Review of operations and activities

Group overview

Business overview

Altium Limited is a global developer and supplier of design tools for electronics systems design 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, as well as maintaining a large reseller network in all other major markets.

Products

Altium's products offer tailored solutions covering a range of 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 todays newest electronic and consumer products across a broad range of industries including telecommunications, automotive, aerospace, defence, medicine, science and consumer electronics.

Altium's technology provides a complete system of seamlessly integrated design tools for electronics systems design. Altium's design technology is sold in the form of flexible software product licenses which offer engineers and engineering teams tailored, 'out-of-the-box' solutions covering a broad range of hardware design, embedded software development and system-on-FPGA design processes. These product licenses include well-known brands such as Protel and P-CAD for board-level and PCB design, and TASKING for embedded software development.

Altium's other solutions include Nexar (the industry's first complete and vendor-independent solution for embedded system-on-FPGA design), CircuitStudio (a dedicated universal front-end engineering solution

for board-level and programmable logic design), and CAMtastic (an independent design for manufacture tool). Altium also sells a hardware product called a NanoBoard; the electronics industry's first vendor-independent FPGA-based development board.

As all Altium's software products are built upon Altium's unique Design Explorer (DXP) technology integration platform, they all seamlessly integrate to form a complete electronics design system.

Technology development

With the release of Nexar and the first generation of its LiveDesign-enabled product range in February 2004, Altium completed the strategic product development objectives set out in its Initial Public Offering (IPO) Prospectus. Since the IPO in 1999, the company has acquired a number of key technologies which, together with an intensive internal research and development program, now provide the unique technology platform that the company set out to achieve at its listing.

The goal of this strategic development program was to overcome the barriers that previously existed for mainstream engineers to have access to an integrated electronics design system that delivers a complete range of board-level, embedded software development and system-on-FPGA design capabilities.

As part of the process, Altium has re-engineered its 'Design Explorer' (DXP) technology integration platform to provide the foundation for the next level of electronics design integration. The resulting benefit for engineers is a new methodology called 'LiveDesign' that fundamentally changes the way electronics designs are developed. This will have a profound impact on the way future products are designed, with benefits to the speed, design flow, quality and final product cost. LiveDesign allows electronic systems to be integrated into a programmable chip with an ease not possible with any other design system.

Only Altium is poised to deliver the benefits of 'LiveDesign' to every engineer.

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 within a realistic time frame would not be possible without the automation that EDA tools bring. 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.

Review of operations and activities

Markets

Altium's major markets for its products are the US (42.1%), Europe (39.4%), and Japan (12.7%). 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 UK, 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 focussed, 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 multi-national 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 our 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, technical presentations and product demonstrations at tradeshows 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-sales 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.

Since the IPO, Altium's sales and marketing network has contributed to annual revenues growing from $21 million to over $40 million.

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 a one-year timeframe.

All Altium product licenses are available as stand-alone 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 specialised team working in the United States.

Review of financial performance

Sales revenue

The company reported revenues from operating activities for the 2004 financial year of $40.4 million; down from $46.6 million for the previous year, however the underlying performance of the business (excluding the effects of exchange rates) was broadly in line with the 2003 financial year.

Sales in local currencies:

Region	2004 $'000	2003 $'000	Percentage Change
USA (US Dollars)	12,278	11,750	4%
Europe (Euro)	7,518	7,988	(6%)
Japan (Japanese Yen)	222,849	233,900	(5%)
Australia (Australian Dollars)	1,481	1,240	19%
Global resellers (Australian Dollars)	5,884	5,368	10%

In local currencies there was a 28% increase in sales booked in the second half of the financial year as compared to the first half, and the month of June showed positive signs with record sales in North America, Europe and Australia. On a product by product basis, compared to the previous financial year, Protel sales were up, P-CAD sales were down, and with the exception of the reduction of a long-term service contract TASKING sales were flat. Early results from Nexar sales were also encouraging but it is anticipated that it will take 12-18 months from initial release (February 2004) before material contribution to sales revenue is realised.

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 only slightly lower than in the previous financial year, reported revenue in Australian Dollars actually fell by 13%.

Review of operations and activities

US Dollar exchange rates during the financial year:

30 September 2003	0.6784
31 December 2003	0.7491
31 March 2004	0.7543
30 June 2004	0.6900

Management of costs

The company acted to preserve operating cash flows and performance and managed to decrease costs in the 2004 financial year. Cash running costs (operating costs and research and development costs) were reduced by over 9% to $38.5 million as compared to $42.0 million in the previous year. The number of full time staff in sales, marketing and administration was reduced over the year, and as a consequence there were savings in office overhead. At the same time, the company maintained its overall spending on research and development because it believes continued investment is vital to preserve the company's competitive edge, both in the short term and as the global economy recovers.

Write-down of carrying value of non-current intangible assets

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

However, using a conventional forecast cash flow model to assess these carrying values, as required under existing accounting standards, the Directors do not believe, based on the company's financial performance over the last few years, that they can objectively substantiate the carrying value as recorded in the company's accounts. For these reasons, and because of these changes in the economic and regulatory environment, the Directors have chosen to adopt a new policy and assumptions for the cash flow model used to assess the recoverable amount of intangibles. When using these assumptions and its new accounting policy, the Directors have determined that under the model required for assessing carrying value, a write down of $83.3 million was required and this has been charged to the statement of financial performance. This write-down represents a one-off non-cash charge to the company's results.

The group of assets comprising goodwill arising from acquisitions, acquired technology purchases and capitalised integration costs work together in the generation of net cash inflows from the company's integrated product offerings. Accordingly the write-down of the carrying value has been attributed to the goodwill balance on the basis that the forecast cash flows are more readily attributed to the other intangible assets. For further information relating to the write-down of non-current assets please refer to note 11 to the financial statements.

Review of financial position

Capital structure

In March 2004, the company announced the completion of its share buy-back scheme. During the 2004 financial year the company repurchased a total of 961,158 shares at a cost of $518,356. The repurchased shares were subsequently cancelled. As a result of these transactions, total shares on issue at balance date decreased from 89,010,617 to 88,049,459. For further detail on the company's capital structure, refer to note 18 to the financial statements.

Cash flows from operations

In the 2004 financial year Altium generated $1.9 million cash from operations; down from $9.5 million in the previous year. The effect on sales due to the appreciation of the Australian Dollar as discussed in the review of financial performance has also impacted receipts from customers resulting in reduced cash

inflows, while payments to suppliers and employees were reduced in line with overall cost control measures. The company anticipates that its cash position will increase in the months following the June quarter as it collects significant outstanding receivables from customers after strong June sales.

Investment for future performance

New product initiatives

In February 2004, Altium reached a milestone in its strategic technology development with the commercialisation of its 'embedded systems on FPGA' technology encompassed by a new product called 'Nexar' and a range of updated 2004 versions of its other products. Nexar enables board-level designers to utilise their existing electronics design skills to build sophisticated microprocessor-based systems (embedded systems) which they can download into programmable chips (FPGAs).

This emerging area of electronics design is called 'embedded system on FPGA' design and before the launch of Altium's Nexar software it was not accessible to mainstream electronics engineers – it was only able to be done by FPGA experts with specialist skills and high-cost tools. The enabling aspect of this technology, combined with the rapid progress being made in the capabilities and cost of programmable devices, represents a paradigm shift in electronics design and provides a significant opportunity for longer term growth.

Continued investments in research and development

During the year Altium invested $11.8 million into research and development activities, an increase of 10% from the previous financial year. While commitment to research and development increased due to the commercialisation of Nexar, the company's profitability was negatively impacted by a decrease in expenses capitalised in line with Altium's accounting policy.

	2004 $'000	2003 $'000
Research and development costs expensed	9,400	7,000
Research and development costs capitalised	2,400	3,700
Total investment in research and development	**11,800**	**10,700**

Expenses capitalised relate to activities undertaken to integrate acquired technology into future products. The commercialisation of Nexar increased the amount expensed to $9.4 million based on completion of a number of integration projects. Altium intends to continue its focus on research and development into new product development in order to ensure avenues of future growth for the company.

Regulatory environment

For details regarding impending regulatory changes in accounting standards refer to note 1(t) to the financial statements.

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 – 28 of this 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 2004.

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, Dr Steven G Duvall, David M Warren, Darren Charles and Bruce W Edwards.

David M Warren resigned as executive director and was appointed as non-executive director on 2 August 2004 and continues in office 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 8 for further commentary.

Results	CONSOLIDATED	
	2004	2003
	$'000	$'000
Operating loss before income tax	(88,515)	(2,590)
Income tax benefit/(expense)	495	(4,386)
Operating loss after income tax	**(88,020)**	**(6,976)**

Earnings per share	CONSOLIDATED	
	2004	2003
	cents	cents
Basic earnings per share	(99.9)	(7.8)
Diluted earnings per share	(99.9)	(7.8)

Dividends

Dividends paid to members during the financial year were as follows:	CONSOLIDATED 2004 $	2003 $
An ordinary dividend for the year ended 30 June 2003 of 2 cents per share unfranked paid on 30 September 2003	1,760,989	-
An ordinary dividend for the year ended 30 June 2002 of 2 cents per share fully franked paid on 4 October 2002	-	1,796,176
	1,760,989	1,796,176

The Directors did not declare a final dividend for the financial year ended 30 June 2004 as a result of the financial performance for that period.

Information on directors

Director	Experience	Special responsibilities	Director's interests in Altium Limited*	
			Ordinary shares	Options
Carl J Rooke FCA FAICD	Non-Executive Director for 14 years. Chairman for 5 years. Managing Partner of of Horwath Tas Pty. Former Chairman of Horwath Australia.	Non-Executive Chairman. Chairman of the Remuneration and Nomination Committees and member of the Audit Committee.	324,400	320,000
Nicholas M Martin	Joint Chief Executive Officer and Founder. Executive Director for 17 years.	Joint Chief Executive Officer. Member of the Nomination Committee.	22,444,000	-
Kayvan Oboudiyat BE (Hons) GDA	Chief Executive Officer for 5 years, Managing Director for 2 years prior. Former Senior executive in the International Business Unit of Telstra.	Joint Chief Executive. Member of the Remuneration Committee. Company Secretary.	1,187,500	2,400,000
William A Bartee BS MBA JD	Non-Executive Director Director for 5 years. Former Investment Director of Macquarie Technology Funds Pty Limited.	Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.	-	160,000
Dr Steven G Duvall Ph.D. MS BS, Intel Fellow.	Non-Executive Director for 1.5 years. Director Strategic Investment for Intel Australia in Asia Pacific Region.	Member of the Audit Committee.	-	80,000

Information on directors (continued)

Director	Experience	Special responsibilities	Director's interests in Altium Limited*	
			Ordinary shares	Options
David M Warren BSc (Hons) MAIP MAICD	Executive Director for 13 years. Resigned as Executive Director and was appointed Non-Executive Director 2 August 2004.	-	5,403,000	-
Darren Charles BCom	Executive Director and Chief Financial Officer for 3 years. Appointed Chief Operating Officer 29 March 2004.	Chief Financial Officer and Chief Operating Officer.	130,890	762,250
Bruce W Edwards	Executive Director for 3 years. Former President of Altium Inc.	-	100,000	150,000

*Directors' interests include direct and indirect interests.

Directors' meetings

The number of meetings of the company's Board of Directors held during the year ended 30 June 2004 and up to the date of this report attended by each director were:

	Full meetings of directors	Meetings of committees		
		Audit	Nomination	Remuneration
No. of meetings held	8	4	1	1
No. of meetings attended by:				
Carl J Rooke	8	***4	1	1
Nicholas M Martin	8	*	1	*
Kayvan Oboudiyat	8	*	*	1
William A Bartee	8	4	1	1
Dr Steven G Duvall	8	4	*	*
Darren Charles	8	**4	*	*
Bruce W Edwards	8	*	*	*
David M Warren	7	*	*	*

* Not a member of the relevant committee.

** Darren Charles resigned as a member of the Audit Committee on 22 July 2003 and was replaced by Dr Steven G Duvall. In the period, Darren Charles continued to attend audit meetings by invitation in his capacity as Chief Financial Officer.

*** Carl J Rooke resigned as chairman of the Audit Committee on 22 July 2003 and was replaced by William A Bartee. Carl J Rooke remains a member of the Audit Committee.

Directors' and senior executives' emoluments

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, Kayvan Oboudiyat and William A Bartee.

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.

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 is formalised in service agreements.

Details of the nature and amount of each element of the emoluments 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 Director's base fee	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE[1] Super-annuation	EQUITY Options	Total
	$	$	$	$	$	$	$
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

[1]Post 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
	$	$	$	$	$	$	$	$
Nicholas M Martin	-	1	-	-	-	-	-	1
Kayvan Oboudiyat	40,000	288,688	-	-	-	29,582	132,000	490,270
David M Warren*	40,000	131,489	-	-	-	15,434	-	186,923
Darren Charles	40,000	127,113	23,336	-	-	13,344	31,520	235,313
Bruce W Edwards	43,303	182,404	-	-	1,918	14,102	-	241,727

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

[1]Post Employment

Other executives of Altium Limited

	PRIMARY Director's base fee	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE[1] Super-annuation	EQUITY Options	Total
	$	$	$	$	$	$	$
Matthew Schwaiger Director, Product Management	129,808	47,455	-	-	11,683	67,220	256,166
Marc Depret Software Architect	134,386	16,962	-	-	13,073	58,035	222,456
Dejan Stankovic Software Architect	128,290	-	-	3,340	11,546	54,900	198,076
Jason Hingston Software Architect	128,290	-	-	-	11,546	54,900	194,736
Ben Wells Software Architect	127,612	-	-	-	11,485	38,565	177,662

[1]Post Employment

Other executives of the consolidated entity

	PRIMARY Director's base fee	PRIMARY Motor vehicle	PRIMARY Bonus	PRIMARY Other benefits	PE[1] Super-annuation	EQUITY Options	Total
	$	$	$	$	$	$	$
Frank Hoschar Director, Strategic Marketing	224,148	2,928	-	*117,073	-	29,800	373,949
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
Peter Murman Managing Director, Amersfoort Technology Centre	193,407	-	-	10,930	15,433	5,107	224,877
Rene Mooijman Managing Director, Contract Product Development	154,366	23,629	-	11,679	11,975	12,668	214,317

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

[1]Post Employment

The value of options included as remuneration for directors or executives, is valued at the date they are granted and apportioned over the vesting period. The amounts disclosed above for remuneration relating to options are the assessed fair values of options at the date they were granted to directors and other executives. Fair values have been assessed using a Black-Scholes based option-pricing model. Factors taken into account by this option-pricing model include the exercise price, the term of the option and the market value of the share at the time the options were granted. Key assumptions adopted as at the date of issue for valuing the options in the current year include risk free rate of interest at 5.61% and volatility of share price at 53.36%.

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.

Share options granted to directors and the most highly remunerated executives

Options over unissued ordinary shares of Altium Limited granted during, or since the end of 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:

Directors	Options granted
Carl J Rooke	160,000
Kayvan Oboudiyat	1,200,000
William A Bartee	80,000
Dr Steven G Duvall	80,000
Darren Charles	200,000
Bruce W Edwards	150,000

Other executives of Altium Limited	Options granted
Matthew Schwaiger	400,000
Marc Depret	400,000
Dejan Stankovic	320,000
Jason Hingston	270,000
Ben Wells	271,000

Other executives of the consolidated entity	Options granted
Frank Hoschar	75,000
Klaus Pontius	50,000
Nancy Eastman	252,000
Peter Murman	241,750
Rene Mooijman	181,260

The options granted to directors and other executives of Altium Limited and the consolidated entity were granted under the Altium Director Share Option Plan and the Altium Employee Share Option Plan on 5 December 2003.

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	2,023,000	3.42	9 June 2000	9 June 2005
Altium Option Plan	1,202,150	5.50	29 Sept 2000	29 Sept 2005
Directors' Plan	1,440,000	5.50	20 Nov 2000	20 Nov 2005
Altium Option Plan	1,499,460	4.20	12 Oct 2001	12 Oct 2006
Altium Option Plan	765,700	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 July 2002	10 July 2007
Altium Option Plan	2,685,435	1.34	23 Oct 2002	23 Oct 2007
Altium Option Plan	8,400	1.34	30 Oct 2002	30 Oct 2007
Altium Option Plan	81,215	1.34	11 Nov 2002	11 Nov 2007
Altium Option Plan	277,410	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	8,511,696	0.86	5 Dec 2003	5 Dec 2008
Altium Director Share Option Plan	1,870,000	0.86	5 Dec 2003	5 Dec 2008
Total unissued ordinary shares of Altium Limited under option	**20,938,466**			

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.

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

Significant changes in the state of affairs

There has been a significant decrease in the carrying value of non-current intangible assests as highlighted below:

	2004 $' 000
Goodwill	101,437
Less: accumulated amortisation	(18,114)
Less: write down in carrying value	(83,323)
	-
Altium trademark	866
AltiumOne technology	1,165
Less: accumulated amortisation	(532)
Acquired technology	25,795
Capitalised integration costs	12,407
Less: accumulated amortisation	(8,869)
	30,832

For more information refer to note 11 to the financial statements.

Events subsequent to balance date

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2004 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 are none of significance.

Likely developments and expected results of operations

The write-down of intangibles (refer to note 11 to the financial statements) represents a one-off non-cash charge to the company's results. This will have a positive impact on future reported results as there will no longer be an annual charge for amortisation of goodwill recorded in the statement of financial performance. Additionally, there will be no impact on the company's ability to generate future cash flows or on the future assets and liabilities of the company from this transaction.

Insurance of officers

During the year the company paid a premium of $61,709 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.

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.

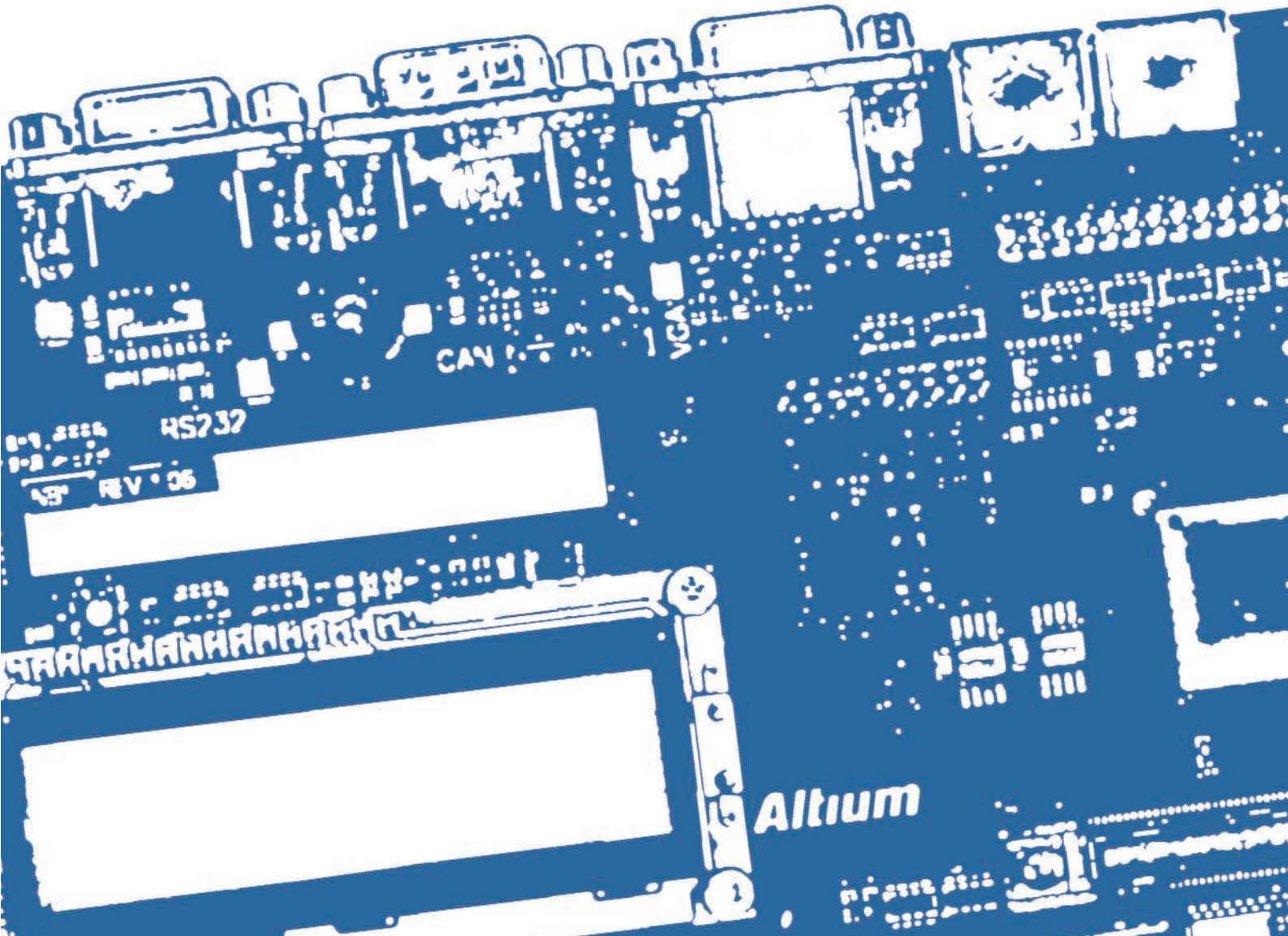
K. Oboudiyat

Kayvan Oboudiyat
Director and Joint Chief Executive Officer

Nicholas M Martin
Director and Joint Chief Executive Officer

Sydney, 30 September 2004

Corporate governance statement



Corporate governance statement

On 31 March 2003, the ASX Corporate Governance Council released its Principles of Good Corporate Governance and Best Practice Recommendations ('ASX Principles'). The ASX Principles, in conjunction with the ASX Listing Rules, now require companies to disclose in their annual reports whether their corporate governance practices follow the ASX Principles on an 'if not, why not' basis.

The company has undergone a review of all the ASX Best Practice Recommendations in order to establish which principles are appropriate to incorporate and which principles are not appropriate to incorporate. We are pleased to report that the company already complies with the majority of the ASX Principles.

The roles of the Board and management

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 in both the short and longer term 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.

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 which states its functions and responsibilities which include the review and approval of strategy, budgets and financial plans, monitoring organisational performance and the achievement of the company's strategic goals and objectives. The charter also clearly defines the functions of management delegated by the Board to the Joint Chief Executive Officers and senior executives which include the day to day management of the company's operations and the implementation of corporate strategy.

Board structure

The Board is currently comprised of four non-executive directors, including the Chairman, and four executive directors, including the Joint Chief Executive Officers and the Chief Financial Officer. The names of the directors in office at the date of this report, the year of their appointment, their status as non-executive, executive or independent directors, and whether they retire at the 2004 Annual General Meeting are set out in the following table. Details of the background, experience and professional skills of each director are set out in the Directors' Report.

Name of director	Date appointed	Non-Executive	Executive	Independent	Retiring at 2004 Annual General Meeting	Seeking re-election at 2004 Annual General Meeting
Carl J Rooke**	13 Jun 1990	Yes	No	Yes	Yes	Yes
Nicholas M Martin**	30 Aug 1991	No	Yes	No	Yes	Yes
Kayvan Oboudiyat	10 Feb 1997	No	Yes	No	No	No
William A Bartee**	3 May 1999	Yes	No	Yes	Yes	Yes
Dr Steven G Duvall	27 Nov 2002	Yes	No	Yes	No	No
Darren Charles	10 Jul 2001	No	Yes	No	No	No
Bruce W Edwards	10 Jul 2001	No	Yes	No	No	No
David M Warren*	4 Dec 1991	Yes	No	No	No	No

* Retired as an executive director and appointed by the Board as a non-executive director on 2 August 2004.

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

Director independence

Directors are expected to bring independent views and judgment to the Board's deliberations. ASX corporate governance best practice principles indicate that the majority of Board members should be independent. 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. The Board is therefore not prepared to set a required number of independent directors as this may preclude a person who would otherwise make a valuable contribution to the Board. The Board does however recognise the need for independent directors and as seen in the Board structure table above, there are three independent directors including the Chairman.

In light of the above, the Directors have not set materiality thresholds in accordance with the ASX Best Practice Recommendations for determining independence of directors at this stage. However, as noted in the Directors' Report, the Directors have assessed the independence of all directors during the period. Specific factors considered included director's 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 2004 is set out in the Directors' Report.

Retirement and re-election

The Constitution of the company requires half of the directors, including the Joint Chief Executive Officers, to retire from office at each annual general meeting. Directors who have been appointed by the Board are required to retire from office at the next annual general meeting and are not taken into account in determining the number of directors to retire at that annual general meeting. Each director who has held office for two or more years must retire from office. 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 made by the Board's Nomination Committee for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is 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 next following annual general meeting and will be eligible for re-election by shareholders at that annual general meeting.

Review of performance

The Altium Directors' reference manual sets out the conduct and responsibilities of directors in accordance with the Board charter. In order to ensure that the Board works efficiently and effectively, the performance of each committee is discussed with the committee chairman and the individual directors. The Chairman undertakes an individual assessment of the performance of individual directors. Any concerns arising out of these assessments are raised directly with the director concerned. While the Board does not conduct a formal board performance assessment, the reviews that are undertaken are consistent with ASX Principle 8 and will be continually reviewed.

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. Consistent with ASX Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a board committee. The company will reimburse the director for the reasonable expense of obtaining that advice.

Committees of the Board

Three standing board committees assist the Board in the discharge of its responsibilities and are governed by their respective charters, as approved by the Board. These are:

- Audit and Risk Committee,
- Nomination Committee, and
- Remuneration Committee.

These committees review matters on behalf of the Board and make recommendations for consideration by the entire Board.

Audit and Risk Committee

The Audit and Risk Committee monitors internal control policies and procedures designed to safeguard company assets and to maintain the integrity of financial reporting, consistent with ASX Principle 4. The charter for the Audit and Risk Committee has been revised in light of the ASX principles.

Among the specific responsibilities set out in its revised charter, the Audit and Risk Committee reviews and reports to the Board on all financial information published by the company or released to the market, assists the Board in reviewing the effectiveness of the organisation's internal control environment, recommend 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.

The members of the Audit and Risk Committee at the date of this report are:

- William A Bartee – committee chairman
- Carl J Rooke
- Dr Steven G Duvall

Other persons considered appropriate attend meetings of the Audit and Risk 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 ASX Principles 4 and 7. The Audit and Risk Committee met four times during the financial year ended 30 June 2004. Details of the meetings attended by each committee member are set out in the Directors' Report.

Nomination Committee

The Nomination Committee was established in July 2003. Among the specific responsibilities set out in its charter, the Nomination Committee conducts an annual review of the membership of the Board with regard to present and future needs of the consolidated entity, makes recommendations on board composition and appointments, proposes candidates for board vacancies and oversees board succession including the succession of the Chairman and establishes induction guidelines for newly appointed directors, regularly assessing the effectiveness of this induction process. The Nomination Committee has also established criteria for board independence and conducts an annual review of director's independence.

The members of the Nomination Committee at the date of this report are:

- Carl J Rooke – committee chairman
- William A Bartee
- Nicholas M Martin

The composition, operation and responsibilities of the Committee are generally consistent with ASX Principles 2 and 9. The Nomination Committee met once during the financial year ended 30 June 2004. Details of the meetings attended by each committee member are set out in the Directors' Report. Consistent with ASX Principle 2, a summary of the committee's role, rights, responsibilities and membership requirements has been posted to the new corporate governance section of the company's website.

Remuneration Committee

The Remuneration Committee was established in June 1999. In light of ASX Best Practice Recommendations, the Committee now has an official charter which sets out its primary responsibilities. These include:

- to ensure the executive management team is provided with appropriate incentives to encourage enhanced performance and members are rewarded for their individual contributions to the success of the company;
- to annually review executive remuneration and other terms of employment with regard to performance, relative comparative information and independent expert advice;
- to ensure remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's global operations;
- to ensure remuneration and other terms of employment for all directors are formalised in service agreements; and
- to review any transaction between the consolidated entity and directors in order to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act (2001)* and are appropriately disclosed.

The members of the Remuneration Committee at the date of this report are:

- Carl J Rooke – committee chairman
- William A Bartee
- Kayvan Oboudiyat

The Remuneration Committee met once during the financial year ended 30 June 2004. Details of the meetings attended by each committee member are set out in the Directors' Report.

Financial reporting

Consistent with ASX Principle 4, the company's financial report preparation and approval process for the financial year ended 30 June 2004, involved both the Joint Chief Executive Officers and Chief Financial Officer giving 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.

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 do receive options in addition to their remuneration and are eligible to participate in the company's directors option plans. They do not receive any retirement benefits (other than compulsory superannuation).

A directors' 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 in the Directors' Report under Directors' and Senior Executives' Emoluments. The structure and disclosure of the company's remuneration of non-executive directors is consistent with ASX Principle 9.

Executive directors and senior executives

The structure and disclosure of the company's remuneration policies for executive directors and senior executives, which are generally consistent with ASX Principle 9, are set out in the Directors' Report.

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 Committee. If it becomes necessary to replace the external auditors for performance or independence reasons, the Audit and Risk Committee will then formalise a procedure and policy for the selection and appointment of new auditors.

Independence declaration

There are proposals to amend the *Corporations Act (2001)* to require external auditors to make an annual independence declaration, addressed to the board of directors, declaring that the auditors have maintained their independence in accordance with the *Corporations Act (2001)* and the rules of the professional accounting bodies. PricewaterhouseCoopers existing policy requires that its audit teams provide such a declaration, a declaration was provided to the Audit and Risk Committee for the financial year ended 30 June 2004.

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.

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

The Audit and Risk Committee has implemented a policy that requires the prior approval of the Committee to 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 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

Consistent with ASX Principle 6, PricewaterhouseCoopers is invited to attend the annual general meeting, and to be available to answer questions.

Risk identification and management

The Board, through the Audit and Risk Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems.

Consistent with ASX Principle 7, 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;
- a comprehensive annual insurance program including external risk management surveys;
- 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 information technology infrastructure within the group.

A comprehensive review of the company's information technology risk management systems was undertaken during the year by an external consultant to identify areas for ongoing improvements. Management is ultimately responsible to the Board for the group's system of internal control and risk management.

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.

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 trading in the company's shares or other securities. The company's share trading policy is consistent with ASX Principle 3. A summary of the policy has been posted on the new corporate governance section of the company's website.

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 Altium and its officers if material information is not released to the market in accordance with listing rule 3.1. Altium 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 coordinating 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.

Price sensitive information is publicly released through the stock exchange before disclosing it to analysts or others outside the company. Further dissemination to investors is also managed through the stock exchange. The company's continuous disclosure policy is consistent with ASX Principle 5. A summary of the policy has been posted on the new corporate governance section of the company's website.

Additional company policies

In addition to the continuous disclosure and share trading policies discussed above, the company has implemented a wide range of policies which have group-wide application. These policies permit divisions to establish policies and procedures governing their own operations while seeking to ensure that a consistent approach and minimum acceptable standards are maintained across the group.

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. 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. The Code of Conduct is consistent with ASX Principles 3 and 10 and a summary has been posted on the new corporate governance section of the company's website.

Financial report 30 June 2004

Altium Limited and controlled entities ACN 009 568 772

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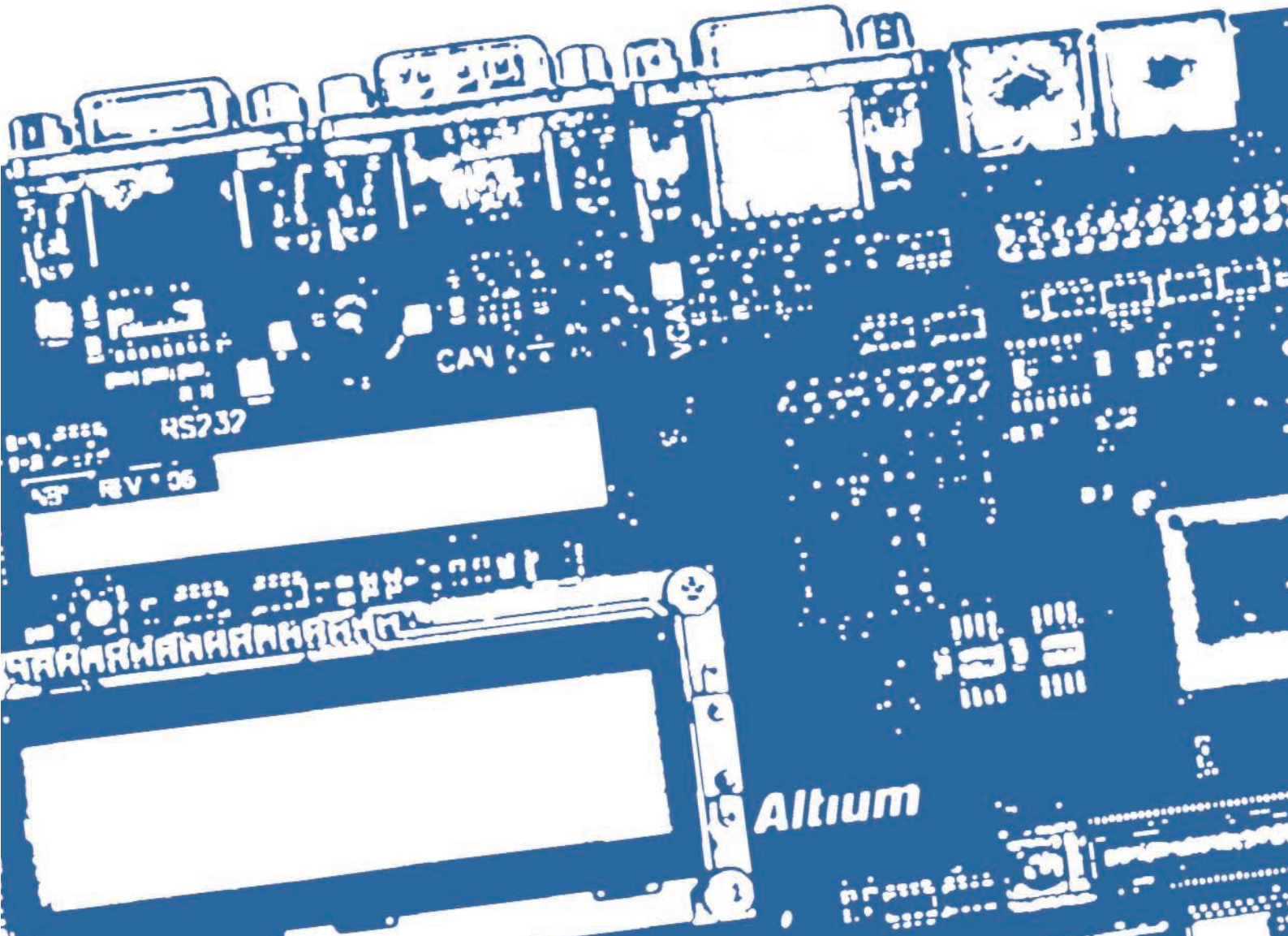
This financial report covers both Altium Limited as an individual entity and the consolidated entity consisting of Altium Limited and its controlled entities.

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 8-13 and in the Directors' Report on pages 14-20.

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

For the year ended 30 June 2004		CONSOLIDATED		PARENT ENTITY	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Revenue from ordinary activities	2	**40,578**	**46,781**	**29,585**	**30,962**
Changes in inventories of finished goods	8	634	(34)	574	(23)
Raw materials and consumables used		(1,942)	(1,210)	(1,882)	(975)
Employee benefits expense		(21,288)	(21,168)	(9,634)	(8,276)
Depreciation and amortisation expense	3	(10,330)	(9,599)	(2,877)	(2,293)
Borrowing costs expense	3	(21)	(144)	(89)	(94)
Rental expense	3	(1,964)	(2,268)	(599)	(647)
Advertising and direct mail expense		(5,613)	(5,224)	(5,613)	(5,218)
Restructuring and redundancy expense		-	(1,110)	-	(80)
Professional advice expense		(860)	(1,380)	(399)	(507)
Communication expense		(573)	(843)	(263)	(287)
Intercompany royalties		-	-	(2,990)	(3,395)
Contract research and development expense		(306)	(116)	(5,330)	(5,000)
Write-down in carrying value of goodwill	3	(83,323)	-	-	-
Write-down in carrying value of investment in subsidiaries	3	-	-	(43,931)	-
Provision for intercompany loan	3	-	-	(50,740)	-
Net gain/(loss) on foreign currency transactions	3	(120)	(2,418)	607	(3,852)
Other expenses from ordinary activities		(3,387)	(3,857)	(2,072)	(1,906)
Loss from ordinary activities before income tax expense		**(88,515)**	**(2,590)**	**(95,653)**	**(1,591)**
Income tax benefit/(expense) attributable to operating profit/(loss)	4	495	(4,386)	1,178	579
Loss from ordinary activities after income tax expense		**(88,020)**	**(6,976)**	**(94,475)**	**(1,012)**
Net loss attributable to members of Altium Limited	19	**(88,020)**	**(6,976)**	**(94,475)**	**(1,012)**
		Cents	Cents		
Basic earnings per share	31	(99.9)	(7.8)		
Diluted earnings per share	31	(99.9)	(7.8)		

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

Statements of financial position

As at 30 June 2004		CONSOLIDATED		PARENT ENTITY	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current assets					
Cash assets	6	3,571	7,267	539	3,537
Receivables	7	9,649	8,599	6,799	5,962
Inventories	8	1,001	367	890	316
Other	12	761	810	268	220
Total current assets		**14,982**	**17,043**	**8,496**	**10,035**
Non-current assets					
Receivables	7	921	946	10,064	60,294
Property, plant and equipment	9	1,324	1,544	559	763
Intangible assets	11	30,832	121,045	19,321	19,187
Investment in controlled entities	28	-	-	5,589	49,520
Deferred tax asset	10	3,049	2,318	1,444	1,382
Other	12	401	325	25	-
Total non-current assets		**36,527**	**126,178**	**37,002**	**131,146**
Total assets		**51,509**	**143,221**	**45,498**	**141,181**
Current liabilities					
Payables	13	3,349	4,273	6,250	3,953
Interest bearing liabilities	14	46	102	25	44
Current tax liabilities	16	859	-	-	-
Provisions	15	1,622	1,424	760	690
Other	17	4,887	5,586	34	280
Total current liabilities		**10,763**	**11,385**	**7,069**	**4,967**
Non-current liabilities					
Interest bearing liabilities	14	-	46	-	25
Provisions	15	395	250	395	250
Deferred tax liabilities	16	2,833	3,722	2,429	3,579
Total non-current liabilities		**3,228**	**4,018**	**2,824**	**3,854**
Total liabilities		**13,991**	**15,403**	**9,893**	**8,821**
Net assets		**37,518**	**127,818**	**35,605**	**132,360**
Equity					
Contributed equity	18	119,370	119,889	119,370	119,889
Retained profits/(loss)	19	(81,852)	7,929	(83,765)	12,471
Total equity	20	**37,518**	**127,818**	**35,605**	**132,360**

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

Statements of cash flows

For the year ended 30 June 2004		CONSOLIDATED		PARENT ENTITY	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Cash flows from operating activities					
Receipts from customers		38,739	47,807	24,442	31,087
Payments to trade creditors, other suppliers and employees		(36,650)	(38,151)	(28,530)	(29,664)
Interest received		88	128	4,061	4,545
Interest paid		(21)	(145)	(89)	(94)
Income taxes refunded/ (paid) (net)		(265)	689	492	73
Payments for restructure of controlled entities		-	(865)	-	-
Net cash inflows from operating activities	30	**1,891**	**9,463**	**376**	**5,947**
Cash flows from investing activities					
Payments for property, plant and equipment		(745)	(656)	(333)	(452)
Proceeds from sale of property, plant and equipment		54	35	40	1
Payments for shares in controlled entities		-	-	-	(515)
Payments for purchase of business, net of cash acquired	29	-	(875)	-	-
Payments for transaction costs of purchase of controlled entities	29	-	(288)	-	-
Loans to related parties		-	-	(1,722)	(5,180)
Repayment of loans by related parties		-	-	1,983	6,546
Payments for technology acquisitions and licenses		-	(188)	-	(188)
Payments for research and development		(2,383)	(3,710)	(2,382)	(3,615)
Payments for AltiumOne		(133)	(490)	(133)	(490)
Net cash (outflows) from investing activities		**(3,207)**	**(6,172)**	**(2,547)**	**(3,893)**
Cash flows from financing activities					
Proceeds from issues of shares	18	-	60	-	60
Payments for share buy-back	18	(519)	(365)	(519)	(365)
Proceeds from borrowings		-	-	1,497	1,642
Repayment of borrowings		(100)	(116)	(44)	(37)
Dividends paid		(1,761)	(1,796)	(1,761)	(1,796)
Net cash (outflows) from financing activities		**(2,380)**	**(2,217)**	**(827)**	**(496)**
Net increase/ (decrease) in cash held		(3,696)	1,074	(2,998)	1,558
Cash at beginning of the financial year		7,267	6,193	3,537	1,979
Cash at end of the financial year	6	**3,571**	**7,267**	**539**	**3,537**
Non-cash financing and investing activities	30	-	2,340	-	6,100

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

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) 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 2004 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.

(b) Income tax

Income tax has been brought to account using the liability method of tax effect accounting, 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.

(c) 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.

(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.

(d) 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.

1. Summary of significant accounting policies (continued)

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(f).

(e) 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 class 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.

Change in accounting policy for assessing the recoverable amount of non-current assets

The policy of discounting expected net cash flows in the determination of recoverable amounts of non-current assets was adopted during the year. The previous policy was not to discount net cash flows in determining recoverable amounts of non-current assets. This change was adopted to bring the policy in line with the emerging trend of all companies to discount and future IFRS guidance which requires discounting.

The change in accounting policy along with a number of other factors resulted in a one-off charge to goodwill of $83.3 million, decreasing the carrying value of non-current intangible assets to $30.8 million. For further information in relation to the measurement of the recoverable value of non-current assets please refer to note 11.

(f) 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 is presently being amortised over 20 years, however as discussed in note 11, all goodwill was fully written down in the current 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 (externally purchased) – Costs incurred in relation to the establishment of the Altium trademark and associated brands have been deferred. The carrying amount of the Altium trademark

1. Summary of significant accounting policies (continued)

cost is not amortised on the directors belief it will exist in perpetuity and its value will not diminish over time. Notwithstanding this, the depreciable amount of the Altium trademark costs has been determined based on the directors' assessments of the residual value of the Altium trademark at the end of years 10, 20, 30, 40 and 50 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.

(g) 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 three to ten years.

(h) 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 dispatched 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.

(i) 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.

(j) 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 or diminishing value 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

(k) Leased assets

A distinction is made between finance leases and operating leases. Finance leases effectively transfer

1. Summary of significant accounting policies (continued)

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 two to five 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

1. Summary of significant accounting policies (continued)

(q) 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.

(r) 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.

(s) Dividends

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

(t) International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) is adopting Australian equivalents to the International Financial Reporting Standards known as Australian International Financial Reporting Pronouncements (AIFRP), for application for reporting periods beginning on or after 1 January 2005. The adoption of AIFRP will be first reflected in the company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

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

The company has established a project team to manage the transition to AIFRP, including training of staff and system and internal control changes necessary to gather all the required financial information. The Chief Financial Officer is overseeing the transition process and is reporting periodically to the Audit and Risk Committee. To date the project team has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:
(i) Income tax – Under the Australian equivalent to IAS12 *Income Taxes*, a new method of accounting for income taxes, known as the 'balance sheet liability method' will be adopted replacing the current 'tax effect income statement' approach. The new method will represent a change to the current accounting policy as it will require the recognition of deferred tax balances in the statement of financial position when there is a difference between the carrying value of an asset or liability and its tax base.
(ii) Equity-based compensation benefits – Whilst the consolidated entity has disclosed the fair values of options at grant dates using the Black-Scholes option pricing model, under the Australian equivalent to IFRS 2 *Share-Based Payment*, equity-based compensation to employees will be recognised as an expense in respect of the services received over the vesting period. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.
(iii) Employee benefits – Under the Australian equivalent to IAS 19 *Employee Benefits*, expected future payments in respect of long-term employee liabilities must be discounted using a high quality corporate

1. Summary of significant accounting policies (continued)

bond rate. Presently, expected future payments are discounted using interest rates on national government guaranteed securities.

(iv) Intangible assets – goodwill – Under the Australian equivalent to IFRS 3 *Business Combinations*, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit. This will result in a change to the current accounting policy, under which goodwill is amortised on a straight-line basis over the period during which the benefits are expected to arise and not exceeding 20 years. However as referred to above, the consolidated entity enacted a recoverable value write-down of goodwill to $nil this year, therefore IFRS 3 is not expected to have a significant impact when it is introduced.

(v) Impairment testing – Under the Australian equivalent to IAS 36 *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. At this stage, the impact of IAS 36 is not expected to be significant, however further analysis is required to quantify any potential impacts.

(vi) Functional currency – Under the Australian equivalent to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, companies will be required to measure their financial statements in their functional currency and may present them in any currency. Currently, the financial statements are presented in Australian dollars. It is still to be decided what functional currency and presentation currency will be adopted under AIFRP. The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRP, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to AIFRP on the consolidated entity's financial position and reported results.

2. Revenue

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Revenue from operating activities:				
Sale of goods	36,235	41,999	25,423	26,285
Services	4,181	4,559	99	106
	40,416	46,558	25,522	26,391
Revenue from outside the operating activities:				
Interest	88	128	4,061	4,545
Sale of non-current assets	54	35	-	1
Other income	20	60	2	25
	162	223	4,063	4,571
Total revenue	**40,578**	**46,781**	**29,585**	**30,962**

3. Profit from operating activities

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Profit 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	54	-	-	1

3. Profit from operating activities (continued)

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Expenses:				
Cost of revenue				
Goods	2,074	2,188	4,686	4,952
Services	1,755	1,925	85	67
Total cost of revenue	3,829	4,113	4,771	5,019
Net (gain)/loss on foreign currency transactions	120	2,418	(607)	3,852
Net loss on disposal of plant and equipment	-	1	-	-
Depreciation				
Plant and equipment (note 9)	802	1,264	452	564
Total depreciation	802	1,264	452	564
Amortisation				
Leasehold improvements (note 9)	64	83	3	76
Plant and equipment under finance leases (note 9)	59	75	42	50
Goodwill	5,072	5,073	-	-
Technology acquisitions and licenses	3,997	2,923	2,044	1,422
AltiumOne	336	181	336	181
Total amortisation	9,528	8,335	2,425	1,729
Bad and doubtful debts	(129)	155	37	92
Borrowing costs				
Interest paid/payable	7	116	79	77
Finance charges relating to finance leases	14	28	10	17
Total borrowing costs	21	144	89	94
Other provisions				
Employee benefits	342	193	215	112
Rental expense relating to operating leases	1,964	2,268	599	647
Research and development costs incurred	11,816	10,741	13,237	12,355
Less: amounts capitalised	(2,383)	(3,710)	(2,387)	(3,615)
Research and development costs expensed	9,433	7,031	10,850	8,740
Other charges against assets				
Write-down of inventories to net realisable value	47	72	38	67
Write-down in carrying value of goodwill	83,323	-	-	-
Write-down in carrying value of investment in subsidiaries	-	-	43,931	-
Provision for intercompany loan	-	-	50,740	-

4. Income tax

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'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	(88,515)	(2,590)	(95,653)	(1,591)
Income tax calculated at 30%	(26,554)	(777)	(28,696)	(477)
Tax effect of permanent differences:				
Research and development claim	(670)	(579)	(670)	(579)
Goodwill amortisation	1,414	1,522	-	-
Intellectual property amortisation	366	243	33	30
Write-down in carrying value of goodwill	24,997	-	-	-
Sundry items	152	(247)	-	144
Income tax adjusted for permanent differences	(295)	162	(29,333)	(882)
Under/(over) provision in prior year	(374)	1,133	(246)	303
Write-down of tax losses	46	2,801	-	-
Future income tax benefits of timing differences not recognised:				
Write-down of carrying value of investment in subsidiaries	-	-	13,179	-
Provision for intercompany receivable	-	-	15,222	-
Effect of different rates of tax on overseas income	128	290	-	-
Aggregate income tax expense/(benefit)	(495)	4,386	(1,178)	(579)
(b) Tax losses recognised as a future income tax benefit in note 10	1,268	1,083	-	-
Tax losses recognised as a reduction of the deferred income tax liability in note 16	2,778	1,327	2,778	1,327
	4,046	2,410	2,778	1,327
The directors estimate that the potential future income tax benefit at 30 June 2004 in respect of tax losses not brought to account is:	7,814	4,960	2,741	1,059

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.

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
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	35	277	-	-	(182)	132
Total segment revenue	22,687	19,222	23,796	5,148	861	(31,166)	40,548
Segment result	2,639	(2,390)	(1,518)	1,074	861	(79,196)	(78,530)
Unallocated expenses							(9,985)
Profit from ordinary activities before income tax expense							(88,515)
Income tax expense							495
Net loss							(88,020)
Segment assets	40,633	17,466	66,857	1,198	-	(74,645)	51,509
Segment liabilities	2,973	6,293	8,328	960	-	(4,563)	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	4,438	80	-	336	10,330
Other non-cash expenses	(868)	(261)	853	(5)	-	83,320	83,039

5. Segment information (continued)

2003	Australia $'000	North America $'000	Europe $'000	Asia $'000	Other $'000	Inter-segment eliminations/ unallocated $'000	Consolidated $'000
Sales to customers outside the economic entity	1,275	21,327	17,908	5,404	644	-	46,558
Inter-segment sales	19,126	1,819	8,191	221	-	(29,357)	-
Other revenue	26	843	487	-	-	(1,133)	223
Total segment revenue	20,427	23,989	26,586	5,625	644	(30,490)	46,781
Segment result	(3,034)	(659)	3,455	1,777	644	4,960	7,143
Unallocated expenses							(9,733)
Profit from ordinary activities before income tax expense							(2,590)
Income tax expense							(4,386)
Net loss							(6,976)
Segment assets	136,277	41,049	79,269	1,769	-	(115,143)	143,221
Segment liabilities	2,237	5,224	8,442	1,447	-	(1,947)	15,403
Acquisitions of property, plant and equipment	452	57	360	19	-	(54)	834
Acquisitions of non-current assets	3,803	-	3,635	-	-	-	7,438
Depreciation and amortisation expense	2,293	2,573	4,708	25	-	-	9,599
Other non-cash expenses	4,233	(1,304)	(1,005)	170	-	-	2,094

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 entitlements. 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

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 is presented.

6. Cash assets

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Cash at bank and on hand	3,571	7,267	539	3,537

7. Receivables

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Trade debtors	9,697	8,719	6,805	5,725
Less: provision for doubtful debts	(72)	(423)	(6)	(25)
	9,625	8,296	6,799	5,700
Other debtors	24	303	-	262
	9,649	8,599	6,799	5,962
Non-current				
Loans to subsidiaries*	-	-	59,899	59,348
Provision for intercompany loan	-	-	(50,740)	-
	-	-	9,159	59,348
Employee loans (including director related entity loans, refer to note 27)**	921	946	905	946
	921	946	10,064	60,294

*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 2004 being 7.05% p.a. (2003: 6.55%). The above unsecured loans are for a five year term or repayable within 30 days of separation. Repayments during the year totalled $69,762 (2003: $nil).

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	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Finished goods at cost	665	367	554	316
Raw materials at cost	336	-	336	-
	1,001	367	890	316

9. Property, plant and equipment

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Non-current				
Plant and equipment at cost	2,487	3,154	1,279	1,589
Less: accumulated depreciation	(1,499)	(1,944)	(777)	(899)
	988	1,210	502	690
Leasehold improvements at cost	398	274	29	-
Less: accumulated depreciation	(94)	(31)	(3)	-
	304	243	26	-
Leased plant and equipment	192	209	127	127
Less: accumulated amortisation	(160)	(118)	(96)	(54)
	32	91	31	73
Total property, plant and equipment	1,324	1,544	559	763

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 - 2004				
Carrying amount at 1 July 2003	1,210	243	91	1,544
Additions	620	125	-	745
Disposals	(40)	-	-	(40)
Depreciation/amortisation expense (note 3)	(802)	(64)	(59)	(925)
Carrying amount at 30 June 2004	988	304	32	1,324
Parent entity - 2004				
Carrying amount at 1 July 2003	690	-	73	763
Additions	304	29	-	333
Disposals	(40)	-	-	(40)
Depreciation/amortisation expense (note 3)	(452)	(3)	(42)	(497)
Carrying amount at 30 June 2004	502	26	31	559

During the year a number of fully depreciated assets have been removed from the accounts. 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	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Non-current				
Income tax receivable	-	778	-	751
Future income tax benefit	3,049	1,540	1,444	631
	3,049	2,318	1,444	1,382

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

11. Intangible assets

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Non-current				
Goodwill - at recoverable amount (2003: at cost)	-	101,437	-	-
Less: accumulated amortisation	-	(13,042)	-	-
	-	88,395	-	-
Altium trademark - at cost	866	866	866	866
AltiumOne technology - at cost	1,165	1,032	1,165	1,032
Less: accumulated amortisation	(532)	(196)	(532)	(196)
	633	836	633	836
Acquired technology & capitalised integration costs - at cost	38,202	37,470	22,828	21,779
Less: accumulated amortisation	(8,869)	(6,522)	(5,006)	(4,294)
	29,333	30,948	17,822	17,485
	30,832	**121,045**	**19,321**	**19,187**

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, the company is in a strong position to harness the opportunities that the evolving electronics design industry presents.

In addition, they 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.

However, using a conventional forecast cash flow model to assess these carrying values, as required under existing accounting standards, the directors do not believe, based on the company's financial performance over the last few years, that they can objectively substantiate the carrying value as recorded in the company's accounts.

For these reasons, and because of these changes in the economic and regulatory environment, the directors have chosen to adopt a new policy and assumptions for the cash flow model used to assess the recoverable amount of intangibles. Economic and regulatory changes to which the company is subject include:

- emerging accounting practices including International Financial Reporting Standards which require non-current assets to be evaluated for impairment using more stringent tests,
- the market's assessment of the company as reflected in the share price and underlying market capitalisation,
- the difficulty in reliably forecasting longer term trends for new technologies, and
- the volatility of exchange rates, particularly US Dollar rate.

Previously, Altium's accounting policy has been to adopt a non-discounted cash flow model in assessing recoverable amount. The new policy will adopt a discounted cash flow analysis.

As a result of these influences, the Directors have adopted a number of assumptions when assessing carrying value that differ from those they used previously. These changes in assumptions include zero growth in revenues beyond a five year period when assessing recoverable amount. This is consistent with the practices suggested by the soon to be introduced International Financial Reporting Standards. When using these assumptions and the new accounting policy, the Directors determined that under the model required for assessing carrying value, the intangible assets recognised in the statement of financial position should be $30.8 million.

11. Intangible assets (continued)

The revised carrying value attributed to each of the intangible assets is as follows:

	2004 $'000	2003 $'000
Goodwill	-	88,395
Altium Trademark	866	866
AltiumOne technology	633	836
Acquired technology	18,175	18,354
Capitalised integration costs	11,158	12,594

The total carrying value of intangibles is now $30.8 million (2003: $121.0 million)

The group of assets comprising goodwill arising from acquisitions, acquired technology purchases and capitalised integration costs work together in the generation of net cash inflows from the company's integrated product offerings. Accordingly the write-down of the carrying value has been attributed to the goodwill balance on the basis that the forecast cash flows are more readily attributed to the other intangible assets.

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.

In assessing the recoverable amounts of the consolidated entity's non-current assets the directors have used the following assumptions:

Revenues – An assumed growth rate of between 3.8% and 5.3% in the first five years (2003: between 4.0% and 7.0% over ten years) for existing and new products. Zero growth rates have been assumed beyond five years adopting a prudent approach consistent with emerging guidance under IFRS.

Operating expenses – An assumed annual growth in general expenses of 3.9% (2003: 3.5%). The consolidated entity has also incorporated an expected level of research and development expenses appropriate to new product releases and product life cycles.

Exchange rates – The following exchange rates applicable at balance date:
30 June 2004: US Dollar - 0.6900, Euro - 0.5711 and Japanese Yen - 74.66
30 June 2003: US Dollar - 0.6640, Euro - 0.5827 and Japanese Yen - 79.71
A level of sensitivity in the US Dollar of 4% (0.7176) has been assumed given fluctuations over the past 12 months.

Tax expense – The consolidated entity has assumed a tax rate of 33.7% on profit adjusted for goodwill amortisation, associated research and development tax incentives and tax losses which may be available to the consolidated entity. This is higher than the corporate tax rate in Australia due to the effect of overseas tax rates. In 2003 the consolidated entity assumed a tax rate of 25% on profit before goodwill amortisation. This was lower than the corporate tax rate in Australia due to the company's investment in research and development and the associated tax incentives that the company receives through such investment, consideration of overseas tax rates, as well as tax losses which may be available to the consolidated entity.

Discount rate – The consolidated entity has assumed a discount rate of 12.00% (2003: 11.75%). The rate is an average of discount rates used by share market analysts to assess the value of the consolidated entity's stock as listed on the Australian Stock Exchange.

Terminal value – The consolidated entity has assumed a terminal value based on multiple of sales in the final year of net cash flow analysis. The amount is discounted using the same discount rate applied above. The multiple used by the consolidated entity is 1.1 (2003: 0.9) times sales.

12. Other assets

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Prepayments	761	810	268	220
Non-current				
Long term notes and deposits	401	325	25	-

13. Payables

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Trade creditors	3,142	4,043	3,040	2,280
Accrual for auditing	113	210	113	210
Loans from subsidiaries*	-	-	3,067	1,461
Other payables	94	20	30	2
	3,349	4,273	6,250	3,953

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

14. Interest bearing liabilities

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Lease liabilities (note 25)	46	102	25	44
Non-current				
Lease liabilities (note 25)	-	46	-	25

The lease liability consists of finance leases for plant and equipment. Leases due within one year have a weighted average interest rate of 14.4% (2003: 13.1%).

Financing arrangements

Credit standby arrangements

Unused facilities at balance date				
Bank overdrafts	2,000	4,336	2,000	2,000

15. Provisions

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Employee entitlements	1,622	1,424	760	690
Non-current				
Employee entitlements	395	250	395	250

16. Tax liabilities

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Income tax	859	-	-	-
Non-current				
Deferred income tax	2,833	3,722	2,429	3,579

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	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current				
Unearned income	207	126	3	2
Deferred maintenance revenue	4,680	5,460	31	278
	4,887	5,586	34	280

18. Contributed equity

	PARENT ENTITY			
	2004 Number	2003 Number	2004 $'000	2003 $'000
(a) Share capital				
Ordinary shares				
Fully paid	88,049,459	89,010,617	119,370	119,889

(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

(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 continued purchasing and cancelling ordinary shares on-market until 4 March 2004. During the year to 30 June 2004 total shares bought back of 961,158 (2003: 798,207) represents 1.08% (2003: 0.91%) of shares outstanding at the beginning of the year. The shares were acquired at an average price of $0.54 per share (2003: $0.46), with prices ranging from $0.48 to $0.68 (2003: $0.40 to $0.52). The total cost of $519,725 (2003: $365,286), including $1,369 (2003: $719) of transaction costs, was deducted from shareholder equity.

19. Retained profits

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Retained profits at the beginning of the financial year	7,929	16,701	12,471	15,279
Net loss attributable to members of Altium Limited	(88,020)	(6,976)	(94,475)	(1,012)
Dividends paid or declared (note 21)	(1,761)	(1,796)	(1,761)	(1,796)
Retained profits/(loss) at the end of the financial year	(81,852)	7,929	(83,765)	12,471

20. Equity

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Total equity at the beginning of the year	127,818	134,555	132,360	133,133
Total changes in equity recognised in the statement of financial performance	(88,020)	(6,976)	(94,475)	(1,012)
Transactions with owners as owners:				
Contributions of equity, net of transaction costs (note 18)	-	2,400	-	2,400
Share buy-back (note 18)	(519)	(365)	(519)	(365)
Dividends provided for or paid (note 21)	(1,761)	(1,796)	(1,761)	(1,796)
Total equity at the end of the financial year	37,518	127,818	35,605	132,360

21. Dividends

	PARENT ENTITY	
	2004 $'000	2003 $'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	-
An ordinary dividend for the year ended 30 June 2002 of 2 cents per share fully franked paid on 4 October 2002	-	1,796
	1,761	1,796
No dividend has been declared since the year end. In the prior year the proposed dividend was paid on 30 September 2003 out of retained profits at 30 June 2003, but was not recognised as a liability at 30 June 2003.	-	1,761
Franking credits 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 company, which have been recognised on the balance sheet, 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 company intends to hold fixed rate assets and liabilities to maturity.

	Floating interest rate	Fixed interest rate maturities I year or less	1 to 5 years	Over 5 years	Non interest bearing	Total
2004	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash (note 6)	1,426	-	-	-	2,145	3,571
Receivables (note 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 (note 13)	-	-	-	-	(3,349)	(3,349)
Financial lease liabilities (note 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
2003	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash (note 6)	4,766	-	-	-	2,501	7,267
Receivables (note 7)	-	-	946	-	8,599	9,545
	4,766	-	946	-	11,100	16,812
Weighted average interest rate	1.3%		6.6%			
Financial liabilities						
Accounts payable (note 13)	-	-	-	-	(3,539)	(3,539)
Financial lease liabilities (note 14,25)	-	(102)	(46)	-	-	(148)
	-	(102)	(46)	-	(3,539)	(3,687)
Weighted average interest rate		13.1%	13.9%			
Net financial assets/(liabilities)	4,766	(102)	900	-	7,561	13,125

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: Carl J Rooke, Nicholas M Martin, Kayvan Oboudiyat, William A Bartee, Dr Steven G Duvall, David M Warren, Darren Charles and Bruce W Edwards. David M Warren resigned as executive director and was appointed as non-executive director on 2 August 2004 and continues in office at the date of this report.

Executives (other than directors)

The following persons were the five most highly remunerated executives with authority for strategic direction and management of the consolidated entity for the 2003 and 2004 financial years:

- Frank Hoschar – Director, Strategic Marketing
- Klaus Pontius – Regional Director, Europe
- Nancy Eastman – Regional Director, USA
- Peter Murman – Managing Director, Amersfoort Technology Centre
- Rene Mooijman – Managing Director, Contract Product Development

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, Kayvan Oboudiyat and William A Bartee.

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 is 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 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 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
2003	$	$	$	$	$	$	$
Carl J Rooke	110,000	-	-	-	-	17,600	127,600
William A Bartee	58,304	-	-	-	5,247	8,800	72,351
Dr Steven G Duvall	32,604	-	-	-	2,934	-	35,538

[1]Post Employment

23. Director and executive disclosures (continued)

Executive directors of Altium Limited

2004	PRIMARY Director's base fee $	PRIMARY Base salary $	PRIMARY Motor vehicle $	PRIMARY Bonus $	PRIMARY Other benefits $	PE[1] Super-annuation $	EQUITY Options $	Total $
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

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

2003	$	$	$	$	$	$	$	$
Kayvan Oboudiyat	40,000	291,049	-	-	-	28,671	132,000	491,720
Bruce W Edwards	60,023	252,329	-	-	**23,469	2,348	66,884	405,053
Darren Charles	40,000	113,200	20,453	-	-	13,158	31,520	218,331
David M Warren	40,000	132,183	-	-	-	15,432	-	187,615
Nicholas M Martin	-	1	-	-	-	-	-	1

**Other benefits includes: health insurance and relocation expenses.

Other executives of the consolidated entity

2004	PRIMARY Base salary $	PRIMARY Motor vehicle $	PRIMARY Bonus $	PRIMARY Other benefits $	PE[1] Super-annuation $	EQUITY Options $	Total $
Frank Hoschar Director, Strategic Marketing	224,148	2,928	-	*117,073	-	29,800	373,949
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
Peter Murman Managing Director, Amersfoort Technology Centre	193,407	-	-	10,930	15,433	5,107	224,877
Rene Mooijman Managing Director, Contract Product Development	154,366	23,629	-	11,679	11,975	12,668	214,317

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

2003	$	$	$	$	$	$	$
Frank Hoschar Director, Strategic Marketing	210,818	36,722	-	**61,180	9,348	-	318,068
Klaus Pontius Regional Director, Europe	210,818	12,325	-	-	9,348	-	232,491
Nancy Eastman Regional Director, USA	202,974	-	-	5,698	4,067	30,960	243,699
Peter Murman Managing Director, Amersfoort Technology Centre	171,161	-	44,540	1,656	19,057	2,725	239,139
Rene Mooijman Managing Director, Contract Product Development	169,342	21,402	32,738	242	28,543	2,271	254,538

** Other benefits include relocation cost.

[1]Post Employment

23. Director and executive disclosures (continued)

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
- Director's base fee of $110,000 for the year ended 30 June 2004

Nicholas M Martin, Executive Director and Joint Chief Executive Officer
- Open agreement with no fixed term
- Base salary of $1 for the year ended 30 June 2004

Kayvan Oboudiyat, Executive Director and Joint Chief Executive Officer
- Open agreement with no fixed term
- Base salary of $323,655, inclusive of superannuation, for the year ended 30 June 2004
- Director's base fee of $40,000 for the year ended 30 June 2004

William A Bartee, Non-Executive Director
- Open agreement with no fixed term
- Director's base fee of $60,000, inclusive of superannuation, for the year ended 30 June 2004

Dr Steven G Duvall, Non-Executive Director
- Open agreement with no fixed term
- Director's base fee of $60,000, inclusive of superannuation, for the year ended 30 June 2004

Darren Charles, Executive Director, Chief Financial Officer and Chief Operating Officer
- Open agreement with no fixed term
- Base salary of $159,622, inclusive of superannuation, for the year ended 30 June 2004
- Director's base fee of $40,000 for the year ended 30 June 2004

Bruce W Edwards, Executive Director
- *Contract in place from 1 July 2003 to 18 September 2003*
- Base salary of US$160,000
- Director's base fee of US$40,000
- *Contract in place from 19 September 2003 for no fixed term*
- Base salary of $114,500, inclusive of superannuation, for the period 19 September 2003 to 30 June 2004
- Director's base fee of $40,000 for the period 19 September 2003 to 30 June 2004

David M Warren, Executive Director
- Open agreement with no fixed term
- Base salary of $140,000, inclusive of superannuation, for the year ended 30 June 2004
- Director's base fee of $40,000 for the year ended 30 June 2004

As at 2 August 2004 David M Warren resigned as Executive Director and was appointed as Non-Executive Director; this was formalised in a new service agreement as below:
- Open agreement with no fixed term
- Director's base fee of $40,000 inclusive of superannuation

Frank Hoschar, Director of Strategic Marketing
- Term of agreement for the period 8 July 2002 to 30 June 2004, open ended thereafter
- Base salary of €125,000 for the year ended 30 June 2004
- Relocation expenses commensurate with living away from home
- Lease of company car plus running costs
- Other benefits including costs associated with secondment to the Sydney office

Klaus Pontius, Regional Director, Europe
- Term of agreement for the period 8 July 2002 to 30 June 2004, open ended thereafter
- Base salary of €125,000 for the year ended 30 June 2004
- Lease of company car plus running costs

In addition to the above service agreements, the directors and other executives are entitled to participate in Altium's option plans. These plans provide a mix of short-term and long-term performance incentives as discussed in note 27.

23. Director and executive disclosures (continued)

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	2,023,000	3.42	9 Jun 2000	9 Jun 2005
Altium Option Plan	1,202,150	5.50	29 Sep 2000	29 Sep 2005
Directors' Plan	1,440,000	5.50	20 Nov 2000	20 Nov 2005
Altium Option Plan	1,499,460	4.20	12 Oct 2001	12 Oct 2006
Altium Option Plan	765,700	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	2,685,435	1.34	23 Oct 2002	23 Oct 2007
Altium Option Plan	8,400	1.34	30 Oct 2002	30 Oct 2007
Altium Option Plan	81,215	1.34	11 Nov 2002	11 Nov 2007
Altium Option Plan	277,410	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	8,511,696	0.86	5 Dec 2003	5 Dec 2008
Altium Director Share Option Plan	1,870,000	0.86	5 Dec 2003	5 Dec 2008
Total unissued ordinary shares of Altium Limited under option	**20,938,466**			

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% after one year and 30% after year two and year three. 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. There were no shares issued during the year as a result of options being exercised.

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

Name of option plan	Number of options granted during the year	Number of options vested during the year
Directors of Altium Limited		
Carl J Rooke	160,000	40,000
Kayvan Oboudiyat	1,200,000	300,000
William A Bartee	80,000	20,000
Dr Steven G Duvall	80,000	-
Darren Charles	200,000	50,000
Bruce W Edwards	150,000	-
Other executives of the Consolidated Entity		
Nancy Eastman	252,000	80,000
Frank Hoschar	75,000	50,000
Rene Mooijman	181,260	50,000
Peter Murman	241,750	43,313
Klaus Pontius	50,000	50,000

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

23. Director and executive disclosures (continued)

Option holdings

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

Directors of Altium Limited

	Balance at 1 July 2003	Granted during the year	Balance at 30 June 2004	Vested at 30 June 2004
Carl J Rooke	160,000	160,000	320,000	120,000
Kayvan Oboudiyat	1,200,000	1,200,000	2,400,000	900,000
William A Bartee	80,000	80,000	160,000	60,000
Dr Steven G Duvall	-	80,000	80,000	-
Darren Charles*	366,250	396,000	762,250	277,500
Bruce W Edwards	-	150,000	150,000	-

*Includes options granted to a director related entity.

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.

Other executives of the Consolidated Entity

	Balance at 1 July 2003	Granted during the year	Balance at 30 June 2004	Vested at 30 June 2004
Frank Hoschar	200,000	75,000	275,000	50,000
Klaus Pontius	200,000	50,000	250,000	50,000
Nancy Eastman	217,000	252,000	469,000	180,000
Peter Murman	173,250	241,750	415,000	82,688
Rene Mooijman	200,000	181,260	381,260	82,815

Share holdings

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

Directors of Altium Limited

	Balance at 1 July 2003	Acquisitions during the year	Balance at 30 June 2004
Carl J Rooke	224,400	100,000	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	5,303,000	100,000	5,403,000
Darren Charles	102,050	28,840	130,890
Bruce W Edwards	-	100,000	100,000

Other executives of the Consolidated Entity

	Balance at 1 July 2003	Acquisitions during the year	Balance at 30 June 2004
Frank Hoschar	401,500	20,000	421,500
Klaus Pontius	401,500	100,000	501,500
Nancy Eastman	3,000	16,000	19,000
Peter Murman	-	-	-
Rene Mooijman	-	-	-

23. Director and executive disclosures (continued)

Loans to directors and executives

Refer to note 27 for details of loans to directors. There were no loans extended to executives of the consolidated entity.

Other transactions with directors and executives

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 $10,219 (2003: $26,180). There were 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 $294,413 (2003: $310,956). The amounts recognised as a contribution to expenses total $30,978 (2003: $36,982). The aggregate amounts receivable at balance date from DIASis Nederland BV are $103,429 (2003: $112,541).

24. Remuneration of auditors

	CONSOLIDATED		PARENT ENTITY	
	2004 $	2003 $	2004 $	2003 $
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
Assurance services				
1. Audit services				
Fees paid to PricewaterhouseCoopers Australian firm for audit and review of financial reports and other audit work under the Corporations Act 2001	208,959	264,000	203,617	264,000
Fees paid to related practices of PricewaterhouseCoopers Australian firm	88,965	15,036	-	-
Total remuneration for audit services	297,924	279,036	203,617	264,000
2. Other assurance services				
Fees paid to PricewaterhouseCoopers Australian firm	-	2,650	-	2,650
Total remuneration for other assurance services	-	2,650	-	2,650
Total remuneration for assurance services	**297,924**	**281,686**	**203,617**	**266,650**
Taxation services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	-	17,260	-	17,260
Tax consulting and tax advice	9,360	1,100	9,360	1,100
Fees paid to related practices of PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	189,478	362,181	-	-
Tax consulting and tax advice	46,708	16,121	-	-
Total remuneration for taxation services	**245,546**	**396,662**	**9,360**	**18,360**

24. Remuneration of auditors (continued)

	CONSOLIDATED		PARENT ENTITY	
	2004 $	2003 $	2004 $	2003 $
Advisory services				
Fees paid to PricewaterhouseCoopers Australian firm	12,500	21,946	12,500	21,946
Fees paid to related practices of PricewaterhouseCoopers Australian firm	6,936	44,354	-	-
Total remuneration for advisory services	**19,436**	**66,300**	**12,500**	**21,946**
Legal services				
Fees paid to related practices of PricewaterhouseCoopers Australian firm	44,494	54,854	37,103	54,854
Total remuneration for legal services	**44,494**	**54,854**	**37,103**	**54,854**

From time to time the company will employ accountants to provide consulting services. The company and its combined controlled entities have a policy of seeking competitive tender for all major projects. Amounts in excess of $20,000 must be approved by the Audit Committee.

25. Commitments for expenditure

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'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	1,880	1,753	479	443
Later than one year but not later than five years	2,687	2,692	933	1,281
	4,567	4,445	1,412	1,724
Representing:				
Non-cancellable operating leases	4,567	4,445	1,412	1,724
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Not later than one year	49	115	27	53
Later than one year but not later than five years	-	49	-	27
Minimum lease payments	49	164	27	80
Less: future finance charges	(3)	(16)	(2)	(11)
Provided for in accounts	46	148	25	69
Representing lease liabilities:				
Current (note 14)	46	102	25	44
Non-current (note 14)	-	46	-	25
	46	148	25	69

26. Employee entitlements

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Employee entitlement liabilities				
Provision for employee entitlements				
Current (note 15)	1,622	1,424	760	690
Non-current (note 15)	395	250	395	250
Aggregate employee entitlement liability	2,017	1,674	1,155	940

	2004 $	2003 $	2004 $	2003 $
Estimated value of options issued to all employees including directors	2,085,150	2,735,605	1,509,818	1,943,999

These estimate values are based on options issued during the period to employees and directors and no vested options are included in the above calculation.

These estimated values have been assessed using a Black-Scholes based option-pricing model. Factors taken into account by this option-pricing model include the exercise price, the term of the option and the market value of the share at the time the options were granted. The company acknowledges that while these estimates are based on the Black-Scholes option-pricing model, the valuation may vary widely due to fluctuations in the company's share price.

	CONSOLIDATED		PARENT ENTITY	
	2004 Number	2003 Number	2004 Number	2003 Number
Employee numbers				
Average number of employees during the financial year	255	270	117	120

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

Please refer to the table on the following page.

26. Employee entitlements (continued)

Date of Issue	5 Dec 2003	5 Dec 2003	27 Nov 2002	19 Nov 2002	11 Nov 2002	30 Oct 2002	23 Oct 2002	10 Jul 2002
Balance as at 1 July 2003	-	-	51,000	282,010	96,815	8,400	2,912,195	400,000
Issued during the year	1,870,000	8,878,196	-	-	-	-	-	-
Exercised during the year	-	-	-	-	-	-	-	-
Expired during the year	-	(366,500)	-	(4,600)	(15,600)	-	(226,760)	-
Outstanding at balance date	1,870,000	8,511,696	51,000	277,410	81,215	8,400	2,685,435	400,000
Number of recipients	5	190	6	71	12	2	158	2
Exercise price	$0.86	$0.86	$1.34	$1.34	$1.34	$1.34	$1.34	$1.17
Exercise period	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	Jul 2003 to Jul 2006
Expiration date	5 Dec 2008	5 Dec 2008	27 Nov 2007	19 Nov 2007	11 Nov 2007	30 Oct 2007	23 Oct 2007	10 Jul 2007

Date of Issue	4 Dec 2001	7 Nov 2001	12 Oct 2001	20 Nov 2000	29 Sep 2000	09 Jun 2000	Total
Balance as at 1 July 2003	123,000	868,700	1,562,660	1,440,000	1,309,150	2,296,000	11,349,930
Issued during the year	-	-	-	-	-	-	10,748,196
Exercised during the year	-	-	-	-	-	-	-
Expired during the year	-	(103,000)	(63,200)	-	(107,000)	(273,000)	(1,159,660)
Outstanding at balance date	123,000	765,700	1,499,460	1,440,000	1,202,150	2,023,000	20,938,466
Number of recipients	2	60	71	3	66	136	
Exercise price	$3.56	$4.20	$4.20	$5.50	$5.50	$3.42	
Exercise period	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	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 $0.36.

	CONSOLIDATED	
	2004 $	2003 $
Options vested at reporting date	3,150,206	3,707,155

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

26. Employee entitlements (continued)

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 9,116,770 options (2003: 12,348,175) have been granted under the plan to eligible employees as at 30 June 2004. 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 8,511,696 options (2003: nil) have been granted under the plan to eligible employees as at 30 June 2004. 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 at $0.86.

Directors' Option Plan

For details see note 27.

Altium Director Share Option Plan

For details see note 27.

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

The names of persons who were directors of Altium Limited at any time during the year are as follows: Carl J Rooke; Nicholas M Martin; Kayvan Oboudiyat; William A Bartee; Dr Steven G Duval; David M Warren; Darren Charles and Bruce W Edwards.

Information on remuneration of directors is disclosed 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.

27. Related party information (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 AGM. 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 Director 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 Director 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 Director 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 AGM. 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.

Loans to directors and director-related entities

At 30 June 2004 the following unsecured loans to director-related entities were outstanding: Darren Charles - Chief Financial Officer and Chief Operating Officer of $52,617 (2003: $54,074); and Nicholas M Martin - Joint Chief Executive Officer of $185,770 (2003: $175,731). The loans advanced are charged at the "benchmark interest rate" under the Fringe Benefits Tax Assessment Act 1986 (Cwlth) as at 30 June 2004 being 7.05% p.a. (2003: 6.55%). Interest charged on the loans for the year to 30 June 2004 was $3,404 (2003: $1,457) for Darren Charles and $10,039 (2003: $8,206) for Nicholas M Martin. During the year there were repayments of $4,861 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.

Transactions with and amounts payable to directors and director-related entities

Information on transactions with and amounts payable to directors and director-related entities is disclosed in note 23 to the accounts.

27. Related party information (continued)

Remuneration of director-related entities

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

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 (formerly Altium Germany GmbH), Tasking Srl, Altium Limited (UK). Ownership interests in these controlled entities are set out in note 28.

Transactions between Altium Limited and other entities in the wholly-owned group during the years ended 30 June 2003 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 6.8% (2003: 7.0%).

	PARENT ENTITY	
	2004 $'000	2003 $'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	4,062	4,455
Aggregate amounts receivable from and payable to entities in the wholly-owned group at balance date:		
Current receivables		
Trade debtors	5,518	4,116
Non-current receivables		
Loans	59,899	59,348
Provision for intercompany loan *	(50,740)	-
	9,159	59,349
Current payables		
Trade creditors	1,274	26
Loans	3,066	1,461

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

28. Investments in controlled entities

	PARENT ENTITY	
	2004	2003
	$'000	$'000
Shares in subsidiaries	5,589	49,520

(a) Investments in controlled entities comprise:

Name of entity	Country of incorporation	Equity holding		Investment in subsidiary	
		2004	2003	2004	2003
		%	%	$'000	$'000
Altium Netherlands BV – at recoverable amount (2003: at cost)	Netherlands	100	100	1,960	22,937
Altium BV – at recoverable amount (2003: at cost)	Netherlands	100	100	1,960	72,656
Altium Limited (UK)	UK	100	100	-	-
Tasking Srl*	Italy	-	100	-	91
Boston Systems Office Limited	UK	100	100	-	-
Altium Inc – at recoverable amount (2003: at cost)	USA	100	100	-	22,954
Altium Europe GmbH (formerly Altium Germany GmbH)	Germany	100	100	3,415	3,415
Protel AG	Switzerland	100	100	100	100
Altium Japan KK	Japan	100	100	114	114

* Tasking Srl was in liquidation as at 30 June 2004.

29. Acquisition of business

There were no businesses acquired in the year ended 30 June 2004.

Details of acquisitions made in the previous financial year are set out below:

On 10 July 2002, Altium Europe GmbH acquired the EDA business of Hoschar AG for $875,086 in cash and $2,340,000 in shares of Altium Limited.

Fair value of identifiable net assets acquired	2003
	$'000
Intangible assets	3,540
Tangible fixed assets	115
Leased assets	63
Lease liabilities	(158)
Provision for leave	(57)
Net assets	3,503
Funded by:	
Cash consideration	875
Altium Limited share issue	2,340
Transaction costs	288
	3,503

30. Cash flow information

	CONSOLIDATED		PARENT ENTITY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Reconciliation of operating profit/(loss) after income tax to net cash inflows from operating activities				
Operating profit/(loss) after income tax	(88,020)	(6,976)	(94,475)	(1,012)
Depreciation and amortisation	10,330	9,599	2,877	2,293
Write down in carrying value of goodwill	83,323	-	-	-
Write down in carrying value of investments in subsidiaries	-	-	43,931	-
Provision for intercompany loan	-	-	50,740	-
Net (gain)/loss on disposal of assets	(14)	1	-	(1)
Unrealised foreign exchange differences	1	3	(703)	3,043
Other	-	4	-	-
Change in operating assets and liabilities, net of effects from purchase of controlled entities				
Decrease/(increase) in trade and other debtors	(1,025)	2,484	(796)	4,788
Decrease/(increase) in inventories	(634)	34	(574)	23
(Increase)/decrease in prepayments and other assets	(27)	115	(73)	(16)
(Increase)/decrease in future income tax benefit	(1,509)	4,643	(813)	497
(Decrease)/increase in trade and other creditors and employee entitlements	(1,642)	(1,890)	426	(2,254)
(Decrease)/increase in deferred income tax liability	(889)	247	(1,150)	(1,076)
(Decrease)/increase in income tax payable (net)	1,637	834	751	(451)
Increase other provisions	360	365	235	113
Net cash inflows from operating activities	**1,891**	**9,463**	**376**	**5,947**
Non-cash financing and investing activities				
Acquisition of businesses by issue of ordinary shares (note 29)	-	2,340	-	2,340
Capitalisation of loans to controlled entities	-	-	-	3,760

31. Earnings per share

	CONSOLIDATED	
	2004 cents	2003 cents
Basic earnings per share	(99.9)	(7.8)
Diluted earnings per share	(99.9)	(7.8)
	2004 number	2003 number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	88,131,451	89,700,307
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	88,131,451	89,700,307
	2004 $'000	2003 $'000
Earnings used for basic and diluted earnings per share	(88,020)	(6,976)
Net loss per statements of financial performance	(88,020)	(6,976)

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.

32. 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.

Directors' declaration

The Directors declare that the financial statements and notes thereon of Altium Limited (ACN 009 568 772) set out on pages 29 to 66:

(a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act (2001)*; 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.

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

For and on behalf of the Board

Kayvan Oboudiyat
Director and Joint Chief Executive Officer

Nicholas M Martin
Director and Joint Chief Executive Officer

Darren Charles
Director, Chief Financial Officer and Chief Operating Officer

Sydney, 30 September 2004

PRICEWATERHOUSECOOPERS

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

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 2004, 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 2004. 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.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

Independent audit report

PRICEWATERHOUSECOOPERS

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.

When this audit report is included in an Annual Report, 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)*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Sneddon

A J Sneddon

Partner
Sydney, 30 September 2004

The shareholder information set out below was current as at 16 September 2004.

A. Distribution of equity securities

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

Range	Number of shareholders	Number of option holders
1 – 1,000	660	0
1,001 – 5,000	1,069	14
5,001 – 10,000	354	24
10,001 – 100,000	418	134
> 100,000	65	44
Total	**2,566**	**216**

There were 860 holders of a less than marketable parcel of ordinary shares.

B. Equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

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	J P Morgan Nominees Australia Limited	6,701,258	7.61%
4	IOOF Investment Management Limited	6,587,017	7.48%
5	ANZ Nominees Limited	3,739,777	4.25%
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	Fortis Clearing Nominees P/L (Settlement A/C)	1,937,275	2.20%
9	National Nominees Limited	1,489,491	1.69%
10	RBC Global Services Australia Nominees Pty Limited (Pp A/C)	1,065,790	1.21%
11	Zentel Pty Limited (Warren Family Account)	1,050,000	1.19%
12	Zentel Pty Limited	1,018,000	1.16%
13	Queensland Investment Corporation c/- National Nominees Limited	928,512	1.05%
14	Whitefield Limited	790,200	0.90%
15	Mr Paul Robert Reen	650,000	0.74%
16	Westpac Custodian Nominees Limited	633,136	0.72%
17	Woodross Nominees Pty Ltd	620,000	0.70%
18	N & M Martin Holdings Pty Ltd (Super Fund A/C)	602,500	0.68%
19	Mrs Nanci Catherine Moore	578,000	0.66%
20	Utrechtse Participatiemaatschappij BV (Account 1)	561,154	0.64%
	Total	**59,445,699**	**67.51%**

Information for shareholders

C. Unquoted equity securities

	Number of options on issue	Number of holders
Employees	17,458,216	210
Directors	3,480,250	6
Total options on issue	20,938,466	216

D. Substantial shareholders

The substantial holders in the company are listed below:

Rank	Name	Number of shares	%
1	Nicholas Martin	22,444,000	25.49%
2	Perennial Investment Partners Limited	7,322,616	8.32%
3	Deutsche Bank	6,032,892	6.85%
4	David Warren	5,403,000	6.14%
5	Portfolio Partners Limited	5,243,415	5.96%
6	SAS Trustee Corporation	5,005,000	5.68%
	Total	**51,450,923**	**58.44%**

E. Voting rights

a) 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.
b) Option: No voting rights.

F. Share buy-back

In March 2004, the company announced the completion of its share buy-back scheme. During the 2004 financial year the company repurchased a total of 961,158 shares at a cost of $519,725. The repurchased shares were subsequently cancelled. As a result of these transactions, total shares on issue at balance date decreased from 89,010,617 to 88,049,459.

G. Securities subject to escrow

No shares are currently subject to escrow.

H. Altium major announcements to the ASX

31/08/2004	Preliminary final report
13/07/2004	Reports preliminary full-year results
21/04/2004	Altium Q3 update
05/03/2004	Appendix 3F – Final share buy-back notice
24/02/2004	Half-yearly report and half-year accounts
16/02/2004	Commences shipment of Nexar
16/01/2004	Appendix 3B – Employee and director share options plan
14/01/2004	Half-year sales update
01/12/2003	Proxy voting summary
27/11/2003	Offer document – Short form prospectus

H. Altium major announcements to the ASX (continued)

25/11/2003	Chairman's AGM address to shareholders
18/11/2003	Shareholder newsletter – November 2003
24/10/2003	Annual report
24/10/2003	Notice of Annual General Meeting
15/10/2003	Altium Q1 update
10/09/2003	Change in substantial holding
02/09/2003	Preliminary final report and full year accounts
25/08/2003	Further details of preliminary 2002/03 results
15/07/2003	Preliminary full-year results – 2003 revenue on target

(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 25 November 2004
Time:	3.30pm
Venue:	Westin Hotel, The Heritage Conference Centre, Meeting Room III Level 3, 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 the Directory section in this annual report for contact details.

Website:	www.computershare.com
Access to forms:	https://www-au.computershare.com/Investor/FormsCatalogue.asp
Access to FAQs:	http://www-au.computershare.com/Investor/InvestorAnswers/Default.asp

K. Changed 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 the share registry quoting your shareholder number, old address, current address and signature; or visit the registry website and 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 shareholder communications

Altium 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 provides quarterly updates on revenue earnings.

Glossary

ASIC – An ASIC (Application Specific Integrated Circuit) is a custom-designed IC (Integrated Circuit) targeted for a specific application.

Board-level design – The process of designing electronic circuits using off-the-shelf components fitted to a Printed Circuit Board (PCB) is often referred to as board-level design.

'Board on Chip' technology – A technology developed by Altium that enables electronics engineers and designers to use familiar board-level design methodologies and skills to implement an electronics system on a programmable chip or FPGA instead of a printed circuit board.

Chip – An electronic circuit that is constructed on a small, thin piece (chip) of semiconducting material such as silicon. Chips are also known as microchips or Integrated Circuits (ICs).

Design Explorer (DXP) – Design Explorer (DXP) is Altium's proprietary software integration platform which enables the seamless integration of tools and technologies. It will be used as the platform for most Altium products in the future.

Development board – A board that allows the development of applications targeted to a specific chip, usually a microprocessor or FPGA. The development board allows engineers to experiment and begin application development before the 'real' hardware has been manufactured. In the case of a microprocessor, the embedded software can be developed using a development board while the system hardware is still being designed.

Electronic Design Automation (EDA) – The use of computers to enhance and aid the design and development of complex electronic systems.

Embedded software development – Development of embedded software – software which can be embedded into a microprocessor in order to control an electronic system based on that microprocessor.

FPGA – A Field-Programmable Gate Array (FPGA) is a chip containing a large number of logic cells or gates that can be programmed or configured after the IC has been manufactured.

LiveDesign – A design methodology developed by Altium that enables electronics engineers and designers to interactively design a complete digital electronics system (including microprocessors) without the need for simulation or the manufacture of prototype hardware. By allowing the implementation of designs directly in a programmable chip, LiveDesign enables engineers to develop and test an electronic system in real time during the design cycle, without the need to make a physical prototype. This speeds up the design process, saving time and money during product development.

Microprocessor – A microprocessor is a chip that is designed to process digital numbers under the direction of a specifically written program or software. Microprocessors form the heart of desktop computers and embedded computer systems and perform all the necessary processing tasks of the system.

PCB – A Printed Circuit Board (PCB) is a flat board that holds and chips and other electronic components that are connected via circuits.

Programmable chip – Unlike a standard IC that is manufactured to perform a fixed function, the function of a programmable chip is defined by the engineer using it who can program it (and reprogram it) to perform specific functions. Programmable chips enable designers to integrate onto a single programmed chip the functions that would usually require the interaction of many discrete components.

System-on-FPGA – The design of a complete electronics system (which can include microprocessors and embedded software) that is implemented inside an FPGA.

Directory

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Kayvan Oboudiyat	Joint Chief Executive Officer
William A Bartee	Non-Executive Director
Dr Steven G Duvall	Non-Executive Director
David M Warren	Non-Executive Director
Darren Charles	Executive Director, Chief Financial Officer and Chief Operating Officer
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