

Company Number: 03051069

Altair Engineering Limited

**Directors' Report, Strategic Report and Financial Statements
for the year ended 31 December 2017**

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The following pages do not form part of the statutory financial statements

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Registered Office

Imperial House
Holly Walk
Royal Leamington Spa
CV32 4JG

Directors

Dr R D Jones
J R Scapa (USA)
G J Christ III (USA)

Auditor

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

The directors present their report together with the audited financial statements for the year ended 31 December 2017.

Principal activity

The principal activity of the company continues to be the design, sale and service of computer software and support services for engineering applications.

A 2017 dividend of £800,000 has been paid during the year (2016: £800,000).

Directors of the company

The directors who held office during the year and to the date of signing were as follows:

- Dr R D Jones
- J R Scapa (USA)
- G J Christ III (USA)

During the year under review and as at the date of the Directors Report, appropriate directors and officers insurance was in place.

Employees

The Directors recognise the benefits that accrue from keeping employees informed on the progress of the business and involving them in the Company's performance. The Company is committed to providing equality of opportunity to all employees regardless of nationality, ethnic origin, age, sex or sexual orientation and continue to be supportive of the employment and advancement of disabled persons.

Going concern

After making enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In making their decision, the Directors considered the letter to financially support the company received from the parent company, as well as the net current asset and profit position.

Statement of disclosure of information to auditors

The directors of the company who held office at the date of approval of this Annual Report as set out above confirm that:

- so far as they are aware, there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

Auditors

In accordance with Section 489 of Companies Act 2006, a resolution proposing that Ernst & Young be re-appointed as auditors of the Company will be put to the Annual General Meeting.

On behalf of the Board:


Dr R D Jones
Director

14 September 2018

Altair Engineering Limited
Statement of Directors' Responsibilities
for the year ended 31 December 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors present their strategic report for the year ended 31 December 2017.

Review of the business

Business Review

We aim to present a balanced and comprehensive review of the development and performance of our business during the year and its position at the year end. Our view is consistent with the size and nature of our business. Turnover, gross margin and profit on ordinary activities before taxation being the key financial performance indicators that communicate the strength of the Company as a whole.

Business Model

We are focused on the development and broad application of simulation technology to synthesise and optimise designs, processes and decisions for our clients' improved business performance. We add value by radically changing the way organisations design products and make decisions.

Key Performance Indicators

- Revenue £14,288,093 (2016: £12,717,044)
- Gross margin 50.6% (2016: 51.2%)
- Profit on ordinary activities before taxation £1,750,199 (2016: £974,363)

Financial Performance

The company's profitability increased significantly, reflecting increased revenues together with tighter controls on costs of sales.

Principal risks and uncertainties

The company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. However, healthy net assets, excellent product portfolio, diverse customer base and our vast expertise provide a good platform on which to meet any future challenges.

Credit Risk:

The company's principal financial assets are cash at bank and trade and other receivables. A doubtful debt of £89,912 has been recorded in 2017, resulting in full utilisation of the opening provision balance. Current year provision for doubtful debts is £18,000 which is lower compared to the prior year due to improved credit control measures implemented by the entity.

This is also reflected by the decrease in trade receivables past due on the prior year.

	Provision for doubtful receivables	Trade receivables past due
As at 31 December 2017:	£18,000	12%
As at 31 December 2016:	£89,912	15%

Altair Engineering Limited

Strategic report (continued)

for the year ended 31 December 2017

Cash Flow Risk:

The company is exposed to fluctuations in foreign currency exchange rates principally involving US Dollar, Euro and Sterling transactions. Where appropriate, pricing is adjusted to cover any potential adverse fluctuation. There was a small foreign exchange loss in the year as remittances from Euro customer billing were converted to Sterling, the company's base currency. Resale of commodities purchased outside the group is minimal.

Liquidity Risk:

Current assets continue to exceed current liabilities, enabling the company to comfortably meet its obligations. Trade receivables represent a significant component of current assets and are valued at £2,903,716 (2016: £2,357,114). Aging breakdown of trade debtors by due date is as follows:

As at 31 December 2017:	< 30 days	< 60 days	> 60 days
By due date	89%	2%	9%
By invoice date	72%	18%	10%

Some risk is perceived as customer requests are received for extended payment terms. However, careful consideration is given to each individual case, taking into account customer history and credit scoring. A financing company has also been engaged to better facilitate customer requests for terms while minimising risk.

Trade Payables are small at £295,055 (2016: £166,041) as the company seeks to pay suppliers within agreed payment terms and represents just 3.4% (2016: 2.7%) of total liabilities.

Future developments and Strategy

The Company is well placed to achieve future growth as new consulting projects come on stream, and software sales continue to increase. Investments in new products, increased headcount with industry experts, provide a strong basis on which to grow the business.

On behalf of the Board:



Dr R.D. Jones
Director

14 September 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALTAIR ENGINEERING LIMITED

Opinion

We have audited the financial statements of Altair Engineering Limited for the year ended 31 December 2017 which comprise the Statement of Financial Position, Statement of Cash Flows, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Directors' Report, and Strategic report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALTAIR ENGINEERING LIMITED

(Continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Stephen Kirk

(Senior statutory auditor)

for and on behalf of:

Ernst & Young LLP,

Statutory Auditor

Date: 14th September 2018

Altair Engineering Limited
Statement of Comprehensive Income
for the year ended 31 December 2017

	Note	2017 £	2016 £
Revenue	2	14,288,093	12,717,044
Cost of sales		(7,060,753)	(6,204,401)
Gross Profit		<u>7,227,340</u>	<u>6,512,643</u>
Other income	4	338,299	142,802
Administration expenses		(5,806,448)	(5,764,718)
Profit from operations	3	<u>1,759,191</u>	<u>890,727</u>
Investment Income	5	1,286	7,969
Finance (charges)/income	6	(10,278)	75,667
Profit before tax		<u>1,750,199</u>	<u>974,363</u>
Income tax expense	10	<u>(295,940)</u>	<u>(191,148)</u>
Profit after tax		<u>1,454,259</u>	<u>783,215</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u><u>1,454,259</u></u>	<u><u>783,215</u></u>

All income arises from continuing operations

The notes on pages 12 to 30 form part of these financial statements

Altair Engineering Limited
Statement of Financial Position
as at 31 December 2017
Registered Number: 03051069

	Note	2017 £	2016 £
Non current assets			
Intangible assets	11	-	493
Property, plant and equipment	12	479,742	242,484
Investments	13	2	2
Trade and other receivables	14	1,505,067	-
		<u>1,984,811</u>	<u>242,979</u>
Current assets			
Trade and other receivables	14	7,128,353	6,319,596
Cash and cash equivalents	15	1,176,656	532,040
		<u>8,305,009</u>	<u>6,851,636</u>
Total Assets		<u>10,289,820</u>	<u>7,094,615</u>
Equity			
Share Capital	21	10	10
Share premium reserve		10,019	10,019
Other capital reserve	21	20,343	16,392
Retained earnings		1,637,817	983,558
Shareholder's funds		<u>1,668,189</u>	<u>1,009,979</u>
Non current liabilities			
Deferred tax	20	51,000	35,900
Trade and other payables	19	1,496,237	-
Current liabilities			
Trade and other payables	19	7,012,478	6,034,389
Corporation tax		61,916	14,347
		<u>7,074,394</u>	<u>6,048,736</u>
Total liabilities		<u>8,621,631</u>	<u>6,084,636</u>
Total shareholder's funds and liabilities		<u>10,289,820</u>	<u>7,094,615</u>

The financial statements were approved by the board of directors on 14 September 2018 and were signed on its behalf by:

Dr R D Jones
Director

The notes on pages 12 to 30 form part of these financial statements

Altair Engineering Limited

Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash flows from operating activities	23	1,839,767	835,839
Investing activities			
Purchase of software, property, plant & equipment	12	(396,437)	(83,310)
Proceeds from sale of fixed asset investment		-	5,410
Interest received	5	1,286	2,576
Net cash used in investing activities		<u>(395,151)</u>	<u>(75,324)</u>
Financing activities			
Dividends paid		(800,000)	(800,000)
Net cash used in financing activities		<u>(800,000)</u>	<u>(800,000)</u>
Net increase / (decrease) in cash and cash equivalents		644,616	(39,485)
Cash and cash equivalents brought forward		532,040	571,525
Cash and cash equivalents carried forward		<u>1,176,656</u>	<u>532,040</u>

The notes on pages 12 to 30 form part of these financial statements

Altair Engineering Limited
Statement of Changes in Equity
as at 31 December 2017

	Share capital £	Other capital reserve £	Share premium reserve £	Retained earnings £	Total £
As at 1 January 2016	10	10,306	10,019	1,000,343	1,020,678
Total comprehensive income	-	-	-	783,215	783,215
Share-based payments		6,086			6,086
Dividends	-	-	-	(800,000)	(800,000)
As at 31 December 2016	<u>10</u>	<u>16,392</u>	<u>10,019</u>	<u>983,558</u>	<u>1,009,979</u>
	Share capital £	Other capital reserve £	Share premium reserve £	Retained earnings £	Total £
As at 1 January 2017	10	16,392	10,019	983,558	1,009,979
Total comprehensive income	-	-	-	1,454,259	1,454,259
Share-based payments	-	3,951	-	-	3,951
Dividends	-	-	-	(800,000)	(800,000)
As at 31 December 2017	<u>10</u>	<u>20,343</u>	<u>10,019</u>	<u>1,637,817</u>	<u>1,668,189</u>

The notes on pages 12 to 30 form part of these financial statements

1. Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared in Sterling which is the functional currency of the company.

The financial statements have been prepared on a going concern basis, applying the historical cost convention, except for certain financial instruments which are measured at fair value.

Going concern

After making enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In making their decision, the Directors considered the letter to financially support the company received from the parent company, as well as the net current asset and profit position.

Revenue Recognition

Revenue represents amounts receivable for goods supplied and services provided in the normal course of business, excluding VAT and trade discounts.

Revenue relating to software products licenses (including perpetual licenses), post-contract customer support (referred to as "PCS" or "maintenance") and professional services, if applicable, are considered to be one accounting unit and, once all services have commenced, are recognised rateably over the remaining period of the arrangement (the longer of the contractual service term or PCS term).

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable in respect of operating leases are charged to income on a straight-line basis over the term of the lease.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any recognised impairment loss.

The cost of property, plant and equipment is their purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated to write down the cost, less estimated residual values, of all tangible fixed assets, other than freehold land, over their estimated economic lives. The rates generally applicable are:

Leasehold improvements	20% straight line
Office equipment	20%/33% straight line
Motor Vehicle	20% straight line

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

1. Significant Accounting Policies (continued)

Intangible assets

Intangible assets are stated at cost, less accumulated amortisation and any recognised impairment loss.

The cost of intangible assets is their purchase cost, together with any incidental expenses of acquisition.

Amortisation is calculated to write down the cost, less estimated residual values, of all intangible fixed assets, over their estimated economic lives. The rates generally applicable are:

Software	20% straight line
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Fixed asset investments

Fixed asset investments are stated at historical cost less provision for any impairment.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the Statement of Comprehensive Income as they become payable in accordance with the rules of the scheme.

Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at year end exchange rates. These differences on exchange are dealt with through the Statement of Comprehensive Income.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are non-interest-bearing and are stated at their nominal value.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual installments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

1. Significant Accounting Policies (continued)

Taxation

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted at the balance sheet date. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided using the balance sheet liability method to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. The company has not adopted a policy of discounting deferred tax assets and liabilities.

Financial Instruments

Financial assets and financial liabilities are recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument.

Share based payments

The company participates in a group-wide equity settled, share based compensation scheme. The equity awarded is that of Altair Engineering Inc, and the company receives no recharge relating to the award. The value of employee services received in exchange for equity instruments granted under this plan is recognised as an expense over the vesting period of the instrument, with a corresponding increase in equity. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of the instruments at the date of grant is estimated using an appropriate valuation technique.

Key sources of estimation uncertainty and accounting judgements

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Areas where the most significant judgements and estimates are made are:

- Revenue recognition involving deferment of revenue over the license period
- Royalty at 60% paid to Altair Inc. on sales of UK software – a value deemed reasonable for the development of the software.
- Accrued staff bonus payments at year end.
- Provision for bad debt

Share based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions the company uses a Black-Scholes option pricing model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 22.

1. Significant Accounting Policies (continued)***Changes in accounting policies***

The following amendments to existing standards and interpretations were effective for the year, but either they were not applicable to or did not have a material impact on the company:

- Amendments to IAS 7: Disclosure Initiative for Cash Flow Statements
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

New and amended standards and interpretations not applied

As at date of approval of the Group financial statements, the following new and amended standards and interpretations in issue are not yet effective and have not been applied by the company:

	Effective date
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Annual Improvements Cycle – 2014 – 2016	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Positions	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28 Long-term interests in Associates and Joint Ventures	1 January 2019
IFRS Insurance Contracts	1 January 2021

The directors are in the process of evaluating the impact of the IFRS 15 and 16 on the company financial statements, and currently are unable to form an opinion on the impact to the company's financial statements in the period of initial application.

The director's assessment of the other new and amended standards is that they are unlikely to have a material impact on the company's financial statements when adopted.

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

2. Revenue

The revenue and profit before tax is wholly attributable to the principal activities of the company.

The geographical analysis of revenue is as follows:

	2017 £	2016 £
United Kingdom	8,651,246	7,789,954
Rest of Europe	3,115,405	2,236,704
Rest of World	2,521,442	2,690,386
	<u>14,288,093</u>	<u>12,717,044</u>

3. Profit from operations

Profit from operations has been arrived at after charging:

	2017 £	2016 £
Amounts payable to the auditors in respect of audit services	39,857	39,857
Loss on disposal of tangible assets	1,780	3,625
Amortisation of intangible assets	493	540
Depreciation of owned tangible fixed assets	157,399	98,141
Operating lease expense	<u>161,694</u>	<u>204,928</u>

4. Government grants

	2017 £	2016 £
As at 1 January 2017	271,405	12,559
Grants received in the year	2,081,225	401,648
Released as other income	<u>(338,299)</u>	<u>(142,802)</u>
As at 31 December 2017	<u>2,014,331</u>	<u>271,405</u>
Current	518,094	271,405
Non-current	1,496,237	-

During the year the company received grants from the Regional Growth Fund and Technology Strategy Board relating to specific ongoing projects.

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

5. Investment income

	2017 £	2016 £
Bank interest receivable	1,286	2,576
Gain on sale of fixed asset investment	-	5,393
	<u>1,286</u>	<u>7,969</u>

6. Finance (charges) / income

	2017 £	2016 £
Bank charges	(7,353)	(1,793)
Foreign currency (losses)/gains	(2,316)	80,256
Bank interest paid	(609)	(2,796)
	<u>(10,278)</u>	<u>75,667</u>

7. Pension – Defined Contribution Scheme

The company operates a defined contribution pension scheme for the benefit of the employees. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £272,125 (2016: £286,847).

Contributions totalling £29,430 (2016: £26,006) were payable to the scheme at the end of the year and are included in creditors.

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

8. Staff Costs

Staff costs during the year were as follows:

	2017 £	2016 £
Wages and salaries	3,483,483	3,490,206
Social security costs	428,863	440,303
Staff pensions	272,125	286,847
Share based payments expense	3,951	6,086
	<u>4,188,422</u>	<u>4,223,442</u>

The average monthly number of employees during the year was as follows:

	2017 Number	2016 Number
Finance and administration	7	8
Sales, development & programming	49	46
Management	<u>3</u>	<u>3</u>
	<u>59</u>	<u>57</u>

9. Directors' emoluments

The directors' emoluments for the year were as follows:

	2017 £	2016 £
Directors' emoluments (including benefits in kind)	<u>210,771</u>	<u>204,909</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2017 £	2016 £
Accruing benefits under money purchase pension scheme	<u>1</u>	<u>1</u>

The above details include no emoluments in respect of non-UK directors as their time spent in respect of Altair Engineering Limited is inconsequential to their wider group responsibilities.

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

10. Taxation

The major components of income tax charge for the years ended 31 December 2017 and 2016

	2017 £	2016 £
Current tax		
Current tax on profit for the year	312,068	204,091
Impact of prior year adjustment	<u>(31,228)</u>	<u>(8,543)</u>
Total current tax	280,840	195,548
Deferred tax		
Origination and reversal of timing difference (note 20)	<u>15,100</u>	<u>(4,400)</u>
Charge per Statement of Comprehensive Income	<u><u>295,940</u></u>	<u><u>191,148</u></u>

Reconciliation of tax charge

Reconciliation of tax expense and the accounting profit multiplied by the standard rate of corporation tax in the UK for 2016 and 2017:

	2017 £	2016 £
Profit before tax	<u>1,750,199</u>	<u>974,363</u>
Tax at the effective UK corporation tax rate 19.25% (2016: 20%)	336,913	194,873
<i>Effects of:</i>		
Expenses not deductible	6,680	1,855
Chapter 2 deduction	(17,469)	-
Adjustment in respect of current income tax of previous years	(31,228)	(8,543)
Changes in rates at which deferred tax measured	1,100	1,923
Other timing differences	<u>(56)</u>	<u>1,040</u>
	<u><u>295,940</u></u>	<u><u>191,148</u></u>

The UK Government announced an intention to reduce the UK Corporation tax rate to 19% from 1 April 2017 and a further reduction to 18% from 1 April 2020, and this was substantially enacted on 18 November 2015. The Finance Bill 2015-16 to 2016-17 has further reduced the UK Corporation tax rate to 17% from 1 April 2020.

Deferred tax liabilities have been calculated at 17% as this is the rate expected to apply when these timing differences crystallise based on current and enacted tax rates and law.

Notes to the Financial Statements

for the year ended 31 December 2017

11. Intangible assets

	Software £
Cost	
At 1 January 2017 and 31 December 2017	<u>5,178</u>
Amortisation and Impairment	
At 1 January 2017	4,685
Charge for the year	<u>493</u>
At 31 December 2017	<u>5,178</u>
Carrying amounts	
At 31 December 2017	<u>-</u>
At 31 December 2016	<u>493</u>

12. Property, plant and equipment

	Leasehold improvements £	Office Equipment £	Total £
Cost			
At 1 January 2016	130,461	597,082	727,543
Additions	20,022	63,288	83,310
Disposals	-	(20,822)	(20,822)
At 1 January 2017	<u>150,483</u>	<u>639,548</u>	<u>790,031</u>
Additions	45,494	350,943	396,437
Disposals	-	(82,219)	(82,219)
At 31 December 2017	<u>195,977</u>	<u>908,272</u>	<u>1,104,249</u>
Accumulated depreciation			
At 1 January 2016	126,277	340,326	466,603
Charge for the year	2,002	96,139	98,141
Eliminated on disposals	-	(17,197)	(17,197)
At 1 January 2017	<u>128,279</u>	<u>419,268</u>	<u>547,547</u>
Charge for the year	7,157	150,242	157,399
Eliminated on disposals	-	(80,439)	(80,439)
At 31 December 2017	<u>135,436</u>	<u>489,071</u>	<u>624,507</u>
Carrying amounts			
At 31 December 2017	<u>60,541</u>	<u>419,201</u>	<u>479,742</u>
At 31 December 2016	<u>22,204</u>	<u>220,280</u>	<u>242,484</u>

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

13. Investments held as fixed assets

	2017 £	2016 £
Shares in group undertakings and participating interests	<u>2</u>	<u>2</u>

Shares in group undertakings and participating interests

	Group Shares £
Cost	
At 1 January and 31 January 2017	<u>2</u>
Net book value	
At 1 January 2017	<u>2</u>
At 31 December 2017	<u>2</u>

The company holds one share (1% control) in Altair Engineering do Brasil Sistemas e Servicos Ltda, a company incorporated in Brazil, which is also their principal place of business. The cost of investment is £2.

14. Trade and other receivables

	2017 £	2016 £
Non-current		
Government grants	<u>1,505,067</u>	<u>-</u>
Current		
Trade receivables	2,903,716	2,357,114
Amounts owed by group undertakings	737,431	1,206,968
Prepayments and accrued income	3,087,206	2,755,514
Government grants	400,000	-
	<u>7,128,353</u>	<u>6,319,596</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair values.

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

14. Trade and other receivables (continued)

Set out below is an analysis of the company's trade receivables by due date.

	Current £	1-30 days £	31-60 days £	Over 60 days £	Gross Total £	Provision £	Net Total £
At 31 December 2017	2,584,650	264,907	14,790	57,369	2,921,716	(18,000)	2,903,716
At 31 December 2016	2,085,745	96,114	59,566	205,601	2,447,026	(89,912)	2,357,114

Movements on the company provision for impairment of trade receivables are as follows

	2017 £	2016 £
Provision at 1 January	89,912	12,300
Amounts provided in prior period unutilised	(89,912)	(12,300)
Provided in the period	18,000	89,912
Provision at 31 December	18,000	89,912

Amounts are written off when there is no expectation of recovering additional cash

15. Cash and cash equivalents

	2017 £	2016 £
Bank balances and cash in hand	1,176,656	532,040
Cash and cash equivalents in the statement of cash flows	1,176,656	532,040

Notes to the Financial Statements

for the year ended 31 December 2017

16. Foreign Currency Risk Management

The company undertakes transactions denominated in foreign currencies; consequently exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets 2017 £	Liabilities 2017 £
Euro	1,228,844	196,322
US Dollar	158,770	58,988

The company is mainly exposed to exchange rate fluctuations in the Euro and to a lesser extent, the US Dollar. As some customers and vendors employ multi-currency transactions, foreign currency cannot always be linked to specific territories. However, in the period 57% of Euro revenue resulted from sales to an Italian related party.

The following table details the company's sensitivity to a 6% increase and decrease in Sterling against the relevant foreign currencies. 6% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The company has no external loans or loans to foreign operations within the Group. A positive number on the percentage foreign exchange rate risk indicates a strengthening of Sterling against the relevant currency.

		Foreign Exchange Rate Risk	
		6%	-6%
	Carrying Amount at Reporting Date	Profit	
Financial Assets	£	£	£
Euro Cash at Bank	469,481	26,574	(29,967)
US Dollar Cash at Bank	6,665	377	(425)
Accounts Receivable Euro and US Dollar	911,468	51,592	(58,179)
Impact on Financial Assets before Tax		78,543	(88,571)
Tax Charge at 19%		(14,923)	16,828
Impact on Financial Assets after Tax		63,620	(71,743)
Financial Liabilities			
Accounts Payable Euro, US Dollar	255,310	14,452	(16,296)
Tax charge at 19%		(2,746)	3,096
Impact on Financial Liabilities after Tax		11,706	(13,200)
Total Increase/(Decrease)		75,326	(84,943)

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

17. Credit risk

The company's principal financial assets are cash at bank, trade and other receivables and operating lease commitments.

A provision for doubtful receivables has been recorded in this period in respect of one customer, although the value of trade receivables past due has fallen to just 12%. This reflects the health and stability of the broad customer base that includes many blue-chip corporations from a variety of industry sectors.

18. Capital management

The company manages its capital to ensure a sufficient capital base is preserved in order to maintain creditor and market place confidence and to safeguard the future development of the business. The company's overall strategy remains unchanged from 2016.

The capital structure of the company consists of the equity of the group, comprising issued capital, reserves and retained earnings. The company is not subject to any externally imposed capital requirements.

19. Trade and other payables

	2017 £	2016 £
Non-current		
Government grants	1,496,237	-
Current		
Trade payables	295,055	166,041
Amounts due to group undertakings	761,081	634,075
Social security and other taxes	578,833	455,742
Other payables	29,430	27,916
Accruals and deferred income	4,829,985	4,479,211
Government grants	518,094	271,405
	<u>7,012,478</u>	<u>6,034,389</u>

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

The intercompany loans are repayable on demand and no interest is charged in respect of these balances.

The cash flows pertaining to the liabilities are as follows:

	2017 Trade creditors £	2017 Intercompany creditors £	2016 Trade creditors £	2016 Intercompany creditors £
Within one year	295,055	761,081	166,041	634,075

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

20. Deferred tax

The following are the deferred tax liabilities recognised by the company and movements thereon during the current and prior year:

	Accelerated capital allowances £
At 1 January 2016	40,300
Credit to Statement of Comprehensive Income	<u>(4,400)</u>
At 31 December 2016	35,900
Charge to Statement of Comprehensive Income	<u>15,100</u>
At 31 December 2017	<u><u>51,000</u></u>

21. Share capital and reserves

	2017 £	2016 £
Authorised		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	<u><u>1,000</u></u>	<u><u>1,000</u></u>
Allotted, called up and fully paid shares		
10 Ordinary shares of £1 each	<u>10</u>	<u>10</u>
	<u><u>10</u></u>	<u><u>10</u></u>

Share option scheme

Altair Engineering Inc (holding company) has two share option schemes under which options to subscribe for Altair Engineering Inc's shares have been granted to certain employees.

<i>Other capital reserves</i>	Share based payments £
As at 1 January 2016	10,306
Share-based payments expense during the year	<u>6,086</u>
As at 31 December 2016	16,392
Share-based payments expense during the year	<u>3,951</u>
As at 31 December 2017	<u><u>20,343</u></u>

21. Share capital and reserves (continued)*Share-based payments*

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees as part of their remuneration. Refer to Note 22 for further details of these plans.

22. Share based payments*2012 ISO/NSO Plan*

The 2012 ISO/NSO Plan is authorised to grant both nonqualified stock options ("NSO") and/or incentive stock options ("ISO") totalling 5,200,000 shares of Class B, nonvoting stock of Altair Engineering Inc. The NSO exercise price may be set at less than the fair market value at the date of the grant under the terms of the ISO/NSO Plan, while ISO/NSO exercise price is set at a price equal to or greater than the fair market value at the date of the grant. All options have an exercise period of 10 years from the date of the grant. All Shares issued pursuant to the Plan shall be subject to the terms and conditions of Altair Engineering Inc's Stock Restriction and Repurchase Agreement and Altair Engineering Inc shall place legends on stock certificates representing that the Shares are subject to such Stock Restriction and Repurchase Agreement. The Stock Restriction and Repurchase Agreement also provides the pricing formula for the sale of shares based on various contingent repurchase features.

The measurement of equity-based awards is performed by determining the fair value of the award based on the observable market price of an option with the same or similar terms and conditions, if one is available. The fair value of an equity share option or similar instrument shall be estimated using a valuation technique such as an option-pricing model. The Company estimates the fair value of equity awards using the Black-Scholes option pricing model. This estimate is affected by Altair Engineering Inc's equity value as well as assumptions regarding a number of complex and subjective variables. These variables include Altair Engineering Inc's expected equity value volatility over the expected term of the awards, the risk-free interest rate, and the expected life of the awards.

The expense recognised for employee services received during the year is shown in the following table:

	2017 £	2016 £
Expense arising from equity-settled share-based payments transactions	<u>3,951</u>	<u>6,086</u>

There were no cancellations or modifications to the awards in 2017 or 2016.

Notes to the Financial Statements

for the year ended 31 December 2017

22. Share based payments (continued)*Movements during the year*

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2017		2016	
	Number	WAEP	Number	WAEP
Outstanding at 1 January	43,040	£ 1.56	12,222	£ 5.42
Granted during the year	6,000	£ 3.84	475	£ 14.66
Forfeited during the year	(2,200)	£ 2.28	(175)	£ 10.46
Exercised during the year	(9,432)	£ 0.85	(1,762)	£ 0.75
Outstanding at 31 December	37,408	£ 2.02	10,760	£ 6.79
Exercisable at 31 December	27,640	£ 1.52	8,109	£ 5.16

In October 2017, a share split of 1:4 took place which increased the opening outstanding number of share options from 10,760 to 43,040.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 was 5.48 years (2016: 4.40 years).

The weighted average fair value of options granted during the year was £3.84 (2016: £14.66).

The range of exercise prices for options outstanding at the end of the year was £0.34 to £0.85 (2016: £1.49 to £14.66).

The following table list the inputs to the models used for the plan for the years ended 31 December 2017 and 2016, respectively:

	2017	2016
Weighted average fair values at the measurement date	1.94	5.67
Dividend yield (%)	0%	0%
Expected volatility (%)	34%	37%
Risk-free interest rate (%)	2.02%	1.79%
Expected life of share options (years)	6.25	6.25
Weighted average share price (£)	5.18	14.57
Model used	Black-Scholes	Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Notes to the Financial Statements

for the year ended 31 December 2017

23. Notes to the Cash Flow Statement

	2017 £	2016 £
Profit from operations	1,759,191	890,727
Depreciation on property, plant and equipment	157,399	98,141
Amortisation of other intangible assets	493	540
Loss of sale of property, plant and equipment	1,780	3,625
Unrealised foreign currency (losses)/gains	(10,278)	75,667
Share based payments expense	3,951	6,086
Operating cash flows before movement in working capital	1,912,536	1,074,786
Increase in receivables	(2,313,824)	(338,733)
Increase in payables	2,474,326	229,711
Cash generated from operations	2,073,038	965,764
Taxation paid	(233,271)	(129,925)
Net cash from operations	1,839,767	835,839

24. Operating lease commitments

As at 31 December 2017 the company had annual commitments under non-cancellable operating leases as follows:

	2017 £ Land and building	2017 £ Other	2016 £ Land and building	2016 £ Other
Within one year	114,571	45,620	155,196	47,312
Within two and five years	371,316	47,687	465,588	40,292
Over five years	628,523	-	134,847	210
	<u>1,114,410</u>	<u>93,307</u>	<u>755,631</u>	<u>87,814</u>

Operating lease payments represents rentals payable by the company for certain of its offices, motor cars and other equipment. Rentals are fixed over the term of the lease, which varies from lease to lease.

	2017 £	2016 £
Operating lease payments recognised in the income statement for the year: -		
Equipment rental	2,424	7,648
Motor leases	46,354	43,191
Land and buildings	112,916	154,089
	<u>161,694</u>	<u>204,928</u>

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

25. Related Party Transactions

Ultimate parent undertaking

The ultimate parent undertaking is Altair Engineering Incorporated, a company registered in the USA, which is the smallest and largest group in which the results of the company are consolidated. The financial statements of Altair Engineering Incorporated are available from 1820E Big Beaver Road, Troy, Michigan, MI 48083-2031, USA. Altair Engineering Incorporated is also the group's ultimate controlling company.

Transactions with related parties

During the year the company entered into the following transactions with related parties:

	2017 £	2016 £
Sales of goods and services from related parties		
Parent undertaking	2,372,626	2,447,721
Fellow subsidiaries	<u>2,899,350</u>	<u>2,852,360</u>
	<u>5,271,976</u>	<u>5,300,081</u>
	2017 £	2016 £
Purchase of goods and services from related parties		
Parent undertaking	6,538,042	6,004,442
Fellow subsidiaries	<u>851,835</u>	<u>428,171</u>
	<u>7,389,877</u>	<u>6,432,613</u>
	2017 £	2016 £
Amounts payable to related parties		
Parent undertaking	719,398	607,863
Fellow subsidiaries	<u>41,683</u>	<u>26,212</u>
	<u>761,081</u>	<u>634,075</u>
	2017 £	2016 £
Amounts receivable from related parties		
Fellow subsidiaries	<u>737,431</u>	<u>1,206,968</u>

Altair Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2017

25. Related Party Transactions (continued)

Compensation of key management personnel

The company has no key management personnel other than the directors, whose remuneration during the year is disclosed in note 9.

The remuneration of the director is determined by the company having regards to the performance of individuals and market trends.

26. Corporate information

Altair Engineering Limited is a limited company incorporated and domiciled in England within the United Kingdom. The address of the registered office is given in the company information page within these financial statement.

The financial statements are presented in sterling, which is the functional currency of the company.

Altair Engineering Limited
Detailed Income Statement
for the year ended 31 December 2017

	2017 £	2017 £	2016 £	2016 £
Revenue				
Sales		14,288,093		12,717,044
Cost of sales				
Purchases	4,831,836		4,773,494	
Subcontract costs	<u>2,228,917</u>		<u>1,430,907</u>	
		<u>(7,060,753)</u>		<u>(6,204,401)</u>
Gross Profit		7,227,340		6,512,643
Other income				
Government grant		338,299		142,802
Administration expenses				
Employment costs	4,331,523		4,357,332	
Establishment costs	355,090		367,960	
General administrative expenses	960,163		937,120	
Depreciation costs	<u>159,672</u>		<u>102,306</u>	
		<u>(5,806,448)</u>		<u>(5,764,718)</u>
Investment income		1,286		7,969
Finance (charges) / income		<u>(10,278)</u>		<u>75,667</u>
Profit on ordinary activities before taxation		<u><u>1,750,199</u></u>		<u><u>974,363</u></u>

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Altair Engineering Limited

Schedules to the Detailed Income Statement

For the year ended 31 December 2017

	2017 £	2016 £
Employment costs		
Wages and salaries	3,405,500	3,442,554
Staff NIC (Employers)	428,863	440,303
Staff pensions	272,125	286,847
Private health insurance	34,159	32,382
Subcontracted employees	77,983	47,652
Subcontracted employee expenses	50,052	32,624
Share based payments expense	3,951	6,086
Insurance	26,263	29,093
Staff training	10,086	10,530
Staff welfare	22,541	29,261
	<u>4,331,523</u>	<u>4,357,332</u>
Establishment costs		
Rent and rates	282,179	272,886
Light, heat and power	2,381	1,809
Insurance	28,173	40,778
Repairs and renewals	42,357	52,487
	<u>355,090</u>	<u>367,960</u>
General administrative expenses		
Telephone and fax	53,023	57,693
Computer software and maintenance costs	78,428	100,803
Printing, postage and stationery	31,471	23,026
Trade subscriptions	10,519	10,328
Charitable donations	10,208	2,000
Hire of office equipment	20,447	5,277
Cleaning	17,640	11,383
Auditor's remuneration	39,857	39,857
Legal and professional fees	178,266	126,673
Motor expenses	46,714	44,246
Motor repairs and renewals	545	4,930
Car hire and leasing expenses	57,223	55,772
Advertising	118,930	111,997
Travel and subsistence	280,921	232,593
Staff entertaining	19,399	13,822
Customer entertaining	1,883	1,888
Bad debts (recoverable)/written off	(5,311)	94,832
	<u>960,163</u>	<u>937,120</u>

This page does not form part of the statutory financial statements

Altair Engineering Limited**Schedules to the Detailed Income Statement****For the year ended 31 December 2017**

	2017 £	2016 £
Depreciation costs		
Depreciation of leasehold improvements	7,157	2,002
Depreciation of office equipment	150,242	96,139
Amortisation of intangible assets	493	540
Loss on disposal of tangible fixed assets	1,780	3,625
	<u>159,672</u>	<u>102,306</u>
Investment income		
Bank interest receivable	1,286	2,576
Gain on sale of fixed asset investment	-	5,393
	<u>1,286</u>	<u>7,969</u>
Finance (charges) / income		
Bank charges	(7,353)	(1,793)
Foreign currency (losses)/gains	(2,316)	80,256
Bank interest paid	(609)	(2,796)
	<u>(10,278)</u>	<u>75,667</u>

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