Corporate governance statement

Corporate governance is a foundation for creating and maintaining shareholder value. With this intention Altium Limited and its board are committed to achieving and demonstrating the highest standards of corporate governance.

Altium's corporate governance framework is broadly consistent with the ASX Corporate Governance Council's best practice recommendations, minor deviations occur only when a principle or recommendation is not appropriate for the group to incorporate.

The board continues to review and assess the appropriateness of the group's corporate governance framework with reference to the effect of both internal and external factors.

The roles of the board and management

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

The relationship between the board and senior executives is critical to the group's long term success. The directors are responsible to shareholders for the performance of the group 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 that the group is appropriately managed.

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

Board structure

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

Name	Position	Date of Appointment
Carl J Rooke	Chairman, Non-executive Director	13 June 1990
Nicholas M Martin	Chief Executive Officer, Executive Director	30 August 1991
Kayvan Oboudiyat	Executive Vice Chairman, Executive Director	10 February 1997
David M Warren	Non-executive Director	4 December 1991
William A Bartee	Non-executive Director	3 May 1999

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

Details of the background, experience and professional skills of each director are outlined in the Directors' Report under the heading 'Information on Directors'.

The following directors are retiring by rotation in accordance with the Constitution and the Listing Rules of Australian Stock Exchange and are seeking re-election at the 2006 Annual General Meeting: Carl J Rooke, Nicholas M Martin and William A Bartee.

Director independence

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

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

Meetings of the board

The board meets formally between six and eight times a year and on other occasions as required. Senior executives 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 2006 is outlined in the Directors' Report.

Retirement and re-election

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

Nomination and appointment of new directors

Recommendations of candidates for new directors are generally made by the nomination committee for consideration by the board, not withstanding ASX listing rule requirements*. 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, potential for the candidate's skills to augment the existing board and the candidate's availability to commit to the board's activities. If these criteria are met and the board appoints the candidate as a director, that director will retire at the following annual general meeting and will be eligible for re-election by shareholders at that annual general meeting.

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

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

Review of performance

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

Board access to information and independent advice

All directors have unrestricted access to employees of the group and, subject to the law, access to group records and information held by group employees and external advisers. The board receives regular detailed financial and operational reports from senior executives to enable it to carry out its duties. In addition, Non-executive Directors meet regularly with senior executives to establish direct relationships.

Each director and board committee may, in connection with their duties, obtain independent professional advice at the group's expense. Prior written approval is required from the chairman to obtain advice which will not be unreasonably withheld.

Committees of the board

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

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

Audit and risk management committee

The members of the audit and risk management committee at the date of this report are: William A Bartee (Chairman), Carl J Rooke and David M Warren.

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

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

Other persons considered appropriate attend meetings of the audit and risk management committee by invitation. The committee also meets from time to time with the external auditor independent of management. The composition, operations and responsibilities of the committee are consistent with best practice recommendations. The number of meetings attended by each committee member for the financial year ended 30 June 2006 is outlined in the Directors' Report.

Financial reporting

The group's financial report preparation and approval process for the financial year ended 30 June 2006, involved both the Chief Executive Officer and Chief Financial Officer giving a sign-off, to the best of their knowledge and belief, that the group's financial report presents a true and fair view, in all material respects, of the group'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 group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Audit governance and independence

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

Appointment of auditor

The group's current external auditor is PricewaterhouseCoopers. The effectiveness, performance and independence of the external auditor is reviewed by the audit and risk management committee on an ongoing basis. The selection and appointment of the group's external auditor is the responsibility of the audit and risk management committee.

Independence declaration

Under changes introduced by CLERP 9, auditors are now required to state that to the best of their knowledge or belief, there have been no contraventions of the auditor independence requirements of the Corporations Act or any applicable code of professional conduct in relation to the audit. In accordance with section 298(1)(c) and section 306(2), PricewaterhouseCoopers have provided a copy of this declaration to the audit and risk management committee for the financial year ended 30 June 2006, which has been included in the Directors' Report.

Rotation of lead external audit partners

Altium will adopt a policy of rotating its lead audit partner every five years. This policy will be adopted to all audit work undertaken in the financial year beginning on, or after, 1 July 2006, being Altium Limited's 2007 financial year.

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

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

Attendance of external auditor at annual general meetings

PricewaterhouseCoopers is invited to attend Altium Limited's annual general meeting and be available to answer questions.

Risk identification and management

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

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

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

Nomination committee

The members of the nomination committee at the date of this report are: Carl J Rooke (Chairman), Nicholas M Martin and William A Bartee.

The main responsibilities of the nomination committee are to conduct an annual review of the membership of the board with regard to present and future needs of the group, make recommendations on board composition and appointments, propose candidates for board vacancies and oversee board succession including the succession of the chairman and establish induction guidelines for newly appointed directors, regularly assessing the effectiveness of this induction process. The committee has also established criteria for board independence and conducts an annual review of director's independence. The number of meetings attended by each director for the financial year ended 30 June 2006 is outlined in the Directors' Report.

Remuneration committee

The members of the remuneration committee at the date of this report are: Carl J Rooke (Chairman), William A Bartee and David M Warren.

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

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

Additional responsibilities include reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure that the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

The number of meetings attended by each director for the financial year ended 30 June 2006 is outlined in the Directors' Report.

Remuneration policies

Non-executive directors

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

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 outlined in the Remuneration Report on page 16.

Executive directors and senior executives

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

Share trading

Under the group's share trading guidelines, all employees and directors of the group are advised not to trade in Altium Limited's shares or other securities if they are in possession of 'inside information'. Subject to this policy and in 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, employees and directors of the group must advise the Company Secretary of their intention to trade and declare that there is no known reason to preclude them from trading in Altium Limited's shares or other securities.

Continuous disclosure

The continuous disclosure provisions of the *Corporations Act 2001* and the listing rules mean that criminal and civil liabilities could be imposed on Altium Limited and its officers if material information is not released to the market in accordance with the ASX listing rules. The group 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.

Altium Limited has nominated the Company Secretary to have responsibility for:

- making sure that Altium Limited 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 group's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

All shareholders receive a copy of the group's annual report. In addition, all group announcements, media briefings, press releases and financial reports are available on Altium's website.

Conduct and ethics

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

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 group policies.