directors and senior executives are not dependant on performance criteria. Please refer to note 23 for director and executive disclosures.

Remuneration and other terms of employment for each board member are formalised in service agreements.

Remuneration of non-executive directors is determined by the board within the maximum amount of cash salary (\$350,000 p.a.) approved by the shareholders from time to time and is formalised in service agreements.

Details of the nature and amount of each element of the remuneration of each director of Altium Limited and of each of the five officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables:

Non-executive directors of Altium Limited

	PRIMARY Directors' base fee	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
Carl J Rooke	110,000	-	-	-	-	-	27,463	137,463
William A Bartee	55,046	-	-	-	-	4,954	6,130	66,130
David M Warren**	36,344	-	-	-	-	3,271	-	39,615
Dr Steven G Duvall*	55,046	-	-	-	-	4,954	-	60,000
Bruce W Edwards***	12,766	-	-	-	-	1,355	2,648	16,769

* Dr Steven G Duvall resigned as Non-executive Director on 15 July 2005.

** David M Warren resigned as Executive Director and was appointed Non-executive Director on 2 August 2004.

*** Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director on 28 February 2005.
Bruce W Edwards resigned as Non-executive Director on 15 July 2005.

¹Post employment

Executive directors of Altium Limited

	PRIMARY Directors' base fee	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
Nicholas M Martin	-	1	-	-	455	-	-	456
Kayvan Oboudiyat	40,000	226,883	-	-	434	78,117	205,970	551,404
Darren Charles*	40,007	141,681	19,181	-	-	14,295	22,503	237,667
David M Warren**	3,077	9,626	-	-	-	1,143	-	13,846
Bruce W Edwards***	26,154	188,572 [^]	-	-	-	8,856	11,604	235,186

* Darren Charles resigned as Executive Director on 15 July 2005. Darren Charles continues in his capacity as Chief Financial Officer and Chief Operating Officer at the date of this report.

** David M Warren resigned as Executive Director and was appointed Non-executive Director on 2 August 2004.

*** Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director on 28 February 2005.
Bruce W Edwards resigned as Non-executive Director on 15 July 2005.

[^] Included in Bruce W Edward's base salary is a redundancy payment of \$100,000.

¹Post employment

Directors' report

Other executives of Altium Limited

	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Matthew Schwaiger Director, Product Management	134,884	54,329	-	-	12,140	83,606	284,959
Marc Depret Software Architect	132,850	9,941	30,000	-	15,438	62,735	250,964
Alan Perkins Chief Information Officer	127,855	11,289	20,000	-	14,326	72,711	246,181
Dejan Stankovic Software Architect	136,813	-	30,000	-	15,013	60,468	242,294
Jason Hingston Software Architect	130,761	7,218	20,000	-	13,984	55,717	227,680

¹Post employment

Other executives of the consolidated entity

	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Peter Murman Managing Director, Amersfoort Technology Centre	183,458	-	5,373	12,593	34,323	56,539	292,286
Frank Hoschar Director, Strategic Marketing	224,307	16,507	-	17,722	-	31,325	289,861
Rene Mooijman Managing Director, Contract Product Development	141,175	31,910	-	9,208	47,606	52,212	282,111
Klaus Pontius Regional Director, Europe	224,307	18,454	-	7,145	-	30,435	280,341
Nancy Eastman Regional Director, USA	182,733	-	-	4,781	20,733	30,536	238,783

¹Post employment

The value of options included as remuneration for directors and executives, is valued at the date they are granted and apportioned over the vesting period. Fair values at grant date have been assessed using a derivative of the Black-Scholes option-pricing model including the following factors; the exercise price, stock price, expected life, volatility, risk-free rate, dividend yield and vesting period. Key assumptions adopted as at the date of issue for valuing the options in the current year include risk-free rate of interest between 4.11% and 6.21% and volatility of share price between 51% and 62%.

Other executives are officers who are involved in, concerned in or who take part in, the management of the affairs of Altium Limited and/or the consolidated entity.

Service agreements

Remuneration and other terms of employment for each board member are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below.

Carl J Rooke, Non-executive Director and Chairman

- Open agreement with no fixed term
- Directors' base fee of \$110,000 for the year ended 30 June 2005

Nicholas M Martin, Executive Director and Chief Executive Officer

- Open agreement with no fixed term
- Base salary of \$1 for the year ended 30 June 2005

The terms and conditions of employment for Nicholas M Martin were reviewed by the remuneration committee; the new service agreement effective 1 July 2005 is set out below:

- Open agreement with no fixed term
- Base salary of \$350,000, inclusive of superannuation, for the year ended 30 June 2006

Kayvan Oboudiyat, Executive Director and Executive Vice Chairman

- Open agreement with no fixed term
- Base salary of \$305,000, inclusive of superannuation, for the year ended 30 June 2005
- Directors' base fee of \$40,000 for the year ended 30 June 2005

William A Bartee, Non-executive Director

- Open agreement with no fixed term
- Directors' base fee of \$60,000, inclusive of superannuation, for the year ended 30 June 2005

Dr Steven G Duvall, Non-executive Director

- Open agreement with no fixed term
- Directors' base fee of \$60,000, inclusive of superannuation, for the year ended 30 June 2005

Dr Steven G Duvall resigned as Non-executive Director on 15 July 2005

Darren Charles, Executive Director, Chief Financial Officer and Chief Operating Officer

- Open agreement with no fixed term
- Base salary of \$172,550, inclusive of superannuation, for the year ended 30 June 2005
- Directors' base fee of \$40,000 for the year ended 30 June 2005

Bruce W Edwards, Executive Director

- Contract in place from 19 September 2003 for no fixed term
- Base salary of \$133,526, inclusive of superannuation.
- Directors base fee \$40,000 for the year ended 30 June 2005

As at 28 February 2005 Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director. This was formalised in a new service agreement as below:

- Open agreement with no fixed term
- Directors' base fee of \$40,000, inclusive of superannuation, for the year ended 30 June 2005

Bruce W Edwards resigned as Non-executive Director on 15 July 2005.

David M Warren, Executive Director

- Open agreement with no fixed term
- Base salary of \$140,000, inclusive of superannuation
- Directors base fee of \$40,000 for the year ended 30 June 2005

As at 2 August 2004 David M Warren resigned as Executive Director and was appointed Non-executive Director. This was formalised in a new service agreement as below:

- Open agreement with no fixed term
- Directors' base fee of \$40,000 for the year ended 30 June 2005

Service agreements (continued)

Peter Murman, Managing Director, Amersfoort Technology Centre

- Open agreement with no fixed term
- Base salary of €111,111 for the year ended 30 June 2005
- Notice period for terminating contract is 3 months

Frank Hoschar, Director of Strategic Marketing

- Open agreement with no fixed term
- Base salary of €125,000 for the year ended 30 June 2005
- Lease of company car plus running costs
- Notice period for terminating contract is 3 months

Rene Mooijman, Managing Director, Contract Product Development

- Open agreement with no fixed term
- Base salary of €98,022 for the year ended 30 June 2005
- Notice period for terminating contract is 3 months

Klaus Pontius, Regional Director, Europe

- Open agreement with no fixed term
- Base salary of €125,000 for the year ended 30 June 2005
- Lease of company car plus running costs
- Notice period for terminating contract is 3 months

Nancy Eastman, Regional Director, USA

- Open agreement with no fixed term
- Base salary of US\$145,000 for the year ended 30 June 2005
- There is no notice period for terminating the contract

Matthew Schwaiger, Director of Product Management

- Open contract with no fixed term
- Base salary of \$192,085, inclusive of superannuation, for the year ended 30 June 2005
- Notice period for terminating contract is 5 weeks

Marc Depret, Software Architect

- Open contract with no fixed term
- Base salary of \$152,600, inclusive of superannuation, for the year ended 30 June 2005
- Notice period for terminating contract is 5 weeks

Alan Perkins, Chief Information Officer

- Open contract with no fixed term
- Base salary of \$168,950, inclusive of superannuation, for the year ended 30 June 2005
- Notice period for terminating contract is 4 weeks

Dejan Stankovic, Software Architect

- Open contract with no fixed term
- Base salary of \$152,600, inclusive of superannuation, for the year ended 30 June 2005
- Notice period for terminating contract is 4 weeks

Jason Hingston, Software Architect

- Open contract with no fixed term
- Base salary of \$152,600, inclusive of superannuation, for the year ended 30 June 2005
- Notice period for terminating contract is 5 weeks

In addition to the above service agreements, the directors and other executives are entitled to participate in Altium's options plans. These plans provide a mix of short-term and long-term performance incentives as discussed in note 23.

Share options granted to directors and the most highly remunerated executives

Options over unissued ordinary shares of Altium Limited granted during the financial year, to any of the directors or the five most highly remunerated officers of the company and consolidated entity as part of their remuneration were as follows:

There were no options granted to directors and executives of Altium Limited during the year.

Other executives of the consolidated entity	Options granted
Frank Hoschar	100,000
Klaus Pontius	100,000

The options granted to other executives of Altium Limited and the consolidated entity, were granted under the Altium Employee Share Option Plan on 7 May 2005.

Shares under option

Unissued ordinary shares of Altium Limited under option at the date of this report are as follows:

Name of option plan	Number of options	Issue price of shares	Grant date	Expiry date
Altium Option Plan	1,115,650	5.50	29 Sep 2000	29 Sep 2005
Directors' Plan	1,440,000	5.50	20 Nov 2000	20 Nov 2005
Altium Option Plan	1,355,260	4.20	12 Oct 2001	12 Oct 2006
Altium Option Plan	717,700	4.20	7 Nov 2001	7 Nov 2006
Altium Option Plan	123,000	3.56	4 Dec 2001	4 Dec 2006
Altium Option Plan	400,000	1.17	10 Jul 2002	10 Jul 2007
Altium Option Plan	2,422,185	1.34	23 Oct 2002	23 Oct 2007
Altium Option Plan	8,400	1.34	30 Oct 2002	30 Oct 2007
Altium Option Plan	81,216	1.34	11 Nov 2002	11 Nov 2007
Altium Option Plan	260,990	1.34	19 Nov 2002	19 Nov 2007
Altium Option Plan	51,000	1.34	27 Nov 2002	27 Nov 2007
Altium Employee Share Option Plan	8,037,146	0.86	5 Dec 2003	5 Dec 2008
Altium Director Share Option Plan	1,870,000	0.86	5 Dec 2003	5 Dec 2008
Altium Employee Share Option Plan	200,000	0.86	7 May 2005	7 May 2009
Total unissued ordinary shares of Altium Limited under option	18,082,547			

The options granted under the Altium Option Plan and the Directors' Plan vest in equal amounts over a four-year period from the first anniversary date of issue. The options granted under the Altium Employee Share Option Plan and the Altium Director Share Option Plan vest over a three-year period from the first anniversary date of issue, 40% vest in year one, with 30% vesting for the two subsequent years thereafter. These options are exercisable at any time once vested through to expiry date. No option holder has any right under the options to participate in any other share issue of the company or of any other entity within the consolidated entity.

The 200,000 options granted this year under the Altium Employee Share Option Plan are supplementary to the options issued on 5 December 2003. As a result these options vest over a two-year period from date of issue, 40% vest at issue date, with 30% vesting for the two subsequent years thereafter, in line with the vesting periods of the original options granted on 5 December 2003.

Refer to note 26 for details of shares issued during the year as a result of options being exercised.

Directors' report

Significant changes in the state of affairs

There have been no significant changes in the state of affairs during the financial year.

Events subsequent to balance date

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2005 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

Environmental regulation

The company has assessed whether there are any particular environmental regulations that apply to it and has determined that there is none of significance.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Insurance of officers

During the year the company paid a premium of \$69,730 to insure the directors and officers of Altium Limited and its subsidiaries. The liabilities insured are costs and expenses that may be incurred in defending any civil or criminal proceedings that may be brought against them in their capacity as directors or officers of the consolidated entity.

Non-audit services

The company may decide to employ the auditor on assignments additional to their audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to PricewaterhouseCoopers for non-audit services provided during the year are set on page 19.

The board of directors has considered the position and, in accordance with the advice received from the audit and risk management committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out on page 19, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit and risk management committee to ensure they do not impact the impartiality and objectivity of the auditor.
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration *Corporations Act 2001* is set out on page 20.

Non-audit services (continued)

	2005	2004
	\$	\$
Taxation services		
Fees paid/payable to PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of company income tax returns	2,000	-
Tax consulting and tax advice	55,545	9,360
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of company income tax returns	138,244	189,478
Tax consulting and tax advice	123,968	46,708
Total remuneration for taxation services	319,757	245,546
Advisory services		
Fees paid/payable to PricewaterhouseCoopers Australian firm	-	12,500
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm	8,806	6,936
Total remuneration for advisory services	8,806	19,436
Legal services		
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm	-	44,494
Total remuneration for legal services	-	44,494

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office as auditor in accordance with section 327 of the *Corporations Act 2001*. This report is made in accordance with a resolution of the directors.



Nicholas M Martin
Director and Chief Executive Officer

Sydney
19 August 2005

Auditors' Independence Declaration

As lead auditor for the audit of Altium Limited for the year ended 30 June 2005, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



PricewaterhouseCoopers



Andrew Sneddon
Partner

Sydney
19 August 2005

Corporate governance statement

Altium Limited and the board are committed to achieving and demonstrating the highest standards of corporate governance. In light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003, the company undertook an extensive review of its corporate governance framework. The company's framework is largely consistent with the recommendations, minor deviations occur only where a principle or recommendation is not appropriate for the company to incorporate. The company continues to review and assess the appropriateness of its corporate governance with reference to both internal and external changes it encounters.

The roles of the board and management

The board is responsible for promoting the success of the Altium group in its role as a leading global developer and supplier of electronics design software for the Microsoft Windows environment; and as a commercial entity listed on the Australian Stock Exchange. The board has a charter that outlines its functions and responsibilities, which include the review and approval of corporate strategy, budgets and financial plans, monitoring organisational performance and achievement of the company's strategic goals and objectives.

The relationship between the board and senior management is critical to the group's long term success. The directors are responsible to shareholders for the performance of the company and seek to balance competing objectives in the best interests of the group as a whole. Their focus is to enhance the interests of the shareholders, employees and customers and to ensure the company and its controlled entities are properly managed.

Day to day management of the group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Chief Executive Officer and senior executives.

Board structure

The board is currently comprised of three non-executive directors and two executive directors, as follows;

- [Carl J Rooke](#) – Chairman, Non-executive Director, appointed 13 June 1990
- [Nicholas M Martin](#) – Chief Executive Officer, Executive Director, appointed 30 August 1991
- [Kayvan Oboudiyat](#) – Executive Vice Chairman, Executive Director, appointed 10 February 1997
- [David M Warren](#) – Non-executive Director, appointed 4 December 1991
- [William A Bartee](#) – Non-executive Director, appointed 3 May 1999

- [Dr Steven G Duvall](#) resigned as Non-executive Director on 15 July 2005
- [Bruce W Edwards](#) resigned as Executive Director and was appointed Non-executive Director on 28 February 2005.
- [Bruce W Edwards](#) resigned as Non-executive Director on 15 July 2005.
- [Darren Charles](#) resigned as Executive Director on 15 July 2005. Darren Charles continues in his capacity as Chief Financial Officer and Chief Operating Officer at the date of this report.

Details of the background, experience and professional skills of each director are set out in the Directors' Report under the heading 'Information for Directors', below are further details on the members of the board.

The following directors are retiring and seeking re-election at the 2005 Annual General Meeting:

- [Kayvan Oboudiyat](#)
- [David M Warren](#)*^

* Retiring by rotation in accordance with the Constitution and the Listing Rules of Australian Stock Exchange.

^ David M Warren resigned as Executive Director and was appointed Non-executive Director on 2 August 2004.

Corporate governance statement

Director independence

The board considers that for a director to add value to the board they should have either knowledge of the company or the highly technical industry in which the company operates while bringing independent views and judgment to the board's deliberations. Corporate governance best practice principles indicate that the majority of board members should be independent. The board does recognise the need for independent directors and, as such, there are two independent directors, including the Chairman.

The directors have not set materiality thresholds in accordance with the ASX best practice recommendations for determining independence of directors. The directors have assessed the independence of all directors during the period. Specific factors considered included directors shareholdings in the company, length of service and relationships with key advisers.

Meetings of the board

The board meets formally between six and eight times a year and on other occasions as required. Senior management attend and make presentations at board meetings as considered appropriate and are available for questioning by directors. The number of meetings attended by each director for the financial year ended 30 June 2005 is set out in the Directors' Report.

Retirement and re-election

The constitution of the company requires each director to retire from office at the next annual general meeting after serving a period of two years. Directors who have been appointed by the board are required to retire from office at the next annual general meeting. Retiring directors are eligible for re-election by shareholders. The chairman is appointed by the board which also determines the period the elected chairman is to hold office.

Nomination and appointment of new directors

Recommendations of candidates for new directors are generally made by the board's nomination committee for consideration by the board as a whole not withstanding ASX listing rule requirements*. If it is necessary to appoint a new director to fill a vacancy on the board or to complement the existing board, potential candidates are considered. If a candidate is recommended by the nomination committee, the board assesses that proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing board and the candidate's availability to commit to the board's activities. If these criteria are met and the board appoints the candidate as a director, that director will retire at the following annual general meeting and will be eligible for re-election by shareholders at that annual general meeting.

During the year the nomination committee conducted a review of the membership of the board, with regard to present and future needs of the company, and made recommendations on the board composition and appointments.

*Listing rule 14.3 requires the company to accept director nominations up to 35 business days before a general meeting at which directors may be elected.

Review of performance

The board undertakes an annual self assessment of its collective performance, the performance of the chairman and of its committees. The chairman also undertakes an assessment of the performance of individual directors. Any concerns arising out of these assessments are raised directly with the director concerned. Both of these assessments were undertaken during the period.

Board access to information and independent advice

All directors have unrestricted access to all employees of the group and, subject to the law, access to all company records and information held by group employees and external advisers. The board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties. Each director and board committees may, in connection with their duties, obtain independent professional advice at the company's expense. Prior written approval from the chairman is required, but this will not be unreasonably withheld.

Committees of the board

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the nomination, remuneration and audit and risk management committees. The structure and membership of each committee is reviewed on an annual basis.

Each committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All matters determined by the committees are submitted to the full board as recommendations for board decisions.

Audit and risk management committee

The members of the audit and risk management committee at the date of this report are:

- William A Barteo (Chairman)
- Carl J Rooke
- David M Warren

The main responsibilities of the audit and risk management committee are to maintain the integrity of financial reporting and monitor the control environment for managing strategic, operation, legal, reputation and financial risks.

The specific responsibilities are set out in its charter and include reporting to the board on all financial information published by the company or released to the market, assisting the board in reviewing the effectiveness of the organisation's internal control environment, recommending to the board the appointment, removal and remuneration of the external auditors, review the terms of their engagement and the scope and quality of the audit and review insurance matters for the consolidated entity.

Other persons considered appropriate attend meetings of the audit and risk management committee by invitation. The committee also meets from time to time with the external auditors independent of management. The composition, operations and responsibilities of the committee are consistent with best practice recommendations. The committee met three times during the financial year ended 30 June 2005. Details of the meetings attended by each committee member are set out in the Directors' Report.

Financial reporting

The company's financial report preparation and approval process for the financial year ended 30 June 2005, involved both the Chief Executive Officer and Chief Financial Officer giving a sign-off, to the best of their knowledge and belief, that the company's financial report presents a true and fair view, in all material respects, of the company's financial condition and operating results and is in accordance with applicable accounting standards. In addition, the financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Audit governance and independence

As part of the company's commitment to safeguarding integrity in financial reporting, the company has implemented procedures and policies to monitor the independence and competence of the company's external auditors.

Appointment of auditors

The company's current external auditors are PricewaterhouseCoopers. The effectiveness, performance and independence of the external auditors is reviewed by the audit and risk management committee. If it becomes necessary to replace the external auditors for performance or independence reasons, the audit and risk management committee will then formalise a procedure and policy for the selection and appointment of new auditors.

Corporate governance statement

Independence declaration

Under changes introduced by CLERP 9, auditors are now required to state that to the best of their knowledge or belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct in relation to the audit. In accordance with section 298(1)(c) and Section 306(2), PricewaterhouseCoopers have provided a copy of this declaration to the audit and risk management committee for the financial year ended 30 June 2005, which has been included in the Directors' Report.

Rotation of lead external audit partners

PricewaterhouseCoopers has a policy for the rotation of the lead audit partner for their clients. Prior to the introduction of CLERP 9, it was PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every seven years. Transitional policies are currently being developed to reduce the period of rotation to five years in line with the CLERP 9 legislative amendments. The auditor rotation provisions will apply to an audit of a financial report or an audit or review for a half-year in a financial year beginning on or after 1 July 2006, being Altium Limited 2007 financial year.

Restrictions on the performance of non-audit services by external auditors

The audit and risk management committee has implemented a policy that requires the prior approval of the committee for the provision of any non-audit services to the company or its business units by the external auditors for any amount over \$20,000. The audit and risk management committee has also adopted guidelines to assist in identifying the types of services that may compromise the independence of the external auditors.

Attendance of external auditors at annual general meetings

PricewaterhouseCoopers are invited to attend the company's annual general meeting and be available to answer questions.

Risk identification and management

The board, through the audit and risk management committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems.

The company is committed to the identification, monitoring and management of risks associated with its business activities and is embedding in its management and reporting systems a number of risk management controls. These include:

- guidelines and limits for approval of capital expenditure and investments;
- a group regulatory compliance program supported by approved guidelines and standards covering such key areas as occupational health and safety, finance, legal and insurance;
- policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies and movements in interest rates;
- a formal planning process of product development and upgrade programs for a one to two year horizon;
- annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends;
- appropriate due diligence procedures for acquisitions and divestments; and
- crisis management systems for IT infrastructure within the group.

Nomination committee

The members of the nomination committee at the date of this report are:

- Carl J Rooke (Chairman)
- William A Bartee
- Nicholas M Martin

Nomination committee (continued)

The main responsibilities of the nomination committee are to conduct an annual review of the membership of the board with regard to present and future needs of the consolidated entity, make recommendations on board composition and appointments, propose candidates for board vacancies and oversee board succession including the succession of the chairman and establish induction guidelines for newly appointed directors, regularly assessing the effectiveness of this induction process. The committee has also established criteria for board independence and conducts an annual review of director's independence.

Remuneration committee

The members of the remuneration committee at the date of this report are:

- Carl J Rooke (Chairman)
- William A Bartee
- David M Warren

The main responsibilities of the remuneration committee are to advise the board on remuneration and incentive policies and practices generally and make specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination.

The remuneration committee's terms of reference include responsibility for reviewing any transaction between the organisation and the directors, or any transactions between the organisation and the directors, or any interest associated with the directors, to ensure that the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

Remuneration policies

Non-executive directors

The company's non-executive directors receive fees, including statutory superannuation, for their services and the reimbursement of reasonable expenses. The fees paid to the company's non-executive directors reflect the demands on and the responsibilities of, those directors. The advice of independent remuneration consultants is taken to establish that the directors' fees are in line with market standards. Non-executive directors have received options in addition to their remuneration and are eligible to participate in the company's Directors Option Plan.

A directors' salary fee pool limit of \$350,000 per annum was approved by shareholders at an annual general meeting and is currently not fully utilised. This fee pool is only available to non-executive directors as board membership is taken into account in determining the remuneration paid to executive directors as part of their normal employment conditions. The non-executive directors' remuneration is set out under Directors and Senior Executive Emoluments.

Executive directors and senior executives

The structure and disclosure of the company's remuneration policies for executive directors and senior executives are set out in the Directors' Report.

Share trading

Under the company's share trading guidelines, all employees and directors of the company and its related companies are advised not to trade in the company's shares or other securities if they are in possession of 'inside information'. Subject to this policy and in the light of the ASX's continuous disclosure requirements, trading can occur at any time and is not limited to specified windows following the publication of financial results.

Corporate governance statement

Share trading (continued)

In addition, in order to trade, employees and directors of the company must advise the Company Secretary of their intention to trade and sign a form advising the Company Secretary that there is no known reason to preclude them from trading in the company's shares or other securities.

Continuous disclosure

The continuous disclosure provisions of the *Corporations Act 2001* and the listing rules mean that criminal and civil liabilities could be imposed on the company and its officers if material information is not released to the market in accordance with the ASX listing rules. The company has established written policies and procedures on information disclosure. The focus of these procedures is on continuous disclosure and improving access to information for all investors.

The company has nominated the Company Secretary to have responsibility for:

- making sure that the company complies with continuous disclosure requirements;
- overseeing and co-ordinating disclosure of information to the stock exchange, analysts, brokers, shareholders, the media and the public; and
- educating directors and staff on the company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

All shareholders receive a copy of the company's annual reports. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means. All company announcements, media briefings, press releases and financial reports are available on the company's website.

Conduct and ethics

Altium is committed to conducting business with honesty and integrity and the conduct of every employee is vital in achieving this aim. The code of conduct provides a guideline for appropriate behaviour expected from all Altium employees. The code is regularly reviewed and updated as necessary to reflect the highest standards of behaviour and professionalism and practices necessary to maintain the confidence of the group's integrity. It is not intended to cover all issues that may arise, but rather to provide a framework within which employees can address ethical issues that may arise through the daily business of the company.

Employees are expected to perform the duties associated with their position to the best of their ability in a diligent, impartial and conscientious manner. This includes compliance with legislative and industrial obligations and company policies.

Financial report 30 June 2005

Altium Limited and controlled entities ACN 009 568 772

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This financial report covers both Altium Limited as an individual entity and the consolidated entity consisting of Altium Limited and its controlled entities.

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

Level 3, 12a Rodborough Road, Frenchs Forest, NSW 2086.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 3-9 and in the directors' report on pages 10-19.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial reports and other information are available at the Investors' section on our website: www.altium.com. For queries in relation to our reporting please email investor.relations@altium.com.au.

Statements of financial performance

Statements of financial performance

For the year ended 30 June 2005		CONSOLIDATED		PARENT ENTITY	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities	2	40,066	40,578	29,952	29,585
Changes in inventories of finished goods	8	(80)	634	(54)	574
Raw materials and consumables used		(1,408)	(1,942)	(1,353)	(1,882)
Employee benefits expense		(23,732)	(21,288)	(10,964)	(9,634)
Depreciation and amortisation expense	3	(5,691)	(10,330)	(3,418)	(2,877)
Borrowing costs expense	3	(42)	(21)	(130)	(89)
Rental expense	3	(2,092)	(1,964)	(668)	(599)
Advertising and direct mail expense		(4,178)	(5,613)	(4,178)	(5,613)
Professional advice expense		(812)	(860)	(422)	(399)
Communication expense		(510)	(573)	(248)	(263)
Intercompany royalties		-	-	(2,932)	(2,990)
Contract research and development expense		(4)	(306)	(5,845)	(5,330)
Write-down in carrying value of goodwill	3	-	(83,323)	-	-
Write-down in carrying value of investment in subsidiaries	3	-	-	(50,897)	(43,931)
Provision for intercompany loan	3	-	-	50,740	(50,740)
Net (loss)/gain on foreign currency transactions		(952)	(120)	(819)	607
Other expenses from ordinary activities	3	(4,020)	(3,387)	(1,764)	(2,072)
Loss from ordinary activities before income tax expense		(3,455)	(88,515)	(3,000)	(95,653)
Income tax benefit attributable to operating loss	4	2,364	495	962	1,178
Loss from ordinary activities after income tax expense		(1,091)	(88,020)	(2,038)	(94,475)
Net loss attributable to members of Altium Limited	19	(1,091)	(88,020)	(2,038)	(94,475)
		Cents	Cents		
Basic earnings per share	30	(1.2)	(99.9)		
Diluted earnings per share	30	(1.2)	(99.9)		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June 2005		CONSOLIDATED		PARENT ENTITY	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash assets	6	3,590	3,571	1,399	539
Receivables	7	9,358	9,649	7,951	6,799
Current tax receivables	10	151	-	-	-
Inventories	8	921	1,001	836	890
Other	12	660	761	209	268
Total current assets		14,680	14,982	10,395	8,496
Non-current assets					
Receivables	7	932	921	4,962	10,064
Property, plant and equipment	9	1,639	1,324	832	559
Intangible assets	11	26,765	30,832	17,198	19,321
Investment in controlled entities	28	-	-	5,589	5,589
Deferred tax asset	10	4,717	3,049	1,484	1,444
Other	12	356	401	24	25
Total non-current assets		34,409	36,527	30,089	37,002
Total assets		49,089	51,509	40,484	45,498
Current liabilities					
Payables	13	2,871	3,349	3,669	6,250
Interest bearing liabilities	14	202	46	105	25
Current tax liabilities	16	675	859	-	-
Provisions	15	1,457	1,622	853	760
Other	17	4,794	4,887	29	34
Total current liabilities		9,999	10,763	4,656	7,069
Non-current liabilities					
Interest bearing liabilities	14	376	-	220	-
Provisions	15	557	395	557	395
Deferred tax liabilities	16	1,730	2,833	1,484	2,429
Total non-current liabilities		2,663	3,228	2,261	2,824
Total liabilities		12,662	13,991	6,917	9,893
Net assets		36,427	37,518	33,567	35,605
Equity					
Contributed equity	18	119,370	119,370	119,370	119,370
Accumulated losses	19	(82,943)	(81,852)	(85,803)	(83,765)
Total equity	20	36,427	37,518	33,567	35,605

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of cash flows

Statements of cash flows

For the year ended 30 June 2005		CONSOLIDATED		PARENT ENTITY	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities					
Receipts from customers		39,967	38,739	25,318	24,442
Payments to trade creditors, other suppliers and employees		(38,018)	(36,650)	(26,906)	(28,006)
Interest received		96	88	336	4,061
Interest paid		(42)	(21)	(130)	(89)
Income taxes paid (net)		(591)	(265)	(24)	(32)
Net cash inflows/(outflows) from operating activities	29	1,412	1,891	(1,406)	376
Cash flows from investing activities					
Payments for property, plant and equipment		(393)	(745)	(298)	(333)
Proceeds from sale of property, plant and equipment		11	54	3	40
Loans to related parties		-	-	(91)	(1,722)
Repayment of loans by related parties		1	-	1,723	1,983
Payments for technology acquisitions and licenses		(430)	-	(430)	-
Payments for research and development		(493)	(2,383)	(493)	(2,382)
Payments for AltiumOne		-	(133)	-	(133)
Net cash (outflows)/inflows from investing activities		(1,304)	(3,207)	414	(2,547)
Cash flows from financing activities					
Payments for share buy-back	18	-	(519)	-	(519)
Proceeds from borrowings		-	-	1,897	1,497
Repayment of borrowings		(89)	(100)	(45)	(44)
Dividends paid		-	(1,761)	-	(1,761)
Net cash (outflows)/inflows from financing activities		(89)	(2,380)	1,852	(827)
Net increase/(decrease) in cash held		19	(3,696)	860	(2,998)
Cash at beginning of the financial year		3,571	7,267	539	3,537
Cash at end of the financial year	6	3,590	3,571	1,399	539
Non-cash financing and investing activities	29				

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Boards, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

The financial statements have been prepared on the basis of historical costs and do not take into account current valuations of non current assets.

The principal accounting policies adopted in preparing the financial report of Altium Limited are stated to assist in a general understanding of this financial report. These policies have been consistently applied except as otherwise indicated. Comparative information is reclassified where appropriate to enhance comparability.

(a) Australian equivalents to International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS ('AIFRS') and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to AIFRS is being managed and the key differences in accounting policies is set out in note 32.

(b) Principles of consolidation

The financial statements incorporate the assets and liabilities of all entities controlled by Altium Limited ('company' or 'parent entity') as at 30 June 2005 and the results of all controlled entities for the year then ended. Altium Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during the financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for the part of the year during which control existed.

(c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

No provision is made for additional taxes which could become payable if certain reserves of the foreign operation were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

(d) Foreign currency translation

(i) **Transactions** – Foreign currency transactions are initially translated into Australian currency at the rate of exchange on the date of the transaction. At balance date monetary amounts are translated to Australian currency at rates of exchange current on that date. Resulting exchange differences are brought to account in determining the profit or loss for the financial year.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(ii) **Foreign operations** – As the foreign operations are integrated, their accounts have been translated using the temporal method, whereby monetary items are translated at the exchange rate current at balance date and non-monetary items are translated at exchange rates prevailing at the relevant transaction dates. Exchange differences arising on translation are brought to account in determining the profit or loss for the year.

(e) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructure of the acquired entity and a reliable estimate of the amount of the liability can be made.

Goodwill is brought to account on the basis described in note 1(g).

(f) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk adjusted discount rate.

The key assumptions used in the directors assessment of recoverable amount of non-current assets is set out in note 11.

(g) Intangible assets

(i) **Goodwill** – Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise. Goodwill was previously being amortised over 20 years, however, as discussed in note 11 all Goodwill was written down in the previous year.

(ii) **Acquired technology and licenses** – Acquisition costs of software licenses, customer lists and copyrights are amortised on a straight-line basis over the period for which the right is acquired or the period over which economic benefits are expected to arise. These periods vary from 3 to 10 years, starting from the date of commercial release.

(iii) **Trademarks** – Costs incurred in relation to the establishment of the Altium trademark and associated brands have been deferred. The carrying amount of the Altium trademark cost is not amortised on the directors belief it will exist in perpetuity and its value will not diminish over time. Notwithstanding this,

1. Summary of significant accounting policies (continued)

the depreciable amount of the Altium trademark costs has been determined based on the director's assessments of the residual value of the Altium trademark at the end of years ten, twenty, thirty, forty and fifty in current dollar terms.

At the end of these periods, the residual value approximates to the current carrying amount of the Altium trademark cost giving rise to an immaterial depreciable amount. As a result there is no amortisation charge to be recognised.

An assessment of the recoverable amount of the Altium trademark is made each reporting period to ensure this is not less than its carrying amount.

(iv) Software developed for internal use – Costs relating to software developed for internal use have been capitalised and are being amortised over its estimated useful life using the straight line method. Software developed for internal use is presently being amortised over 3 years. Costs capitalised include labour and other directly attributable costs.

(h) Research and development expenditure

Research and development costs are charged to operating profit before income tax as incurred, or deferred where these costs are associated with integration of acquired technology and it is determined that the technology has reached technological feasibility. Costs are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable. Deferred costs are amortised from the date of commercial release on a straight-line basis over the period of the expected benefit, which varies from 3 to 10 years.

(i) Receivables and revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Software – A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer.

(ii) Support Services – Revenue recognition is deferred and taken to the statement of financial performance over the period which the service is provided.

(iii) Training Services – A sale is recorded and revenue is recognised at the time the service is provided.

(iv) Projects – For fixed price contracts, the stage of completion is measured by reference to time incurred to date as a percentage of estimated total time to complete each project. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus time spent on each contract.

All trade debtors are recognised at the amount receivable, as they are due for settlement no more than 120 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(j) Inventories

Finished goods and raw materials are stated at the lower of cost and net realisable value. Cost comprises direct materials only. Costs have been assigned to inventory quantities on hand at balance date using the first in first out basis.

(k) Depreciation of plant and equipment and amortisation of leasehold improvements

Plant and equipment is depreciated and leasehold improvements are amortised over their estimated useful lives using the straight line method.

The expected useful lives of the assets are as follows:

Office equipment	3 – 5 years
Computer hardware and software	2 – 3 years
Motor Vehicles	4 – 5 years
Leasehold improvements	5 – 40 years

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(l) Leased assets

A distinction is made between finance leases and operating leases. Finance leases effectively transfer substantially all the risks and benefits incidental to ownership of leased non current assets from the lessor to the lessee, whereas in operating leases the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense. The leased asset is amortised on a straight-line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Leased assets held at balance date are being amortised over periods ranging from 2 to 5 years.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased asset.

(m) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Lease liability

Lease liabilities are carried at their face value. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(o) Employee benefits

(i) **Wages, salaries and annual leave** – Liabilities for employee entitlements to wages and salaries are recognised and are measured as the amount unpaid at balance date at current pay rates in respect of employee services up to that date.

Liabilities for employee entitlements to annual leave are recognised and are measured as the amount unpaid at balance date at expected pay rates in respect of employee services up to that date.

(ii) **Long service leave** – Liabilities for long service leave are recognised and measured as the present values of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match as closely as possible, the estimated future cash flows.

(iii) **Superannuation** – The consolidated entity participates in various employee superannuation plans, being accumulation plans. The benefits provided by an accumulation plan are based on the contributions and income thereon held by the plan on behalf of the member. Contributions to employee superannuation plans are charged as expenses when the contributions are paid or become payable.

(iv) **Employee benefit on-costs** – Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(p) Cash

For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

1. Summary of significant accounting policies (continued)

(q) Earnings per share

(i) **Basic earnings per share** – Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year adjusted for bonus elements in ordinary shares issued during the year.

(ii) **Diluted earnings per share** – Diluted earnings per share adjusts the figures used in the determination of basic earnings per share. Diluted earnings per share takes into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(s) Share buy-back

Shares bought back are brought to account by directly reducing the share capital account by the cost of acquisition of the shares. The cost of acquisition of the shares bought back comprises the purchase consideration plus costs incidental to the acquisition.

Refer to note 18 for further details of shares bought back in the year.

(t) Dividends

A provision is made for the amount of any dividend on the date they are declared.

2. Revenue

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from operating activities:				
Sale of goods	36,515	36,235	29,459	25,423
Services	3,440	4,181	154	99
	39,955	40,416	29,613	25,522
Revenue from outside the operating activities:				
Interest	96	88	336	4,061
Sale of non-current assets	11	54	3	-
Other income	4	20	-	2
	111	162	339	4,063
Total revenue	40,066	40,578	29,952	29,585

3. Results from ordinary activities

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Result from ordinary activities before income tax expense includes the following specific net gains and expenses:				
Net gains:				
Net gain on disposal of plant and equipment	11	54	3	-

Notes to the financial statements

3. Results from ordinary activities (continued)

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Expenses:				
Cost of revenue				
Goods	2,411	2,074	4,777	4,686
Services	1,934	1,755	129	85
Total costs of revenue	4,345	3,829	4,906	4,771
Net loss/(gain) on foreign currency transactions	952	120	819	(607)
Depreciation				
Plant and equipment (note 9)	556	802	321	452
Total depreciation	556	802	321	452
Amortisation				
Leasehold improvements (note 9)	79	64	6	3
Plant and equipment under finance leases (note 9)	65	59	43	42
Goodwill	-	5,072	-	-
Technology acquisitions and licenses	3,241	3,256	1,375	1,315
Capitalised research and development	1,377	741	1,300	729
Internally developed information systems	373	336	373	336
Total amortisation	5,135	9,528	3,097	2,425
Other charges against assets				
Write down of inventories to net realisable value	98	47	84	38
Bad and doubtful debts	129	(129)	47	37
Borrowing costs				
Interest paid/payable	14	7	110	79
Finance charges relating to finance leases	28	14	20	10
Total borrowing costs	42	21	130	89
Rental expense relating to operating leases	2,092	1,964	668	599
Research and development costs incurred	11,645	11,816	13,110	13,237
Less: amounts capitalised	(493)	(2,383)	(493)	(2,387)
Research and development costs expensed	11,152	9,433	12,617	10,850
Other charges against assets				
Write down in carrying value of goodwill	-	83,323	-	-
Write down in carrying value of investment in subsidiaries	-	-	50,897	43,931
Provision for intercompany loan	-	-	(50,740)	50,740

Additional revenue of \$3,797,645 has been recognised in the parent entity for the year ended 30 June 2005 in relation to the sale of goods to a subsidiary for the years ended 30 June 2002, 30 June 2003 and 30 June 2004.

There was no impact to the Statements of Financial Performance of the consolidated entity.

4. Income tax

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Income tax expense for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:				
Loss from ordinary activities before income tax expense	(3,455)	(88,515)	(3,000)	(95,653)
Income tax calculated at 30%	(1,037)	(26,554)	(900)	(28,696)
Tax effect of permanent differences:				
Research and development claim	(495)	(670)	(495)	(670)
Goodwill amortisation	-	1,414	-	-
Intellectual property amortisation	277	366	29	33
Write down in carrying value of goodwill	-	24,997	-	-
Sundry items	(5)	152	(1)	-
Income tax adjusted for permanent differences	(1,260)	(295)	(1,367)	(29,333)
Under/(over) provision in prior year	100	(374)	(95)	(246)
Benefit of tax losses not recognised	-	46	453	-
Benefit of tax losses of prior years recognised	(1,296)	-	-	-
Future income tax benefits of timing differences not recognised:				
Write down of carrying value of investment in subsidiaries	-	-	15,269	13,179
Provision for intercompany receivable	-	-	(15,222)	15,222
Sundry items	47	-	-	-
Effect of different rates of tax on overseas income	45	128	-	-
Aggregate income tax benefit	(2,364)	(495)	(962)	(1,178)
(b) Tax losses recognised as a future income tax benefit in note 10	798	1,268	-	-
Tax losses recognised as a reduction of the deferred income tax liability in note 16	2,744	2,778	2,744	2,778
	3,542	4,046	2,744	2,778
The directors estimate that the potential future income tax benefit at 30 June 2005 in respect of tax losses not brought to account is	1,881	2,016	468	40

The benefit for tax losses will be only obtained if:

- (i) the consolidated entity derives future assessable income of a nature and amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the losses are transferred to an eligible entity in the consolidated entity, and
- (iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Notes to the financial statements

5. Segment information

Primary reporting - geographic segments

Although the consolidated entity's divisions are managed on a global basis they operate in four main geographical areas:

- **Australia** – the home country of the parent entity which is also the main operating entity. The areas of operation are design, development and sale of computer software for the design of electronic products.
- **North America** – comprises the sale of computer software for the design of electronic products throughout USA and Canada.
- **Europe** – comprises the sale of computer software for the design of electronic products throughout Europe. Also the design and development of electronic products occurs in this segment.
- **Asia** – comprises the sale of computer software for the design of electronic products throughout Asia.

	Australia	North America	Europe	Asia	Other	Inter-segment eliminations/ unallocated	Consolidated
2005	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to customers outside the economic entity	1,708	15,337	15,868	6,227	815		39,955
Inter-segment sales	24,549	2,057	7,220	-	-	(33,826)	-
Other revenue	3	1	278	-	-	(268)	14
Total segment revenue	26,260	17,395	23,366	6,227	815	(34,094)	39,969
Segment result	3,861	(956)	(1,352)	2,020	815	(827)	3,561
Unallocated expenses							(7,016)
(Loss) from ordinary activities before income tax benefit							(3,455)
Income tax benefit							2,364
Net (loss)							(1,091)
Segment assets	23,123	11,429	10,480	1,109	-	2,948	49,089
Segment liabilities	3,450	2,844	3,592	367	-	2,409	12,662
Acquisitions of property, plant and equipment	628	149	177	61	-	-	1,015
Acquisitions of non-current assets	430	-	-	-	-	-	430
Depreciation and amortisation expense	3,045	1,560	653	60	-	373	5,691
Other non-cash expenses	1,400	(530)	(652)	30	-	-	248

5. Segment information (continued)

	Australia	North America	Europe	Asia	Other	Inter-segment eliminations/ unallocated	Consolidated
2004	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to customers outside the economic entity	1,453	17,009	15,945	5,148	861		40,416
Inter-segment sales	21,232	2,178	7,574	-	-	(30,984)	-
Other revenue	2	36	277	-	-	(271)	44
Total segment revenue	22,687	19,223	23,796	5,148	861	(31,255)	40,460
Segment result	2,639	(2,390)	2,174	1,074	861	(82,975)	(78,617)
Unallocated expenses							(9,898)
(Loss) from ordinary activities before income tax benefit							(88,515)
Income tax benefit							495
Net (loss)							(88,020)
Segment assets	23,790	13,926	61,059	1,198	-	(48,464)	51,509
Segment liabilities	3,099	3,435	3,303	415	-	3,739	13,991
Acquisitions of property, plant and equipment	342	94	313	18	-	(22)	745
Acquisitions of non-current assets	2,518	-	-	-	-	-	2,518
Depreciation and amortisation expense	2,541	2,935	747	80	-	336	6,639
Other non-cash expenses	(868)	(261)	853	(5)	-	83,320	83,039

Notes to and forming part of the segment information

(a) **Accounting policies** – Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the revised segment reporting accounting standard, AASB 1005 Segment Reporting. Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors and employee benefits. Segment assets and liabilities do not include income taxes.

(b) **Inter-segment transfers** – Inter-segment transfers consist of the following types of transactions:

- research and development costs based on a notional mark-up on cost
- royalty costs for the use of intellectual property
- subsidiaries earn a return for a limited risk distribution function
- interest on intercompany loans
- logistic costs based on a notional mark-up on cost

(c) **Secondary reporting** – business segments – The directors have determined the company does not operate in more than one business segment; as such no secondary reporting segment information had been presented.

Notes to the financial statements

6. Cash assets

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Cash at bank and on hand	3,590	3,571	1,399	539

7. Receivables

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Trade debtors	9,168	9,697	7,947	6,805
Less: provision for doubtful debts	(99)	(72)	(3)	(6)
	9,069	9,625	7,944	6,799
Other debtors	289	24	7	-
	9,358	9,649	7,951	6,799
Non-current				
Loan to subsidiaries*	-	-	4,050	59,899
Provision for intercompany loan	-	-	-	(50,740)
	-	-	4,050	9,159
Employee loans (including director related entity loans, refer to note 27)**	932	921	912	905
	932	921	4,962	10,064

*For terms and conditions of intercompany loans refer to note 27.

**The loans advanced are charged at the 'benchmark interest rate' under the Fringe Benefits Tax Assessment Act 1986 (Cwlth) as at 30 June 2005 being 7.05% p.a. (2004: 7.05%). The above unsecured loans are for a five year term or repayable within thirty days of separation. Repayments during the year totalled \$14,568 (2004: \$69,762).

An assessment of the carrying value of all employee loans is conducted by the directors at the end of each reporting period. Where the directors believe that the loan will not be recovered, the loan is expensed along with any fringe benefits tax associated with the loan forgiveness

8. Inventories

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Finished goods at cost	504	665	419	554
Raw materials at cost	417	336	417	336
	921	1,001	836	890

9. Property, plant and equipment

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Non-current				
Plant and equipment at cost	1,992	2,487	933	1,279
Less: accumulated depreciation	(1,178)	(1,499)	(491)	(777)
	814	988	442	502
Leasehold improvements at cost	404	398	76	29
Less: accumulated depreciation	(158)	(94)	(10)	(3)
	246	304	66	26
Leased plant and equipment	622	192	345	127
Less: accumulated amortisation	(43)	(160)	(21)	(96)
	579	32	324	31
Total property, plant and equipment	1,639	1,324	832	559

Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current and previous financial year are set out below.

	Plant & equipment \$'000	Leasehold improvements \$'000	Leased plant & equipment \$'000	Total \$'000
Consolidated – 2005				
Carrying amount at 1 July 2004	988	304	32	1,324
Additions	345	48	622	1,015
Other movements	37	(27)	(10)	-
Depreciation/amortisation expense (note 3)	(556)	(79)	(65)	(700)
Carrying amount at 30 June 2005	814	246	579	1,639
Parent entity – 2005				
Carrying amount at 1 July 2004	501	26	32	559
Additions	252	46	345	643
Other movements	10	-	(10)	-
Depreciation/amortisation expense (note 3)	(321)	(6)	(43)	(370)
Carrying amount at 30 June 2005	442	66	324	832

During the year a number of fully depreciated assets have been disposed. As these assets were fully written down there was no impact on the financial results of the consolidated entity.

10. Tax asset

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Income tax receivable	151	-	-	-
Non-current				
Future income tax benefit	4,717	3,049	1,484	1,444

Refer to note 4 for future income tax benefit attributable to tax losses.

Notes to the financial statements

11. Intangible assets

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Non-current				
Altium trademark – at cost	866	866	866	866
Internally developed information system – at cost	623	1,165	623	1,165
Less: accumulated amortisation	(364)	(532)	(364)	(532)
	259	633	259	633
Acquired technology and capitalised integration costs – at cost	38,795	38,202	23,722	22,828
Less: accumulated amortisation	(13,155)	(8,869)	(7,649)	(5,006)
	25,640	29,333	16,073	17,822
	26,765	30,832	17,198	19,321

The directors believe that as a result of significant investment and development activity over recent years, leading to the release of the Nexar and other 2004 product versions, including Altium Designer, the company is in a strong position to harness the opportunities that the evolving electronics design industry presents.

The directors also believe that the value of the company's intangible assets is higher than their current carrying value and that this value will be demonstrated, over the next few years, by improved financial performance.

The directors have reviewed the carrying value of the acquired technology and capitalised integration costs and have satisfied themselves that there are no impairment indicators attributable to these assets.

12. Other assets

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Prepayments	660	761	209	268
Non-current				
Long term deposits	356	401	24	25

13. Payables

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Trade creditors	1,639	3,142	904	3,040
Accrual for auditing	115	113	115	113
Loans from subsidiaries*	-	-	1,983	3,067
Other payables	1,117	94	667	30
	2,871	3,349	3,669	6,250

*For terms and conditions of intercompany loans refer to note 27.

14. Interest bearing liabilities

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Lease liabilities (note 25)	202	46	105	25
Non-current				
Lease liabilities (note 25)	376	-	220	-

The lease liability consists of finance leases for plant and equipment. Leases due within one year have a weighted average interest rate of 6.91% (2004: 14.4%).

Financing arrangements**Credit standby arrangements**

Unused facilities at balance date
Bank overdrafts

	2005	2004	2005	2004
Unused facilities at balance date	-	2,000	-	2,000
Bank overdrafts	-	-	-	-

15. Provisions

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Employee entitlements	1,457	1,622	853	760
Non-current				
Employee entitlements	557	395	557	395

16. Tax liabilities

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Income tax	675	859	-	-
Non-current				
Deferred income tax liability	1,730	2,833	1,484	2,429

Refer to note 4 for future income tax benefit attributed to tax losses recognised as a reduction of the deferred income tax liability.

17. Other liabilities

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Unearned income	102	207	3	3
Deferred maintenance revenue	4,692	4,680	26	31
	4,794	4,887	29	34

Notes to the financial statements

18. Contributed equity

	2005	2004	2005	2004
	Number	Number	\$'000	\$'000
(a) Share capital				
Ordinary shares fully paid	88,049,459	88,049,459	119,370	119,370

(b) Movements in ordinary share capital

Date	Details	Number of shares	\$'000
1 July 2003	Opening balance	89,010,617	119,889
	Share buy-backs	(961,158)	(519)
30 June 2004	Balance	88,049,459	119,370
30 June 2005	Balance	88,049,459	119,370

(c) **Ordinary shares** Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) **Options** Information relating to the Altium Option Plan, Altium Employee Share Option Plan, Directors' Option Plan and Altium Director Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 26.

(e) **Share buy-back** The company did not purchase or cancel any ordinary shares on-market during the year to 30 June 2005. During the year to 30 June 2004 total shares bought back were 961,158 which represented 1.08% of shares outstanding at 1 July 2004. The shares were acquired at an average price of \$0.54 per share with prices ranging from \$0.48 to \$0.68. The total cost for the share buy-back of \$519,725, including \$1,369 of transaction costs, was deducted from shareholder equity.

19. Accumulated losses

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
(Accumulated losses)/retained profits at the beginning of the financial year		(81,852)	7,929	(83,765)	12,471
Net loss attributable to members of Altium Limited		(1,091)	(88,020)	(2,038)	(94,475)
Dividends paid or declared	21	-	(1,761)	-	(1,761)
Accumulated losses at the end of the financial year		(82,943)	(81,852)	(85,803)	(83,765)

20. Equity

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the financial year		37,518	127,818	35,605	132,360
Total changes in equity recognised in the statement of financial performance		(1,091)	(88,020)	(2,038)	(94,475)
Share buy-back	18	-	(519)	-	(519)
Dividends provided for or paid	21	-	(1,761)	-	(1,761)
Total equity at the end of the financial year		36,427	37,518	33,567	35,605

21. Dividends

	PARENT ENTITY	
	2005	2004
	\$'000	\$'000
Ordinary shares		
An ordinary dividend for the year ended 30 June 2003 of 2 cents per share unfranked paid on 30 September 2003	-	1,761
Franking credits/(debits) available for the subsequent financial years	-	-

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

22. Financial instruments

(a) **Credit risk exposures** The credit risk on financial assets of the consolidated entity, which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(b) **Interest rate risk exposures** The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

		Floating interest rate	Fixed interest rate maturities			Non interest bearing	Total
	Notes	\$'000	1 year or less	Over 1 to 5 years	Over 5 years	\$'000	\$'000
2005							
Financial assets							
Cash	6	2,157	-	-	-	1,433	3,590
Receivables	7	-	-	932	-	9,358	10,290
		2,157	-	932	-	10,791	13,880
Weighted average interest rate		1.2%		7.05%			
Financial liabilities							
Accounts payable	13	-	-	-	-	(2,871)	(2,871)
Financial lease liabilities	14, 25	-	(202)	(376)	-	-	(578)
		-	(202)	(376)	-	(2,871)	(3,449)
Weighted average interest rate			6.91%	6.98%			
Net financial assets/(liabilities)		2,157	(202)	556	-	7,920	10,431

Notes to the financial statements

22. Financial instruments (continued)

2004	Note	Floating	Fixed interest rate maturities			Non	Total
		interest rate	1 year or less	Over 1 to 5 years	Over 5 years	interest bearing	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash	6	1,426	-	-	-	2,145	3,571
Receivables	7	-	-	921	-	9,649	10,570
		1,426	-	921	-	11,794	14,141
Weighted average interest rate		1.2%		7.1%			
Financial liabilities							
Accounts payable	13	-	-	-	-	(3,349)	(3,349)
Financial lease liabilities	14, 25	-	(46)	-	-	-	(46)
		-	(46)	-	-	(3,349)	(3,395)
Weighted average interest rate			14.4%				
Net financial assets/(liabilities)		1,426	(46)	921	-	8,445	10,746

(c) **Net fair value of financial assets and liabilities** The net fair value of financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. At balance date, the net fair value of financial assets and liabilities approximates their carrying value.

23. Director and executive disclosures

Directors

The following persons were directors of Altium Limited during the whole of the financial year and up to the date of this report:

Chairman – Non-executive

Carl J Rooke

Executive directors

Nicholas M Martin (Chief Executive Officer)

Kayvan Oboudiyat

Darren Charles (until 15 July 2005)

Bruce W Edwards (until 28 February 2005)

Non-executive

William A Bartee

David M Warren

Dr Steven G Duvall (until 15 July 2005)

Bruce W Edwards (from 28 February 2005 until 15 July 2005)

Dr Steven G Duvall and Bruce W Edwards resigned as Non-executive Directors on 15 July 2005 and Darren Charles resigned as Executive Director on 15 July 2005 and continues in his capacity as Chief Financial Officer and Chief Operating Officer at date of this report.

23. Director and executive disclosures (continued)

Executives (other than directors)

The following persons were the five executives with the greatest authority for strategic direction and management of the consolidated entity ('specified executives') during the financial year:

Name	Position	Employer
Peter Murman	Managing Director, Amersfoort Technology Centre	Altium BV
Frank Hoschar	Director, Strategic Marketing	Altium Europe GmbH
Rene Mooijman	Managing Director, Contract Product Development	Altium BV
Klaus Pontius	Regional Director, Europe	Altium Europe GmbH
Nancy Eastman	Regional Director, USA	Altium Inc

All the above persons were also specified executives during the year ended 30 June 2004.

Remuneration of directors and executives

The remuneration committee is responsible for advising the board on remuneration policies and packages for board members and senior executives. Members of the remuneration committee are Carl J Rooke, William A Bartee and David M Warren.

Remuneration of directors and senior executives is determined so as to ensure that the package properly reflects the relevant person's duties and responsibilities and that the package is competitive to attract and retain services of high quality management. Remuneration packages include a base salary, superannuation and other benefits. Executives are also eligible to participate in the company's option plans. Remuneration and other terms of employment for each board member are formalised in service agreements.

Remuneration of non-executive directors is determined by the board within the maximum amount (\$350,000 p.a.) approved by the shareholders from time to time and are formalised in service agreements.

Details of remuneration

Details of the nature and amount of each element of the emoluments of each director of Altium Limited and each of the five specified executives of the company and the consolidated entity, including their personally-related entities receiving the highest emoluments are set out in the following tables:

Non-executive directors of Altium Limited

	PRIMARY Director's base fee	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
2005	\$	\$	\$	\$	\$	\$	\$
Carl J Rooke	110,000	-	-	-	-	27,463	137,463
William A Bartee	55,046	-	-	-	4,954	6,130	66,130
Dr Steven G Duvall*	55,046	-	-	-	4,954	-	60,000
David M Warren**	36,344	-	-	-	3,271	-	39,615
Bruce W Edwards***	12,766	-	-	-	1,355	2,648	16,769
Total	269,202	-	-	-	14,534	36,241	319,977

*Dr Steven G Duvall resigned as Non-executive Director on 15 July 2005

** David M Warren resigned as Executive Director and was appointed Non-executive Director on 2 August 2004.

*** Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director on 28 February 2005. Bruce W Edwards resigned as Non-executive Director on 15 July 2005.

¹Post employment

Notes to the financial statements

23. Director and executive disclosures (continued)

Non-executive directors of Altium Limited

	PRIMARY Director's base fee	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
2004	\$	\$	\$	\$	\$	\$	\$
Carl J Rooke	110,000	-	-	-	-	17,600	127,600
William A Bartee	57,163	-	-	-	5,145	8,800	71,108
Dr Steven G Duvall	57,163	-	-	-	5,145	-	62,308
Total	224,326	-	-	-	10,290	26,400	261,016

¹Post employment

Executive directors of Altium Limited

	PRIMARY Director's base fee	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
2005	\$	\$	\$	\$	\$	\$	\$	\$
Kayvan Oboudiyat	40,000	226,883	-	-	434	78,117	205,970	551,404
Bruce W Edwards	26,154	188,572 [^]	-	-	-	8,856	11,604	235,186
Darren Charles*	40,007	141,681	19,181	-	-	14,295	22,503	237,667
David M Warren***	3,077	9,626	-	-	-	1,143	-	13,846
Nicholas M Martin	-	1	-	-	455	-	-	456
Total	109,238	566,763	19,181	-	889	102,411	240,077	1,038,559

* Darren Charles resigned as Executive Director on 15 July 2005. Darren Charles continues in his capacity as Chief Financial Officer and Chief Operating Officer at the date of this report.

** Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director on 28 February 2005.

*** David M Warren resigned as Executive Director and was appointed Non-executive Director on 2 August 2004.

[^] Included in Bruce W Edward's base salary is a redundancy payment of \$100,000.

¹Post employment

Executive directors of Altium Limited

	PRIMARY Director's base fee	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	TOTAL
2004	\$	\$	\$	\$	\$	\$	\$	\$
Kayvan Oboudiyat	40,000	288,688	-	-	-	29,582	132,000	490,270
Bruce W Edwards	43,303	182,404	-	-	1,918	14,102	-	241,727
Darren Charles	40,000	127,113	23,336	-	-	13,344	31,520	235,313
David M Warren	40,000	131,489	-	-	-	15,434	-	186,923
Nicholas M Martin	-	1	-	-	-	-	-	1
Total	163,303	729,695	23,336	-	1,918	72,462	163,520	1,154,234

¹Post employment

23. Director and executive disclosures (continued)

Specified executives of the consolidated entity

	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	Total
2005	\$	\$	\$	\$	\$	\$	\$
Peter Murman Managing Director, Amersfoort Technology Centre	183,458	-	5,373	12,593	34,323	56,539	292,286
Frank Hoschar Director, Strategic Marketing	224,307	16,507	-	17,722	-	31,325	289,861
Rene Mooijman, Managing Director, Contract Product Development	141,175	31,910	-	9,208	47,606	52,212	282,111
Klaus Pontius Regional Director, Europe	224,307	18,454	-	7,145	-	30,435	280,341
Nancy Eastman Regional Director, USA	182,733	-	-	4,781	20,733	30,536	238,783
Total	955,980	66,871	5,373	51,449	102,662	201,047	1,383,382

¹Post employment

Specified executives of the consolidated entity

	PRIMARY Base salary	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE ¹ Super- annuation	EQUITY Options	Total
2004	\$	\$	\$	\$	\$	\$	\$
Peter Murman Managing Director, Amersfoort Technology Centre	193,407	-	-	10,930	15,433	5,107	224,877
Frank Hoschar Director, Strategic Marketing	224,148	2,928	-	117,073*	-	29,800	373,949
Rene Mooijman Managing Director, Contract Product Development	154,366	23,629	-	11,679	11,975	12,668	214,317
Klaus Pontius Regional Director, Europe	224,172	17,964	-	5,633	-	29,800	277,569
Nancy Eastman Regional Director, USA	192,082	-	-	1,442	3,796	34,570	231,890
Total	988,175	44,521	-	146,757	31,204	111,945	1,322,602

*Other benefits include allowances associated with living away from home (children's school fees, food and accommodation)

¹Post employment

Service agreements

Remuneration and other terms of employment for each board member are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below.

Carl J Rooke, Non-executive Director and Chairman

- Open agreement with no fixed term
- Directors' base fee of \$110,000 for the year ended 30 June 2005

Nicholas M Martin, Executive Director and Chief Executive Officer

- Open agreement with no fixed term
- Base salary of \$1 for the year ended 30 June 2005

The terms and conditions of employment for Nicholas M Martin were reviewed by the remuneration committee; the new service agreement effective 1 July 2005 is set out below:

- Open agreement with no fixed term
- Base salary of \$350,000, inclusive of superannuation, for the year ended 30 June 2006

Notes to the financial statements

23. Director and executive disclosures (continued)

Kayvan Oboudiyat, Executive Director and Executive Vice Chairman

- Open agreement with no fixed term
- Base salary of \$305,000, inclusive of superannuation, for the year ended 30 June 2005
- Directors' base fee of \$40,000 for the year ended 30 June 2005

William A Barteel, Non-executive Director

- Open agreement with no fixed term
- Directors' base fee of \$60,000, inclusive of superannuation, for the year ended 30 June 2005

Dr Steven G Duvall, Non-executive Director

- Open agreement with no fixed term
- Directors' base fee of \$60,000, inclusive of superannuation, for the year ended 30 June 2005

Dr Steven G Duvall resigned as Non-executive Director on 15 July 2005

Darren Charles, Executive Director, Chief Financial Officer and Chief Operating Officer

- Open agreement with no fixed term
- Base salary of \$172,550, inclusive of superannuation, for the year ended 30 June 2005
- Directors' base fee of \$40,000 for the year ended 30 June 2005

Bruce W Edwards, Executive Director

- Contract in place from 19 September 2003 for no fixed term
- Base salary of \$133,526, inclusive of superannuation
- Directors base fee of \$40,000 for the year ended 30 June 2005

As at 28 February 2005 Bruce W Edwards resigned as Executive Director and was appointed Non-executive Director. This was formalised in a new service agreement as below:

- Open agreement with no fixed term
- Directors' base fee of \$40,000, inclusive of superannuation, for the year ended 30 June 2005

Bruce W Edwards resigned as Non-executive Director on 15 July 2005

David M Warren, Executive Director

- Open agreement with no fixed term
- Base salary of \$140,000, inclusive of superannuation
- Directors base fee, \$40,000 for the year ended 30 June 2005

As at 2 August 2004 David M Warren resigned as Executive Director and was appointed Non-executive Director. This was formalised in a new service agreement as below:

- Open agreement with no fixed term
- Directors' base fee of \$40,000 for the year ended 30 June 2005

Frank Hoschar, Director of Strategic Marketing

- Open agreement with no fixed term
- Base salary of €125,000 for the year ended 30 June 2005
- Lease of company car plus running costs
- Notice period for terminating contract is 3 months

Peter Murman, Managing Director, Amersfoort Technology Centre

- Open agreement with no fixed term
- Base salary of €111,111 for the year ended 30 June 2005
- Notice period for terminating contract is 3 months

Rene Mooijman, Managing Director, Contract Product Development

- Open agreement with no fixed term
- Base salary of €98,022 for the year ended 30 June 2005
- Notice period for terminating contract is 3 months

23. Director and executive disclosures (continued)

Nancy Eastman, Regional Director, USA

- Open agreement with no fixed term
- Base salary of US\$145,000 for the year ended 30 June 2005
- There is no notice period for terminating the contract

Klaus Pontius, Regional Director, Europe

- Open agreement with no fixed term
- Base salary of €125,000 for the year ended 30 June 2005
- Lease of company car plus running costs
- Notice period for terminating contract is 3 months

In addition to the above service agreements, the directors and other executives are entitled to participate in Altium's options plans. These plans provide a mix of short-term and long-term performance incentives as discussed in note 23.

Shares under option

Unissued ordinary shares of Altium Limited under option at the date of this report are as follows:

Name of option plan	Number of options	Issue price of shares	Grant date	Expiry date
Altium Option Plan	1,115,650	5.50	29 Sep 2000	29 Sep 2005
Directors' Plan	1,440,000	5.50	20 Nov 2000	20 Nov 2005
Altium Option Plan	1,355,260	4.20	12 Oct 2001	12 Oct 2006
Altium Option Plan	717,700	4.20	7 Nov 2001	7 Nov 2006
Altium Option Plan	123,000	3.56	4 Dec 2001	4 Dec 2006
Altium Option Plan	400,000	1.17	10 Jul 2002	10 Jul 2007
Altium Option Plan	2,422,185	1.34	23 Oct 2002	23 Oct 2007
Altium Option Plan	8,400	1.34	30 Oct 2002	30 Oct 2007
Altium Option Plan	81,216	1.34	11 Nov 2002	11 Nov 2007
Altium Option Plan	260,990	1.34	19 Nov 2002	19 Nov 2007
Altium Option Plan	51,000	1.34	27 Nov 2002	27 Nov 2007
Altium Employee Share Option Plan	8,037,146	0.86	5 Dec 2003	5 Dec 2008
Altium Director Share Option Plan	1,870,000	0.86	5 Dec 2003	5 Dec 2008
Altium Employee Share Option Plan	200,000	0.86	7 May 2005	7 May 2009
Total unissued ordinary shares of Altium Limited under option	18,082,547			

The options granted under the Altium Option Plan and the Directors' Plan vest in equal amounts over a four-year period from the first anniversary date of issue. The options granted under the Altium Employee Share Option Plan and the Altium Director Share Option Plan vest over a three-year period from the first anniversary date of issue, 40% vest in year one, with 30% vesting for the two subsequent years thereafter. These options are exercisable at any time once vested through to expiry date. No option holder has any right under the options to participate in any other share issue of the company or of any other entity within the consolidated entity.

The 200,000 options granted this year under the Altium Employee Share Option Plan are supplementary to the options issued on 5 December 2003. As a result these options vest over a two-year period from date of issue, 40% vest at issue date, with 30% vesting for the two subsequent years thereafter, in line with the vesting periods of the original options granted on 5 December 2003.

Notes to the financial statements

23. Director and executive disclosures (continued)

Options over unissued ordinary shares in Altium Limited provided as remuneration to each director of the company and each of the specified executives of the consolidated entity as set out below:

Directors of Altium Limited

	Number of options granted during the year	Number of options vested during the year
Carl J Rooke	-	104,000
Kayvan Oboudiyat	-	780,000
William A Bartee	-	52,000
Dr Steven G Duvall	-	32,000
Darren Charles	-	209,650*
Bruce W Edwards	-	60,000

*Includes options vested to a related entity.

Specified executives of the consolidated entity

	Number of options granted during the year	Number of options vested during the year
Nancy Eastman	-	127,800
Frank Hoschar	100,000	120,000
Rene Mooijman	-	122,504
Peter Murman	-	140,012
Klaus Pontius	100,000	110,000

The value of the options issued to Frank Hoschar and Klaus Pontius during the year are detailed in the table:

	Grant date	Exercise price \$	Value per option at grant date \$	Vesting date	Total value \$
Frank Hoschar	7 May 2005	0.86	0.05; 0.05; 0.06	40% 7 May 2005, 30% 7 May 2006, 30% 7 May 2007	5,300
Klaus Pontius	7 May 2005	0.86	0.05; 0.05; 0.06	40% 7 May 2005, 30% 7 May 2006, 30% 7 May 2007	5,300

Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of the company and each of the five specified executives of the consolidated entity, including their related entities, are set out below.

Directors of Altium Limited

	Balance at 1 July 2004	Expired during the year	Balance at 30 June 2005	Vested and exercisable at 30 June 2005
Carl J Rooke	320,000	-	320,000	224,000
Kayvan Oboudiyat	2,400,000	-	2,400,000	1,680,000
William A Bartee	160,000	-	160,000	112,000
Dr Steven G Duvall	80,000	-	80,000	32,000
Darren Charles*	762,250	161,250	601,000	325,900
Bruce W Edwards	150,000	-	150,000	60,000

*Includes options granted to a related entity.

No ordinary shares in the company were issued as a result of options being exercised by the directors of the company.

Nicholas M Martin and David M Warren have not been granted options over ordinary shares at any time since the commencement of any company option plan.

23. Director and executive disclosures (continued)

Directors' Option Plan

The board of directors approved the establishment of the Directors' Option Plan in October 2000. The board may offer options to any director of Altium Limited (excluding Nicholas M Martin). Before issuing options to directors, the board will need to seek shareholder approval in accordance with ASX Listing Rule 10.14.

The Directors' Option Plan is based on the Altium Option Plan subject to changes required due to the fact that options are being issued to directors rather than employees.

When the board is exercising its discretion in respect of the Directors' Option Plan a director will not be able to vote if the exercise of the discretion relates to options or shares in the company which will be issued to that director.

A total of 1,440,000 options were granted to directors after approval was given at the November 2000 Annual General Meeting. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted being 20 November 2001. The last exercise date for these options is 20 November 2005. The exercise price payable upon conversion is fixed at \$5.50.

Altium Director Share Option Plan

The board of directors approved the establishment of the Altium Directors' Share Option Plan in November 2003. The board may offer options to any director of Altium Limited (excluding Nicholas M Martin). Before issuing options to directors, the board will need to seek shareholder approval in accordance with ASX Listing Rule 10.14.

The Altium Directors Share Option Plan is based on the Altium Employee Share Option Plan subject to changes required due to the fact that options are being issued to directors rather than employees.

When the board is exercising its discretion in respect of the Altium Directors Share Option Plan a director will not be able to vote if the exercise of the discretion relates to options or shares in the company which will be issued to that director.

A total of 1,870,000 options were granted to directors after approval was given at the November 2003 Annual General Meeting. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted being 5 December 2005. The last exercise date for these options is 5 December 2008. The exercise price payable upon conversion is fixed at \$0.86.

There were no options exercised during the year by the directors of the company.

Specified executives of the consolidated entity

	Balance at 1 July 2004	Granted during the year	Expired during during the year	Balance at 30 June 2005	Vested and exercisable at 30 June 2005
Frank Hoschar	275,000	100,000	-	375,000	170,000
Klaus Pontius	250,000	100,000	-	350,000	140,000
Nancy Eastman	469,000	-	109,000	360,000	198,800
Peter Murman	415,000	-	-	415,000	222,700
Rene Mooijman	381,260	-	-	381,260	205,319

No ordinary shares in the company were issued as a result of options being exercised by the five specified executives of the consolidated entity.

Notes to the financial statements

23. Director and executive disclosures (continued)

Share holdings

The number of ordinary shares in the company held during the financial year by each director of the company and each of the five specified executives of the consolidated entity, including their related entities, are set out below.

Directors of Altium Limited

	Balance at 1 July 2004	Acquisitions during the year	Balance at 30 June 2005
Carl J Rooke	324,400	-	324,400
Nicholas M Martin	22,444,000	-	22,444,000
Kayvan Oboudiyat	1,187,500	-	1,187,500
William A Bartee	-	-	-
Dr Steven G Duvall	-	-	-
David M Warren	5,403,000	-	5,403,000
Darren Charles	130,890	-	130,890
Bruce W Edwards	100,000	-	100,000

Specified executives of the consolidated entity

	Balance at 1 July 2004	Acquisitions during the year	Balance at 30 June 2005
Frank Hoschar	421,500	24,000	445,500
Klaus Pontius	501,500	-	501,500
Nancy Eastman	19,000	36,839	55,839
Peter Murman	-	-	-
Rene Mooijman	-	-	-

Loans to directors and director-related entities

At 30 June 2005 the following unsecured loans to director-related entities were outstanding: Darren Charles – Chief Financial Officer and Chief Operating Officer of \$51,130 (2004: \$52,617); and Nicholas M Martin – Chief Executive Officer of \$197,581 (2004: \$185,770). The loans advanced are charged at the 'benchmark interest rate' under the *Fringe Benefits Tax Assessment Act 1986 (Cwlth)* as at 30 June 2005 being 7.05% p.a. (2004: 7.05%). Interest charged on the loans for the year to 30 June 2005 was \$3,705 (2004: \$3,404) for Darren Charles and \$11,810 (2004: \$10,039) for Nicholas M Martin. During the year there were repayments of \$5,192 by Darren Charles and \$nil by Nicholas M Martin. The above unsecured loans are for a five year term or repayable within thirty days of separation.

Remuneration of director-related entities

A director, Carl J Rooke, is a partner in Horwath Tas Pty Limited. Horwath Tas Pty Limited has provided taxation services to Altium Limited for several years on normal commercial terms and conditions. The total amounts recognised as expenses during the year total \$8,899 (2004: \$10,219). There was no aggregate amounts payable at balance date to Horwath Tas Pty Limited as a director related entity.

An executive of the consolidated entity, Rene Mooijman, was a minority shareholder and director of DIASis Nederland BV during the year. For several years Altium BV has provided contract research and development services, administrative support services and has sublet office space to DIASis Nederland BV on normal commercial terms and conditions. The amounts recognised as revenue total \$91,937 (2004: \$294,413). The amounts recognised as a contribution to expenses total \$nil (2004: \$30,978). The aggregate amounts receivable at balance date from DIASis Nederland BV are \$nil (2004: \$103,429).

Related entities of directors employed by any company in the consolidated entity are paid on normal commercial terms and conditions.

24. Remuneration of auditors

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
Assurance services				
1. Audit services				
Fees paid/payable to PricewaterhouseCoopers Australian firm for audit and review of financial reports and other audit work under the Corporations Act 2001	218,362	208,959	218,362	203,617
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm	23,675	88,965	-	-
Total remuneration for audit services	242,037	297,924	218,362	203,617
2. Other assurance services				
Fees paid/payable to PricewaterhouseCoopers Australian firm	-	-	-	-
Total remuneration for other assurance services	-	-	-	-
Total remuneration for assurance services	242,037	297,924	218,362	203,617
Taxation services				
Fees paid/payable to PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	2,000	-	2,000	-
Tax consulting and tax advice	55,545	9,360	55,545	9,360
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	138,244	189,478	-	-
Tax consulting and tax advice	123,968	46,708	-	-
Total remuneration for taxation services	319,757	245,546	57,545	9,360
Advisory services				
Fees paid/payable to PricewaterhouseCoopers Australian firm	-	12,500	-	12,500
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm	8,806	6,936	-	-
Total remuneration for advisory services	8,806	19,436	-	12,500
Legal services				
Fees paid/payable to related practices of PricewaterhouseCoopers Australian firm	-	44,494	-	37,103
Total remuneration for legal services	-	44,494	-	37,103

From time to time the company will employ accountants to provide consulting services. The consolidated entity has a policy of seeking competitive tender for all major projects. Amounts in excess of \$20,000 must be approved by the audit and risk management committee.

Notes to the financial statements

25. Commitments for expenditure

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Capital commitments				
Commitments in relation to royalty fee and license of software: Within one year	-	435	-	435
Lease commitments				
Operating leases				
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	1,753	1,880	767	479
Later than one year but not later than five years	1,392	2,687	590	933
	3,145	4,567	1,357	1,412
Representing:				
Non-cancellable operating leases	3,145	4,567	1,357	1,412
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Not later than one year	236	49	116	27
Later than one year but not later than five years	402	-	230	-
Minimum lease payments	638	49	346	27
Less: future finance charges	(60)	(3)	(21)	(2)
Provided for in accounts	578	46	325	25
Representing lease liabilities:				
Current (note 14)	202	46	105	25
Non-current (note 14)	376	-	220	-
	578	46	325	25

26. Employee benefits

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Employee benefits and related on-cost liabilities				
Provision for employee benefits				
Current (note 15)	1,457	1,622	853	760
Non-current (note 15)	557	395	557	395
Aggregate employee benefits liability	2,014	2,017	1,410	1,155
	2005 \$	2004 \$	2005 \$	2004 \$
Estimated value of options issued to all employees including directors	10,927	2,085,150	-	1,509,818

26. Employee benefits (continued)

These estimated values are based on options granted during the period to employees and directors at the grant date and no vested options are included in the above calculation. These estimated values have been assessed using a derivative of the Black-Scholes option-pricing model including the following factors: exercise price, stock price, expected life, volatility, risk free rate, dividend yield and vesting period. The company acknowledges that while these estimates are based on the above option-pricing model, the valuation may vary widely due to fluctuations in the company's share price.

	CONSOLIDATED		PARENT ENTITY	
	2005 Number	2004 Number	2005 Number	2004 Number
Employee numbers				
Average number of employees during the financial year	262	255	125	117

Options

The company has the following share option plans:

- (i) Altium Option Plan
- (ii) Altium Employee Share Option Plan
- (iii) Directors' Option Plan
- (iv) Altium Director Share Option Plan

Date of Issue	7 May 2005	5 Dec 2003	5 Dec 2003	27 Nov 2002	19 Nov 2002	11 Nov 2002	30 Oct 2002	23 Oct 2002
Balance as at 1 July 2004	-	1,870,000	8,511,696	51,000	277,410	81,216	8,400	2,685,435
Issued during the year	200,000	-	-	-	-	-	-	-
Exercised during the year	-	-	-	-	-	-	-	-
Expired during the year	-	-	(474,550)	-	(16,420)	-	-	(263,250)
Outstanding at balance date	200,000	1,870,000	8,037,146	51,000	260,990	81,216	8,400	2,422,185
Number of recipients	2	5	190	6	71	12	2	158
Exercise price	\$0.86	\$0.86	\$0.86	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34
Vesting period	May 2005 to May 2007	Dec 2004 to Dec 2006	Dec 2004 to Dec 2006	Nov 2003 to Nov 2006	Nov 2003 to Nov 2006	Nov 2003 to Nov 2006	Oct 2003 to Oct 2006	Oct 2003 to Oct 2006
Expiration date	7 May 2009	5 Dec 2008	5 Dec 2008	27 Nov 2007	19 Nov 2007	11 Nov 2007	30 Oct 2007	23 Oct 2007

Notes to the financial statements

26. Employee benefits (continued)

Date of Issue	10 Jul 2002	4 Dec 2001	7 Nov 2001	12 Oct 2001	20 Nov 2000	29 Sep 2000	9 Jun 2000	Total
Balance as at 1 July 2004	400,000	123,000	765,700	1,499,460	1,440,000	1,192,150	2,023,000	20,928,467
Issued during the year	-	-	-	-	-	-	-	200,000
Exercised during the year	-	-	-	-	-	-	-	-
Expired during the year	-	-	(48,000)	(144,200)	-	(76,500)	(2,023,000)	(3,045,920)
Outstanding at balance date	400,000	123,000	717,700	1,355,260	1,440,000	1,115,650	-	18,082,547
Number of recipients	2	2	60	71	3	66	136	
Exercise price	\$1.17	\$3.56	\$4.20	\$4.20	\$5.50	\$5.50	\$3.42	
Vesting period	Jul 2003 to Jul 2006	Dec 2002 to Dec 2006	Nov 2002 to Nov 2006	Oct 2002 to Oct 2006	Nov 2001 to Nov 2005	Sep 2001 to Sep 2005	Jun 2001 to Jun 2005	
Expiration date	10 Jul 2007	4 Dec 2006	12 Nov 2006	12 Oct 2006	20 Nov 2005	29 Sep 2005	9 Jun 2005	

The market price per ordinary share at balance date was \$0.19.

	CONSOLIDATED		2004	
	\$	Number	\$	Number
Options vested at reporting date	2,689,082	9,945,988	3,150,206	4,028,015

During the year no options were exercised by employees or directors.

Altium Option Plan

The board of directors approved the establishment of the Altium Option Plan in June 1999. All employees (excluding executive directors) of Altium Limited and its subsidiaries are eligible to participate in the plan. An Executive Director (Darren Charles) holds options in this plan; these options were issued to him prior to becoming an Executive Director on 9 July 2001. Invitations for employees to participate are determined at the discretion of the directors of the company.

A total of 6,535,401 options (2004: 9,116,770) are outstanding under the plan to eligible employees as at 30 June 2005. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted. The exercise price payable upon conversion is fixed.

Altium Employee Share Option Plan

The board of directors approved the establishment of the Altium Employee Share Option Plan in December 2003. All employees (excluding executive directors) of Altium Limited and its subsidiaries are eligible to participate in the plan. Invitations for employees to participate are determined at the discretion of the directors of the company.

A total of 8,237,146 options (2004: 8,511,696) are outstanding under the plan to eligible employees as at 30 June 2005. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted.

26. Employee benefits (continued)

Directors' Option Plan

For details see note 23.

Altium Director Share Option Plan

For details see note 23.

Options are granted for no consideration. The amount received on the exercise of options is recognised as issued capital at the date of issue of the shares.

27. Related party information

Directors and specified executives

Disclosures relating to directors and specified executives are set out in note 23 to the accounts.

Transactions of directors and director-related entities concerning shares or share options

Information on transactions of directors and director-related entities concerning shares or share options is disclosed in note 23 to the accounts.

Wholly-owned group

The wholly-owned group consists of Altium Limited, the ultimate parent entity, and its wholly-owned controlled entities, Altium Inc, Altium Japan KK, Protel AG, Altium Netherlands BV, Altium BV, Altium Europe GmbH and Altium Limited (UK). Ownership interests in these controlled entities are set out in note 28.

Altium Information Technology (Shanghai) Co., Ltd., a subsidiary 100% owned by Altium Limited, was incorporated in China on 11 July 2005.

Transactions between Altium Limited and other entities in the wholly-owned group during the years ended 30 June 2005 and 30 June 2004 consisted of:

- (a) supply of computer software for sale by Altium Limited;
- (b) purchase of computer software for sale from Altium Limited ;
- (c) loans advanced by Altium Limited and interest received thereon;
- (d) loans repaid to Altium Limited;
- (e) purchase of research and development services by Altium Limited;
- (f) supply of finance, administration and marketing services by Altium Limited; and
- (g) payments for royalties in exchange for use of intellectual property.

The above transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by Altium Limited. The average interest rate charged on the loans during the year was 5.05% (2004: 6.8%).

Notes to the financial statements

27. Related party information (continued)

	PARENT ENTITY	
	2005 \$'000	2004 \$'000
Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with entities in the wholly-owned group:		
Interest revenue	336	4,062
Aggregate amounts receivable from and payable to entities in the wholly-owned group at balance date:		
Current receivables		
Trade debtors	6,238	5,518
Non-current receivables		
Loans*	4,050	59,899
Provision for intercompany loan *	-	(50,740)
Current payables		
Trade creditors	-	1,274
Loans	1,983	3,066

*The loan between Altium Limited and Altium BV of \$50,740,455 was capitalised as of 1 July 2004.

28. Investments in controlled entities

	PARENT ENTITY	
	2005 \$'000	2004 \$'000
Shares in subsidiaries	5,589	5,589

(a) Investments in controlled entities comprise:

Name of entity	Country of incorporation	Equity holding		Investment in subsidiary	
		2005 %	2004 %	2005 \$'000	2004 \$'000
Altium Netherlands BV					
- at recoverable amount	Netherlands	100	100	1,960	1,960
- Altium BV* - at recoverable amount	Netherlands	100	100	1,960	1,960
- Altium Limited (UK)	UK	100	100	-	-
- Boston Systems Office Limited	UK	100	100	-	-
Altium Inc - at recoverable amount	USA	100	100	-	-
Altium Europe GmbH	Germany	100	100	3,415	3,415
Protel AG	Switzerland	100	100	100	100
Altium Japan KK	Japan	100	100	114	114

*Altium Limited holds 37.4% (2004: nil) of shares in Altium BV directly. The remaining 62.6% (2004: 100%) are held indirectly through Altium Netherlands BV.

Altium Information Technology (Shanghai) Co., Ltd., a subsidiary 100% owned by Altium Limited, was incorporated in China on 11 July 2005.

29. Cash flow information

	CONSOLIDATED		PARENT ENTITY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Reconciliation of operating loss after income tax to net cash inflows from operating activities				
Operating loss after income tax	(1,091)	(88,020)	(2,038)	(94,475)
Depreciation and amortisation	5,691	10,330	3,418	2,877
Write down in carrying value of goodwill	-	83,323	-	-
Write down in carrying value of investments in subsidiaries	-	-	50,897	43,931
Provision of intercompany loan	-	-	-	50,740
Intercompany bad debt expense	-	-	(50,740)	-
Net (gain)/loss on disposal of assets	(11)	(14)	(3)	-
Unrealised foreign exchange differences	(3)	1	339	(703)
Change in operating assets and liabilities, net of effects from purchase of controlled entities				
Decrease/(increase) in trade and other debtors	129	(1,025)	(1,159)	(796)
Decrease/(increase) in inventories	79	(634)	53	(574)
Decrease/(increase) in prepayments and other assets	145	(27)	62	(73)
Increase in future income tax benefit	(1,668)	(1,509)	(41)	(813)
(Decrease)/increase in trade and other creditors and employee benefits	(550)	(1,642)	(1,484)	426
Decrease in deferred income tax liability	(1,103)	(889)	(945)	(1,150)
(Decrease)/increase in income tax receivable and payable	(184)	1,637	-	751
Decrease/(increase) other provisions	(22)	360	235	235
Net cash inflows/(outflows) from operating activities	1,412	1,891	(1,406)	376
Non-cash financing and investing activities				
Acquisition of plant and equipment by means of finance lease	622	-	345	-
Investment in existing controlled entity by means of capitalisation of loans to controlled entity	-	-	50,897	-

Notes to the financial statements

30. Earnings per share

	CONSOLIDATED ENTITY	
	2005	2004
	cents	cents
Basic earnings per share	(1.2)	(99.9)
Diluted earnings per share	(1.2)	(99.9)
	2005	2004
	number	number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	88,049,459	88,131,451
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	88,049,459	88,131,451
	2005	2004
	\$'000	\$'000
Earnings used for basic and diluted earnings per share	(1,091)	(88,020)
Net loss per statements of financial performance	(1,091)	(88,020)

Information concerning the classification of securities

Options

Options granted under the Altium Option Plan, Altium Employee Share Option Plan, the Directors' Option Plan and the Altium Director Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that the current share price is greater than the exercise price of the outstanding options. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in notes 26 and 27.

31. Contingent liabilities

From time to time the consolidated entity is subject to various claims and legal proceedings. Full provision has been made in the financial report for legal costs incurred to date in defending these matters and the directors' do not believe there is significant exposure to these claims based on legal advice received to date.

32. Impact of adopting Australian equivalents to IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS (AIFRS), and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the year ending 30 June 2006 and for the half year ending 31 December 2005.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

32. Impact of adopting Australian equivalents to IFRS (continued)

The consolidated entity has appointed the Chief Financial Officer (CFO) to manage the transition to AIFRS. The CFO has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. No material impacts are expected in relation to the statement of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

(a) Income tax

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005 no significant difference would have resulted to the accounts.

(b) Intangible assets – trademarks

Under AASB 138 *Intangible Assets*, capitalisation of internally generated intangibles is broadly only allowed for the purposes of development subject to meeting certain criteria.

This will result in a change to the current accounting policy, where other internally generated intangible assets are capitalised.

If the policy required by AASB 138 had been applied during the year ended 30 June 2005, consolidated and parent entity accumulated losses at 30 June 2005 would have been \$866,000 higher with a corresponding decrease in intangible assets at 30 June 2005.

(c) Impairment of Assets

Under AASB 136 *Impairment of Assets*, certain items of plant and equipment and intangibles may require determination of their recoverable amounts (as either part of a cash generating unit or individually dependent on the circumstances) by discounting cash flows using a risk-adjusted and asset-specific discount rate.

This will result in a change to the current accounting policy, under which a risk-adjusted interest rate is not used.

If the policy required by AASB 136 had been applied during the year ended 30 June 2005, no significant difference would have resulted to the accounts.

32. Impact of adopting Australian equivalents to IFRS (continued)

(d) Equity-based compensation benefit

Under AASB 2 *Share-based Payment*, from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees under the Altium Option Plan, the Altium Employee Share Option Plan and the Altium Director Share Option Plan after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, consolidated and parent entity accumulated losses at 30 June 2005 would have been \$313,000 higher, with a corresponding increase in the share-based payment reserve. For the year ended 30 June 2005, the consolidated and parent entity employee benefits expense would have been \$556,000 higher, with a corresponding increase in the net movement in the share-based payment reserve.

(e) Financial instruments

The group will be taking advantage of the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 July 2005. This allows the group to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 132, the current classification of financial instruments issued by entities in the consolidated entity would not change.

Under AASB 139, investments in loans and receivables and financial liabilities classifications will remain unchanged. Measurement of these instruments will initially be at fair value with subsequent measurement at amortised cost, using the effective interest rate method. This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount, with changes recognised in profit or loss.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

(f) Revenue disclosures in relation to the sale of non-current assets

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This is in contrast to the current Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit and loss of this difference is nil.

(g) Adjustment in relation to prior period

As discussed in note 3, due to the parent entity not recognising revenues from a subsidiary, revenue from the sale of goods for the parent entity for the years ended 30 June 2002, 30 June 2003 and 30 June 2004 was understated by \$3,798,000. Under AIFRS, the 2004 comparatives would have been required to be adjusted. Under Australian GAAP, this adjustment was made in the period in which it was discovered (the year ended 30 June 2005).

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the parent entity revenue would have been \$3,798,000 lower with a corresponding increase in the loss from ordinary activities before taxation. There would have been no impact on the consolidated entity.

Declaration to the Board of Directors in accordance with Section 295A of the Corporations Act

In our opinion:

- (a) the financial records of the company and the consolidated entity for the financial year ended 30 June 2005 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*; and
- (b) the financial statements, and the notes to the financial statements, of the company and the consolidated entity, for the financial year ended 30 June 2005:
 - (i) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.



Nicholas M Martin
Chief Executive Officer



Darren Charles
Chief Financial Officer

Sydney
19 August 2005

Directors' declaration

Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 27 to 64 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

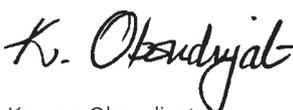
The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

For and on behalf of the board



Nicholas M Martin
Director and Chief Executive Officer



Kayvan Oboudiyat
Director and Executive Vice Chairman

Sydney
19 August 2005



**Independent audit report to the members
of Altium Limited**
(ACN 009 568 772)

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Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Altium Limited (the Company) and the Altium Group (defined below) for the financial year ended 30 June 2005 included on Altium Limited's web site. The Company's directors are responsible for the integrity of the Altium Limited's web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit opinion

In our opinion, the financial report of Altium Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Altium Limited and the Altium Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Altium Limited (the company) and the Altium Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.



We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

A handwritten signature in black ink that reads "Andrew Sneddon".

PricewaterhouseCoopers

A handwritten signature in black ink that reads "Andrew Sneddon".

A J Sneddon
Partner

Sydney
19 August 2005

The shareholder Information set out below was current as at 15th August 2005

A. Distribution of equity securities

Analysis of equity security holders by size of holding: Altium Limited held only one class of equity security – ordinary shares.

Range	Number of shareholders	Number of option holders
1 – 1000	577	-
1,001 – 5,000	831	12
5,001 – 10,000	285	26
10,001 – 100,000	392	111
>100,000	71	38
Total	2,156	187

There were 988 holders of a less than marketable parcel of ordinary shares.

Issued capital is 88,049,459

B. Equity security holders

Twenty largest quoted equity security holders

Rank	Name of holding	Number of shares held	Percentage of issued shares %
1	N & M Martin Holdings Pty Ltd (Martin Family A/C)	12,441,500	14.13
2	Protel Systems Pty Limited	12,340,000	14.01
3	National Nominees Limited	7,346,635	8.34
4	ANZ Nominees Limited	5,810,343	6.60
5	Fortis Clearing Nominees P/L (Settlement A/C)	4,759,624	5.41
6	Citicorp Nominees Pty Limited (CFS Developing Companies A/C)	3,109,089	3.53
7	Mirkazemi Holdings Pty Limited	2,603,000	2.96
8	Westpac Custodian Nominees Limited	1,122,731	1.28
9	Zentel Pty Limited	1,050,000	1.19
10	Zentel Pty Ltd	1,018,000	1.16
11	Mr Pedram Mirkazemi	1,007,868	1.14
12	Mr Paul Robert Reen	850,000	0.97
13	Citicorp Nominees Pty Limited	828,778	0.94
14	Citicorp Nominees Pty Limited (CFSIL CWLTH AUST BOUT 3 A/C)	805,992	0.92
15	Mrs Nanci Catherine Moore	804,000	0.91
16	Whitefield Limited	790,200	0.90
17	PAPL EBSCO Pty Ltd	750,000	0.85
18	HSBC Custody Nominees	669,276	0.76
19	Mr Simon Gautier Hannes	615,000	0.70
20	N&M Martin Holdings Pty Ltd (Super Fund A/C)	602,500	0.68

Information for shareholders

C. Unquoted equity securities

	Number of options on issue	Number of holders
Employees	14,972,547	184
Directors	2,880,000	3
Total options on issue	17,852,547	187

D. Substantial shareholders

The substantial holders in the company are set out below:

Rank	Name	No. of shares	%
1	Nicholas M Martin	22,444,000	25.49
2	Perennial Investment Partners Limited	8,625,457	9.80
3	David Warren	5,403,000	6.14
4	SAS Trustee Corporation	5,005,000	5.68
Total		41,477,457	47.11

E. Voting rights

- Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll shall have one vote for each share represented
- Option: No voting rights

F. Share buy-back

Altium Limited has not undertaken an on-market share buy-back during the last financial year.

G. Securities subject to escrow

No shares are currently subject to escrow.

H. Altium Limited major announcements to the ASX

18 Jul 2005	Changes to Board of Directors
12 Jul 2005	Reports Full Year Preliminary Results
27 Apr 2005	Altium Q3 Sales Update
8 Apr 2005	Changes to Board of Directors & Executive Team
24 Feb 2005	Half Yearly Report/Half Year Accounts
19 Jan 2005	Q2 Sales Update
25 Nov 2004	Proxy Voting Summary AGM 2004
25 Nov 2004	Chairman's Address to Shareholders
10 Nov 2004	Change in substantial holding from IFL
5 Nov 2004	Ceasing to be a substantial holder
4 Nov 2004	Full Year Accounts
26 Oct 2004	Annual Report
26 Oct 2004	Notice of Annual General Meeting
15 Oct 2004	Ceasing to be a substantial holder
15 Oct 2004	Q1 Update
30 Sep 2004	Annual Financial Report
3 Sep 2004	Change in substantial holding

(N.B. A complete and up-to-date list of all Altium's financial announcements can be found on www.asx.com.au.)

I. Notice of Annual General Meeting

Date: Thursday 29 September 2005
Time: 3.30pm
Venue: Westin Hotel, Meeting Room III,
Heritage Conference Centre
(access via Level 6 Bridge),
No 1 Martin Place
Sydney NSW 2000

J. Enquiries about your shareholding

Please contact Computershare for all questions in relation to your shareholding, dividends, share transfers and monthly holding statements. See Directory in this report for contact details.

Website: <http://www-au.computershare.com>
Access to Forms: <https://www-au.computershare.com/investor/formscatalogue.asp>
Access to FAQs: <https://www-au.computershare.com/investor/FAQs.asp>

K. Changes to your address

Whenever you change your address it is important to notify the share registry. This can be done in one of two ways. Either write or fax to the share registry, quoting your shareholder number, old address, current address and signature, or visit the registry website and change your details online or download a change of address form. This form can be found at: <https://www-au.computershare.com/investor/formscatalogue.asp>

L. Enquiries about Altium Limited

Email: investor.relations@altium.com.au
Website: www.altium.com

M. Altium Limited shareholder communications

Altium Limited publishes information to its shareholders in the annual report and via releases to the ASX. Copies of this and other information can be found on the investors' section of our website: www.altium.com/investor/index.html. Altium Limited provides quarterly updates on revenue earnings.

Company particulars

Directors

Carl J Rooke
Chairman

Nicholas M Martin
Chief Executive Officer

Kayvan Oboudiyat
Executive Vice Chairman

William A Bartee
Non-executive Director

David M Warren
Non-executive Director

Company Secretary

Kayvan Oboudiyat

Registered office

Level 3, 12a Rodborough Road
Frenchs Forest NSW 2086
(02) 9975 7710

Share registry

Computershare Investor Services Pty Limited
3/60 Carrington Street
Sydney NSW 2000

Stock exchange listings

Altium Limited shares are listed on the Australian Stock Exchange (ASX: ALU)

Auditor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

Notice of Annual General Meeting

3.30 pm Thursday 29 September 2005
Westin Hotel
1 Martin Place
Sydney NSW 2000