

Annual Report and Accounts
Atlassian Corporation Plc
Year Ended June 30, 2016

Registered No. 8776021



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Strategic Report

The Board of Directors (the "Directors") present the Strategic Report of Atlassian Corporation Plc ("we," "our," "Atlassian" or the "Company") and its subsidiaries (together, the "Group") for the fiscal year ended June 30, 2016. All amounts in this Strategic Report are in U.S. dollars unless noted otherwise.

Business Overview

The Company's mission is to unleash the potential in every team.

Our products help teams organize, discuss and complete their work - delivering superior outcomes for their organizations.

We believe human advancement has always been driven by teamwork - from the great explorations of earth and space to innovations in industry, medicine, music and technology. And while it's common to celebrate the individual genius behind a breakthrough idea, in nearly every case there is a team of unsung heroes that actually get the work done.

We also believe that the greatest lever teams have to advance humanity lies in the power of software innovation. Through software, contact lenses now monitor and report on the blood glucose levels of diabetes patients, allowing patient and doctor to better manage the disease. Through software, cars can monitor and report on vehicle status, improving driver safety. Through software, people can read, write and converse with people in languages they do not speak. Each of these advances was delivered by teams.

Software's transformational impact is forcing organizations to use software to innovate, or face disruption from competitors that do. Today, organizations in every industry are becoming software-driven. As a result, the teams that imagine, create and deliver that software are more essential than ever.

The Company was founded in 2002 to help software teams work better together. From the beginning, our products were designed to help developers collaborate with other non-developer teams involved in software innovation. This breakthrough approach separated us from traditional software providers focused solely on developers.

As more non-developer teams are exposed to our products, they adopt and extend them to new use cases, bringing our products to other users and other types of teams in their organizations. This has created an expansive market opportunity for us.

Today, our products serve teams of all shapes and sizes, in virtually every industry - from software and technical teams to IT and service teams, from sales and marketing to HR, finance and legal teams. Our products include JIRA for team planning and project management, Confluence for team content creation and sharing, HipChat for team messaging and communications, Bitbucket for team code sharing and management and JIRA Service Desk for team services and support applications.

Our products form an integrated system for organizing, discussing and completing shared work, becoming deeply entrenched in how people work together and how organizations run.

Our product strategy, distribution model and Company culture work in concert to create unique value for our customers and competitive advantage for the Company.

The Company was founded on the premise that great products could sell themselves and we have developed a unique approach to the market that is centered on this belief. We begin with a deep investment in product development to create and refine high-quality and versatile products that users love. We make our products affordable for organizations of all sizes and we transparently share our simple pricing online. We pursue customer and user volume, targeting teams in every organization, regardless of size, industry or geography.

To reach this expansive market, we distribute and sell our products online without traditional sales infrastructure where users can get started in minutes without the need for assistance. We focus on enabling a self-service, low-friction model that makes it easy for users to try, adopt and use our products.

Our culture of innovation, transparency and dedication to customer service drives our success in implementing and refining this unique approach. We believe this approach fosters innovation, quality, customer happiness, scale and profitability.

We take a long-term view of our customer relationships and our opportunity. We recognize that users drive the adoption and proliferation of our products and, as a result, we are relentlessly focused on measuring and

improving user satisfaction. We know that one happy user will beget another, thereby expanding the large and organic word-of-mouth community that helps drive our growth. We operate at unusual scale for an enterprise software company, with more than 60,000 customers across virtually every industry sector in more than 170 countries as of June 30, 2016. Our customers range from small organizations that have adopted one of our products for a small group of users to 291 of the Fortune 500, many of which use a multitude of our products across thousands of users.

Market Trends

Software is Changing Everything

Software is impacting almost every aspect of our lives and redefining the limits of what people and organizations can achieve. Software is everywhere and increasingly in everything, from our coffee makers to the tiny computers we carry in our pockets. Software is eliminating the mundane and simplifying the complex. It modernizes transportation, delivers medical breakthroughs, reduces energy consumption and advances education. Software is also substantially impacting business, helping organizations redefine their most traditional processes while creating entirely new and more efficient ways to get work done.

We believe organizations of all kinds, across all industries are either software driven or are threatened by competitors that are. Technology companies such as Amazon in retail, Netflix in entertainment and Uber in transportation are disrupting enormous global industries by building and deploying software to drive competitive advantage. Software-enabled companies such as Fitbit in fitness, GoPro in cameras, Zillow in real estate, and Tesla Motors in automobiles, leverage software to transform traditional products and services into richer customer experiences. Traditional, market-leading companies such as General Motors, General Electric, JPMorgan Chase, Domino's Pizza and L'Oreal are also investing heavily in software to improve mission-critical workflows, increase automation and mitigate ever-increasing competitive pressures. In addition, non-commercial institutions such as governments, schools and non-profits are also using software to re-engineer their processes and enhance services. Today, organizations of all types and sizes face an existential imperative to drive software innovation.

Software Teams are Essential and Multi-Dimensional

The digital transformation that organizations must undergo in order to survive and prosper can be imagined by many, but constructed by few. Teams that can deliver software innovation require a myriad of talents and functional expertise and are critical to each organization's efforts to thrive and compete.

Software developers have become more essential and influential and the demand for software development talent has grown among organizations of all kinds. According to JavaWorld, there were more than four job openings for every currently-employed software programmer in 2014. As market demand has grown, so too has the number of developers worldwide. The number of software developers is expected to grow from approximately 19 million in 2015 to more than 25 million by 2020, according to Evans Data Corporation. While large software companies such as SAP, Oracle, Microsoft and Google employ a substantial number of developers, the U.S. Bureau of Labor Statistics indicates that, as of December 2013, 57% of developers were employed by non-software companies, illustrating the broad proliferation and influence of software talent.

As software innovation sweeps through organizations, people across all functional areas are increasingly part of software teams. Developers, product managers, IT managers, designers, marketers and many other team members must now collaborate to drive software innovation for their organizations. Successful software development requires diverse, distributed teams to connect and perform seamlessly together. To tackle this challenge, software teams have been at the forefront of the effort to create and utilize collaboration tools to drive efficiency and productivity.

Software Team Collaboration is Complex and Challenging

Modern software development is highly creative, iterative and asynchronous, and very complex. In many ways, the process is analogous to asking ten writers to independently pen one chapter of a novel at the same time, and re-assemble these pieces into a cohesive and elegant narrative, on a tight deadline. And because software is so essential for how modern organizations compete, the expectations and urgency to innovate have increased. Software teams today must iterate and move faster than ever before.

Software teams are distributed across geographies, time zones and business functions. And the amount of information they are creating and sharing - from business plans and requirements documents, to code and documentation - is growing and constantly changing. This increases the complexity and the need for greater cooperation and communication, as multiple participants, relevant information and iterative workflows must

ultimately be integrated effectively. As a result, software development is regarded as a pinnacle of organizational teamwork and has increasingly become the model for modern workforce collaboration across all teams.

Increasing Complexity Makes Collaboration Critical for All Teams

Across the global economy, work is becoming more complex, faster-paced and more collaborative. While software teams were first to truly embrace a globally distributed workforce - through outsourcing or simply racing to where they could find scarce talent - more and more teams are now spread across geographies. A marketing team might have a remote group of internal designers, or work closely with a third-party design firm they contracted to support a project. An HR team might have a shared services center in a lower cost location, or work frequently with third-party recruiters. Organizations are increasingly utilizing a global talent pool and leveraging technology to help make work more efficient and productive.

In addition to the complexity that comes with being globally distributed, teams are creating and managing more and more information, face higher expectations of work quality from their organization and must produce under tighter and more frequent deadlines. In addition, development teams are increasingly collaborating across multiple types of devices - both while at work and while working remotely.

All Teams are Seeking Better Ways to Connect and Get Work Done

In today's dynamic and intensely collaborative business environment, all employees are seeking new and more powerful ways to connect and get access to the information and systems they need to be successful. As software projects become more cross-functional, knowledge workers throughout organizations have been exposed to the collaboration and workflow practices of software teams. This exposure across organizations has coincided with growing dissatisfaction with traditional productivity tools such as email, phone calls, web conferencing, word processing and spreadsheets.

While traditional tools can help to connect people, they lack the functionality, integration and compatibility needed to complete work efficiently in today's dynamic environment. Such tools make it difficult for teams to stay coordinated, transparently track the status of complex processes, manage dependencies, communicate intelligently and operate with sufficient context. For example, a global team using traditional tools to collaborate on a financial analysis would struggle to integrate and complete their work: to track and comprehend communications between disparate parties and from multiple phone calls, video conferences and email threads; to manage version control and audit of multiple spreadsheets; and to keep the broader team consistently apprised of progress, milestones and deadlines.

Teams Are Now Making Their Own Technology Choices

Following the "bring your own device" trend, employees are increasingly empowered to "bring your own software," leading to the user-driven viral adoption of new types of consumer-style software products within an organization.

In addition, people are increasingly adopting business collaboration technology that is as personal, user-friendly, versatile and powerful as the consumer technology applications they use in their everyday life. They seek products with modern design and social and search functionality, with the ability to seamlessly work across desktop and mobile devices.

Modern teams of all kinds are seeking a new system of engagement - software built for teams that integrates multiple streams of complex tasks and dynamic information, and improves efficiency through real-time sharing, openness and transparency.

The Atlassian Way

Our product strategy, distribution model and Company culture work in concert to create unique value for our customers and competitive advantage for our Company.

We invest significantly in developing and refining products that allow teams to achieve their full potential. We make versatile products that can be used in a myriad of ways. Our products are easy to adopt and use and can be distributed and proliferated organically and efficiently.

We offer these products at affordable price points in a high-velocity online distribution model. Our distribution model does not rely on costly sales infrastructure to push product to our customers. By making our products simple, powerful and easy to adopt, we generate demand from word-of-mouth and viral expansion within organizations. Our model is designed to operate at scale and serve millions of customers.

Our culture of innovation, transparency and dedication to our customers creates an environment that drives and perpetuates our product leadership and highly automated, low-cost distribution approach.

We believe that our product strategy, distribution model and Company culture are mutually reinforcing. By investing in innovation and making our products affordable and easy to use, we operate without reliance on traditional sales infrastructure, which enhances our distribution model and permits long-term investment in product leadership and our unique culture.

Our Product Strategy

We have developed and acquired a broad portfolio of products that help teams large and small to organize, discuss and complete their work in a coordinated, efficient and modern fashion. Our products, which include JIRA, Confluence, HipChat, Bitbucket and JIRA Service Desk, serve the needs of teams of software developers, IT managers and knowledge workers. While these products provide a range of distinct functionality to users, they share certain core attributes:

- **Built for Teams** - Our products are singularly designed to help teams work better together and achieve more. From the beginning, our products were designed to make software teams more effective, while allowing them to connect and collaborate with workers across their organizations. With more than 60,000 customers, we have developed a refined understanding of the needs of teams. Leveraging these insights, we design products that help our customers to communicate better, be more transparent and operate in a coordinated and precise manner.
- **Easy to Adopt and Use** - We invest significantly in research and development to enable our products to be both powerful and extremely easy to use. Our software is designed to be accessed from the Internet and immediately put to work. By reducing the friction that usually accompanies the purchase of business software and eliminating the need for complicated and costly implementation and training, we believe we attract more people to try, buy and derive value from our software. As a result, on average, we generate more than 7,500 free evaluations of our products per typical business day.
- **Versatile and Adaptable** - We develop simple and well-designed products that are useful in a broad range of workflows and projects. We believe that our products can improve any process involving teams, multiple streams of work and deadlines. For example, our JIRA product, which enables software teams to plan, build and ship software products, is also used by thousands of our customers to manage other unrelated workflows, including product design, supply chain management, expense management and legal document review.
- **Integrated** - Our products are integrated and designed to work well together. For example, an IT service ticket generated in JIRA Service Desk can automatically trigger a notification to relevant parties via HipChat, on both desktop and mobile devices, and the resolution of the ticket can be published in Confluence, allowing others to subsequently access important context and information about the event.
- **Open** - We are dedicated to making our products open and interoperable with a range of other platforms and applications, such as salesforce.com, Workday and Dropbox. In order to provide a platform for our partners and to promote useful products for our users, in 2012 we introduced the Atlassian Marketplace, an online marketplace that, as of June 30, 2016, features more than 2,000 add-ons and extensions to our products created by a growing global network of independent developers and vendors. The Atlassian Marketplace provides customers a wide range of additional capabilities they use to extend or enhance our products, further increasing the value of our platform. From Atlassian Marketplace's inception in 2012 to June 30, 2016, customers have purchased more than \$150 million of add-ons, generating over \$120 million of revenue for our partners. In addition, these purchases generated over \$30 million of revenue for us.

Our Distribution Model

Our high-velocity distribution model is designed to drive exceptional customer scale by making affordable products available via our convenient, low-friction online channel. We focus on product quality, automated distribution and customer service in lieu of a costly traditional sales infrastructure. We rely on word-of-mouth and low-touch demand generation to drive trial, adoption and expansion of our products within customers.

The following are key attributes of our unique model:

- **Innovation-driven** - Relative to other enterprise software companies, we invest significantly in research and development rather than sales and marketing. Our goal is to focus our spending on measures that improve quality, ease of adoption and expansion and create organic customer demand for our products. We also invest in initiatives that automate and streamline distribution and customer support functions to enhance our customer experience and improve our efficiency. These investments have allowed us to scale our business to serve customers in more than 170 countries.

Beyond improving product quality and enhancing customer experience, a portion of our research and development spending is targeted at demand generation and customer conversion. For example, we have invested in the development of our Atlassian Engagement Engine, an internal platform that allows us to profile and analyze customer behavior and promote additional products directly to users in the context of their activity.

- **Simple and Affordable** - We offer our products at affordable prices in a simple and transparent format, with a free trial before purchase. For example, a customer coming to our website can evaluate, purchase and setup a JIRA license, for 10 users or 10,000+ users, based on a transparent list price, without any interaction with a sales person. This approach, which is in contrast to the opaque and complex pricing plans offered by most traditional enterprise software vendors, is designed to complement the easy-to-use, easy-to-adopt nature of our products and accelerate adoption by large volumes of new customers.
- **Organic and Expansive** - Our model benefits from significant customer word-of-mouth about our products that drives traffic to our website. The vast majority of our transactions are conducted on our website. This significantly reduces our cost of acquiring new customers. We also benefit from distribution leverage via our network of Atlassian Experts, who resell and customize our products. Once we have established a footprint within a customer, the networked nature and flexibility of our product tends to result in user growth, new uses for our software and the attachment of our other products within customers.

In our model, demand for our software organically spreads from user to user, from team to team and from department to department. In order to support this expansion and scaling within customers, we have enhanced the manageability and enterprise features of our software to support broad standardization on our platform. This expansion within customers creates a network effect that contributes to long-lasting customer relationships.

- **Scale-oriented** - Our model is designed to generate and benefit from significant customer scale and our goal is to maximize the number of individual users of our software. First, we leverage customer word-of-mouth and the strength of our brands to drive inquiry through traffic to our website, which has resulted in more than 100,000 daily visitors to atlassian.com. Second, we offer those visitors the opportunity to try our products for free and we generate on average more than 7,500 such evaluations per typical business day. Third, we allow small teams (10 users or less) to adopt our products at very attractive prices to seed usage within organizations. Fourth, we seek to convert those visitors and small teams into paid, long-term customers. Fifth, we seek long-term growth and expansion through efficient and targeted in-product marketing based on user profile and behavioral data, and excellent customer service and support.

With more than 60,000 customers using our software today, we are able to reach a vast number of users, gather insights to refine our offerings and generate growing revenue by expanding within our customer accounts. With 1,245 customers paying us in excess of \$50,000 during fiscal 2016, many of whom started as significantly smaller customers, we have demonstrated our ability to grow within our existing customers. Ultimately, our model is designed to serve millions of customers and to benefit from the data, network effects and customer insights that emerge from such scale.

- **Data-driven** - Our scale and the design of our model allows us to gather insights into and improve the customer experience. We track, test, nurture and refine every step of the customer journey and our users' experience. This allows us to intelligently manage our funnel of potential users, drive conversion and promote additional products to existing users. Our scale has enabled us to experiment with various approaches to these tasks and constantly tune our strategies for user satisfaction and growth.

Our Culture

Our Company culture is exemplified by our core values:



**Open company,
no bullsh*t**



**Build with heart
& balance**



**Don't #@!% the
customer**



Play, as a team



**Be the change
you seek**

The following are the key elements of our culture that contribute to our ability to drive customer value and achieve competitive differentiation:

- **Openness and Innovation** - We value transparency and openness as an organization. Since our inception, we have put online all of our product pricing, documentation, knowledge base and record of product enhancements. We believe this approach promotes trust and makes customers more comfortable in engaging with us in our low-touch model. In addition, we are dedicated to innovation and encourage our employees to invent new applications, uses and improvements for our software. We promote invention through our internal, quarterly "Shiplt" hack-a-thon, where employees from all different departments across each of our global locations participate in a 24-hour innovation competition. Each "Shiplt" hack-a-thon results in hundreds of small and large innovations across our products, processes and operations. In addition, we run our Company using our own products for a broad range of use cases, which promotes open communication and transparency throughout our organization.
- **Dedication to the Customer** - Customer service and support is at the core of our business. We have four major customer support centers and we strive to provide "legendary service" to our customers. In addition to providing a personal touch, our service team is also encouraged to seek scalable, self-service solutions that customers will love. Our customers span the largest and oldest organizations to early-stage startups, and each and every one receives the same dedicated service. We made the strategic decision to invest in superior service that drives greater customer happiness and breeds positive word-of-mouth rather than build a traditional sales infrastructure.
- **Team-driven** - We were created to serve the needs of teams. Therefore, it is natural that we value teamwork highly and have organized the Company to encourage active teamwork. One of our core values, "Play, as a team," encourages our employees to be both team oriented and entrepreneurial to identify problems and invent solutions. Teamwork starts at the top of our organization with our unique co-CEO structure and is celebrated throughout our Company.
- **Long-term Focused** - We believe that we are building a company that can grow and prosper for decades to come. Our model, which is designed for customer scale, starting small, making important investments and growing with our customers over time requires a patient, long-term approach, and a dedication to continuous improvement. Our investment in research and development is significant relative to traditional software models and is designed to drive long-term sustainability of our product leadership. Given the choice between short-term results and building long-term scale, we choose the latter.

Our Growth Strategy

Our growth strategy is to make our software accessible to every organization, team and user to help them get work done. We intend to continue this approach by adding customers, developing new products, expanding in existing customers and pursuing selective acquisitions.

Key drivers of our growth strategy include:

- **Protect and Promote Our Culture** - Our culture is at the foundation of everything we do and fuels our business strategy and success. We were founded on the principles of openness, teamwork and innovation. We intend to continue our product-driven focus and spur innovation through events such as "Shiplt," through which JIRA Service Desk was conceived. We also intend to continue to contribute a portion of our profits, employee time and technology towards non-profit initiatives in our commitment to give back to the

community. We are steadfast in our commitment to formal and informal programs that improve our culture and positively influence our people and our products.

- **Continue to Refine Our Unique Business Model** - We strive to improve every aspect of our unique, low-friction business model. We will continue to develop the technology and products that enable our customers to easily adopt and use our products over the Internet. We are continuously undertaking initiatives in our marketing and sales strategy to find, qualify and sell to customers more efficiently and effectively. We are focused on providing superior support for all our customers, from self-service updates and upgrades to on-call or on-site support when needed. As we gather more insights from our user and customer interactions, we will integrate this visibility across our business to improve and accelerate our product roadmaps and sales, marketing and support efforts.
- **Increase Product Value** - We intend to continue to increase the value of our software to customers by providing them with a broader, integrated set of products. By integrating our products with each other, they become more valuable to our customers so they avoid having to move around separate, non-integrated products to get their work done. By developing and acquiring new technologies, we are able to address more and more of our user's day-to-day needs. Over the last three fiscal years, we invested \$364.1 million in research and development activities, excluding share-based compensation, translating to 36.7% of the revenue generated over the same period. In addition, since September 2006, we have acquired more than eleven early-stage companies with complementary technologies and have successfully integrated them into our platform. We believe both organic development and inorganic acquisition are core competencies for us, and intend to use both to continue to drive ever-increasing product value for our customers. We also intend to provide more integration with third-party software so our users can benefit from more of their other technology investments.
- **Grow the Atlassian Marketplace and Partner Ecosystem** - We believe that in today's technology landscape, it is a strategic imperative to leverage open platforms and work with partners to extend our platform's functionality to use cases and customers which we could not reach on our own. The Atlassian Marketplace allows independent vendors and developers to develop add-ons and extensions that extend our platform and generate millions of dollars in revenue for both the vendors and for us. The Atlassian Marketplace provides customers with add-on applications that help tailor their deployments for their team, department, industry or use case.

Our Financial Model

By developing a product strategy, distribution model and culture that are designed around the needs of our customers and users, we believe that we have established a financial model that is favorable for our shareholders. Our model has allowed us to grow customers and revenue steadily while maintaining profitability for each of the last 11 fiscal years. Our model relies on rapidly and efficiently landing new customers and expanding our relationship with them over time. The following are the key elements of our model:

- **Significant Investment in Ongoing Product Development and Sales Automation** - Our research and development investments enable us to rapidly build new products, continuously enhance our existing products, acquire and integrate technologies and also help us obtain data-driven insights and further automate and streamline our approach to customer acquisition.
- **Rapid and Efficient Acquisition of New Customers** - By building products that are affordable and easy to adopt and use, we are able to attract customers rapidly without employing a traditional salesforce, and thereby lower the cost of customer acquisition significantly. As of June 30, 2016, we had more than 60,000 customers.
- **Continued Expansion** - Our success is dependent on our ability to expand the relationship with our existing base of customers. Since our founding, the aggregate sales from customers acquired in any fiscal year have expanded since they first purchased an Atlassian product, through the addition of more users, teams and products.
- **Predictability of Sales** - As we are not dependent on a traditional sales model and rely on a high-velocity online distribution model, we have historically experienced a linear quarterly sales cycle. Once teams begin working together with our software, we become embedded in their workflows, becoming a system for

engagement within organizations. This makes it difficult to displace us and provides us with steady and predictable revenue.

- **Positive Free Cash Flow** - By reducing customer acquisition cost and establishing a revenue model that has scaled linearly, our model has allowed us to have positive free cash flow for more than the last 11 fiscal years.

Our Products

We offer a range of team collaboration products, including:

- JIRA for team planning and project management;
- Confluence for team content creation and sharing;
- HipChat for team real-time messaging and communications;
- Bitbucket for team code sharing and management; and
- JIRA Service Desk for team service and support applications.

These products can be deployed by users through the cloud or behind the firewall on the customers' own infrastructure.

JIRA

JIRA helps teams plan, track and manage activities and projects. At the heart of JIRA is a sophisticated and flexible workflow management system that streamlines work processes and provides end-to-end traceability for the team throughout the entire project. We launched JIRA in 2002. JIRA's key capabilities include:

- **Projects and Dashboards** - Allows teams to organize their work into projects and customize dashboards for those projects to keep their teams aligned and on track.
- **Custom Forms and Fields** - Forms and fields are entirely customizable, meaning collecting and mapping relevant information, from features to bugs to general tasks of any kind, is only a few clicks away.
- **JIRA Query Language** - Features sophisticated search functionality (including a helpful auto-complete function) that makes it easy to search and sort for tickets and create custom filters.
- **Workflows** - Comes pre-configured with a variety of simple workflows, which teams can modify to match precisely how they work
- **Powerful Integrations** - Built to work with the existing developer tools in place, making it the single, reliable source-of-truth for all team members.
- **Collaboration** - Connects people and teams and provides users one place to share and discuss work, mention one another using @mentions, subscribe to specific notifications and watch customized activity streams of any changes.
- **Reporting** - Powerful reporting features to help project owners and team members visualize and stay on top of team progress, track performance and improve efficiency over time.
- **Extensibility** - Offers over 1,100 plug and play add-ons from the Atlassian Marketplace and comes with a rich set of APIs that allow developers to enhance and extend its functionality.
- **Administration and Security** - Offers administrators and project owners' granular control over accessibility, security and customizability.

In October 2015, we launched JIRA for Software, targeting software teams, and JIRA Core, targeting other business teams.

Confluence

Confluence is a social content platform, used to create, share and discuss content on the web. We launched Confluence in 2004. Confluence's key capabilities include:

- **Content Organization and Team Spaces** - Provides a flexible system for organizing, sharing and securing content in spaces arranged by team, project, department and more.
- **Simple Web Editing** - Enables users to create and share virtually anything-meeting notes, blogs, product requirements, file lists or project plans-all through a rich and dynamic editor in their web browser.
- **Collaborative Capabilities** - Connects people and teams around shared content and gives users simple ways to share, encourage discussion and collect feedback with threaded inline comments, @mentions and likes.
- **Extensibility** - Features a rich set of APIs that allow developers to enhance and extend its functionality with additional capabilities. The Atlassian Marketplace features over 600 pre-built add-ons, including custom themes, diagramming tools and workflow capabilities.
- **Administration and Security** - Features sophisticated administration and security, giving administrators fine-grained control over what and how they delegate to broader teams or individuals.

HipChat

HipChat provides teams a simple way to communicate in real-time and share ideas, updates, code and files. HipChat features a variety of real-time communication capabilities for teams, including individual or group chat, audio, video and screen sharing. HipChat can easily be connected to other systems, displaying notifications or messages from those systems directly in team chat rooms. We acquired the core technology for HipChat through an acquisition and launched HipChat in 2012. HipChat's key capabilities include:

- **Built for Teams** - Lets users and teams create team or project rooms to communicate more easily. Chat is persistent and archived so users can search for and refer back to past conversations.
- **Many Ways to Communicate** - Supports many ways for users and teams to communicate, including chat, video, audio, screen sharing and file-sharing.
- **Works Across Multiple Devices** - Enables team communication and notifications to follow users as they move across devices with native apps for MAC, Windows, iOS, Android, Linux and the web.
- **Extensibility and Integrations** - Integrates with other systems to receive relevant notifications in rooms and there are over 150 pre-built integrations for popular applications and services.
- **Administration and Security** - Offers sophisticated security features where administrators have granular control, conversations are transferred in 256-bit SSL encryption and can be deployed and managed on a customer's private infrastructure.

Bitbucket

Bitbucket is a code management and collaboration product for teams using distributed version control systems. Teams use Bitbucket to store and collaborate on shared code. Bitbucket supports more than 900,000 teams and 5.0 million developers. We acquired the core technology for Bitbucket through an acquisition and launched Bitbucket in 2010. Bitbucket's key qualities include:

- **Secure** - Provides enterprise-grade security with fine-grained permissions and merge checks, all the way down to the branch level for code it hosts.
- **Collaborative** - Encourages, enforces and helps facilitate discussions and ensures code quality through peer-to-peer reviews.

- **Integrations** - Offers extensive APIs and webhooks, allowing Bitbucket to integrate with existing tools and expand to meet the specific needs of development teams. The Atlassian Marketplace features over 200 pre-built add-ons.
- **Flexibility** - Offers deployment flexibility for those who wish to work in the cloud or behind their firewall.
- **Scalable** - Scales with team and organization growth, from a single server to a multi-node cluster for mission-critical deployments.

JIRA Service Desk

JIRA Service Desk is an intuitive and flexible service desk product for creating and managing service experiences for a variety of service team providers, including IT help desks and legal and HR teams. JIRA Service Desk features an elegant self-service portal, best-in-class team collaboration, integrated knowledge, service level agreement ("SLA") support and real-time reporting. We launched JIRA Service Desk in 2013 and it has experienced rapid adoption, with more than 17,000 organizations using JIRA Service Desk as of June 30, 2016. JIRA Service Desk's key capabilities include:

- **Simplified Self-service** - Provides an easy way for customers to make service or help requests, track progress and collaborate around a resolution.
- **Integrated Knowledge** - Allows customers to capture, create and share knowledge and resolution procedures with agents, experts and employees.
- **SLAs** - Offers service-level agreement management that ensures timely responses and accountability to the business.
- **Real-time Collaboration** - Integrates with chat to ensure fast and accurate responses and to harness the expertise spread across an organization.
- **Ticket Management** - Provides best-in-class ticket management that works across queues, workflows and business rules and fosters high agent productivity to scale service.
- **Configurability and Set-up** - Able to be rapidly configured and extended over the web to support a wide variety of service experiences from IT to facilities to HR.

Other Products

We also offer additional tools for software developers, such as FishEye, Clover, Crowd, Crucible, Bamboo and SourceTree.

In July 2016, we acquired Dogwood Labs, Inc. d/b/a StatusPage, a fast-growing leader in the status and incident communication space. StatusPage lets customers communicate the status of their services including incidents, performance data, and scheduled maintenance. End users can subscribe to real-time SMS and email updates, keeping them informed while lowering support costs for providers. StatusPage will continue to provide its standalone service offering in the near-term. We plan to accelerate StatusPage's offering with future integrations across our collaboration portfolio.

Operating and Financial Review and Prospects

As of June 30, 2016, we had 60,950 customers (organizations that have at least one active and paid license or subscription as of period end, for which they paid more than \$10 per month). No single customer contributed more than 1% of our total revenues during the fiscal year ended June 30, 2016.

A substantial majority of our sales are automated through our website, including sales of our products through channel partners and resellers. Our channel partners and resellers primarily focus on customers in regions that require local language support. Sales through indirect channels comprised approximately 25% of total revenues for fiscal 2016. We plan to continue to invest in our partner programs to help us enter and grow in new markets, complementing our automated, low-touch approach.

We generate revenues primarily in the form of perpetual license, maintenance, subscriptions and other sources. Customers typically pay us 100% of the initial perpetual license fee as maintenance revenue annually, beginning in the first year. Maintenance provides our customers with access to new product features and customer support. Maintenance revenue combined with a growing subscription revenue business, through our cloud and data center products, results in a large recurring revenue base. In each of the past three fiscal years, more than 75% of our total revenues have been of a recurring nature from either maintenance fees or subscriptions.

Key Business Metrics

We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions.

Customers

We have successfully demonstrated a history of growing both our customer base and spend per customer through growth in users, purchase of new licenses and adoption of new products. We believe that our ability to attract new customers and grow our customer base drives our success as a business.

We define the number of customers at the end of any particular period as the number of organizations with unique domains that have at least one active and paid license or subscription of our products for which they paid more than \$10 per month. While a single customer may have distinct departments, operating segments or subsidiaries with multiple active licenses or subscriptions of our products, if the product deployments share a unique domain name, we only include the customer once for purposes of calculating this metric. We define active licenses as those licenses that are under an active maintenance or subscription contract as of period end.

Our customers, as defined in this metric, have generated substantially all of our revenue in each of the periods presented. The number of customers does not include any organizations, identified by unique domain names, that have only adopted our free products or licenses that pay us \$10 per month or less. Including organizations who have only adopted our free products or licenses that pay us \$10 per month or less, the active use of our products extends beyond our 60,950 customers. With these customers using our software today, we are able to reach a vast number of users, gather insights to refine our offerings and generate growing revenue by expanding within our customers.

The following table sets forth our number of customers:

	As of June 30,		
	2016	2015	2014
Customers	60,950	48,622	37,250

Free cash flow

Free cash flow is a non-IFRS financial measure that we calculate as net cash provided by operating activities less net cash used in investing activities for capital expenditures. Management considers free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic opportunities, including investing in our business, making strategic acquisitions and strengthening our statement of financial position.

	Fiscal Year Ended June 30,			
	2016	2015	2014	2013
	(in thousands)			
Net cash provided by operating activities	\$ 129,542	\$ 98,221	\$ 75,280	\$ 54,310
Less: Capital expenditures	(34,213)	(32,676)	(10,259)	(7,246)
Free cash flow	<u>\$ 95,329</u>	<u>\$ 65,545</u>	<u>\$ 65,021</u>	<u>\$ 47,064</u>

Free cash flow increased by \$29.8 million during the fiscal year ended June 30, 2016 as net cash provided by operating activities increased to \$129.5 million during the fiscal year ended June 30, 2016 from \$98.2 million during the fiscal year ended June 30, 2015. Net loss before income tax increased to \$4.9 million during the

fiscal year ended June 30, 2016, from \$0.7 million for the fiscal year ended June 30, 2015, however we had an increase in adjustments for non-cash charges including a net increase of \$2.8 million in our operating assets and liabilities, an increase of depreciation and amortization of \$6.4 million and an increase in share-based payment expense of \$33.9 million.

While we expect to continue to incur capital expenditures to support the growth in our business and operations, such as new office build-outs, we expect total capital expenditures to decrease in absolute dollars in the fiscal year ending June 30, 2017 as compared with the fiscal year ended June 30, 2016. The timing of purchases of property and equipment may vary with business needs from period to period.

Operating Results

Components of Results of Operations

Sources of Revenues

We primarily derive our revenues from subscription, perpetual license, maintenance and other sources.

Subscription revenues

Subscription revenues consist of fees earned from subscription-based arrangements for providing customers the right to use our software in a cloud-based-infrastructure that we provide. We also sell on-premises term license agreements for software licensed for a specified period, which includes support and maintenance service that is bundled with the license for the term of the license period. Subscription revenues are driven primarily by the number and size of active licenses, the type of product and the price of the licenses. Our subscription-based arrangements generally have a contractual term of one to twelve months, with a majority being one month. Subscription fees are generally non-refundable regardless of the actual use of the service. We recognize subscription revenue ratably as the services are delivered over the term of the contract, commencing with the date the service is made available to customers and all other revenue recognition criteria are met.

Perpetual license revenues

Perpetual license revenues represent fees earned from the license of software to customers for use on the customer's premises. Software is licensed on a perpetual basis, subject to a standard licensing agreement. Perpetual license revenues consist of the revenues recognized from sales of licenses to new customers, increases in the number of users within an existing customer and additional licenses to existing customers. We recognize revenue on the license portion of perpetual license arrangements on the date of product delivery in substantially all situations.

In the first year of a perpetual license, we receive maintenance revenues that are equal to the upfront cost of the license. For example, if a customer purchases a new Confluence Server license for 25 users, it would cost \$600 for the license plus \$600 for the first year of maintenance. After the first year, the customer may renew the software maintenance for an additional 12 months for \$600.

Maintenance revenues

Maintenance revenues represent fees earned from providing customers unspecified future updates, upgrades and enhancements and technical product support for perpetual license products on an if and when available basis. The first year of maintenance is purchased concurrently with the purchase of our perpetual licenses, and subsequent renewals extend for an additional year in most cases. Maintenance services are priced as a percentage of the total product sale, and a substantial majority of customers elect to renew software support contracts annually at our standard list maintenance renewal pricing for their software products. Maintenance revenue is recognized ratably over the term of the support period.

Other revenues

Other revenues include fees received for sales of third-party add-ons and extensions in the Atlassian Marketplace and for training services. Revenue from the sale of third-party vendor products via Atlassian Marketplace is recognized net of the vendor liability portion, as we function as the agent in the relationship. Our portion of revenue on third-party sales is typically 25% and is recognized at the date of product delivery given that all of our obligations have been met at that time. Revenue from training is recognized as delivered or as the rights to receive training expire.

Cost of Revenues

Cost of revenues primarily consists of employee-related costs, including share-based payment expense, associated with our customer support organization and data center operations, expenses related to hosting our cloud infrastructure, which includes third-party hosting fees and depreciation associated with computer equipment and software, payment processing fees, amortization of product technologies and related overhead. To support our cloud-based infrastructure, we utilize third-party managed hosting facilities and self-managed data centers in which we manage our own network equipment and systems. We allocate share-based payment expense to personnel costs based on the expense category in which the employee works. We allocate overhead such as information technology infrastructure, rent and occupancy charges in each expense category based on headcount in that category. As such, general overhead expenses are reflected in cost of revenues and operating expense categories.

We intend to continue to invest additional resources in our cloud-based infrastructure and services. The timing of these expenses will affect our cost of revenues in the affected periods.

Our cost of revenues also includes amortization of acquired intangible assets, such as the amortization of the cost associated with an acquired company's research and development efforts and software. We expect this expense to increase if we acquire more companies.

Gross Profit and Gross Margin

Gross profit is total revenues less total cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. We expect that our gross margin may fluctuate from period to period as a result of changes in product and services mix.

Over time, we expect the revenue from our cloud subscription business to grow as a percentage of total revenues. As a result, the cost of hosting fees to third-party managed hosting facilities and depreciation from our self-managed data centers as a percentage of revenues will increase, which will affect our gross margin.

Operating Expenses

Our operating expenses are classified as research and development, marketing and sales, and general and administrative. For each functional category, the largest component is employee and labor-related expenses, which include salaries and bonuses, share-based payment expense, employee benefit costs and contractor costs. We allocate overhead such as information technology infrastructure, rent and occupancy charges in each expense category based on headcount in that category.

We allocate share-based payment expense to personnel costs based on the expense category in which the employee works. We recognize our share-based payments as an expense in the statement of operations based on their fair values and vesting periods. These charges have been significant in the past, and we expect that they will increase as we hire more employees and seek to retain existing employees.

We adhere to the accelerated method of expense recognition for share-based awards subject to graded vesting (i.e., when portions of the award vest at different dates throughout the vesting period). For example, for a grant vesting over four years, we treat the grant as multiple awards (sometimes referred to as "tranches") and recognize the cost on a straight-line basis separately for each tranche. This results in the majority of the grant's share-based payment expense being recognized in the first year of the grant rather than equally per year under a straight-line expense methodology.

We began granting restricted share units ("RSUs") in 2014. Prior to our initial public offering ("IPO"), we granted RSUs with both a time-based service condition and a liquidity condition. The time-based service condition for substantially all of these awards is satisfied over four years. The liquidity condition was satisfied upon the effectiveness of the registration statement related to our IPO. Pursuant to International Financial Reporting Standards as adopted in the European Union ("IFRS"), we estimate the fair value of each award at the date of grant and recognize expense over the service period rather than starting expense recognition upon a liquidity event, as is the case under generally accepted accounting principles adopted in the United States.

During the fiscal years ended June 30, 2016, 2015, and 2014, we recognized share-based payment expense of \$75.5 million, \$41.5 million and \$11.4 million, respectively. As of June 30, 2016, the aggregate share-based payment expense remaining to be amortized to cost of revenues and operating expenses, over a weighted-average period of 1.5 years, was \$122.6 million. We expect this share-based payment expense balance to be amortized as follows: \$80.9 million during fiscal 2017; \$29.1 million during fiscal 2018; \$10.6 million during fiscal 2019 and \$2.0

million during fiscal 2020. The expected amortization reflects only outstanding share awards as of June 30, 2016. We expect to continue to issue share-based awards to our employees in future periods.

Research and development

Research and development expenses consist primarily of salaries and related expenses, including share-based payment expense, contract software development costs and related overhead. We continue to focus our research and development efforts on building new products, adding new features and services, integrating acquired technologies, increasing functionality and enhancing our cloud infrastructure.

We expect that, in the future, research and development expenses will increase as we invest in building the necessary employee and system infrastructure required to enhance existing, and support development of new, technologies and the integration of acquired businesses and technologies.

Marketing and sales

Marketing and sales expenses consist primarily of salaries and related expenses, including share-based payment expense, for our marketing employees, marketing programs and related overhead. Marketing programs consist of advertising, promotional events, corporate communications, brand building and product marketing activities such as online lead generation. Sales programs consist of activities to support our channel partners and resellers, track channel sales activity and ensure consistent product messaging in key global markets.

We plan to continue to invest in marketing and sales by expanding our global promotional activities, building brand awareness, attracting new customers and sponsoring additional marketing events. The timing of these marketing events, such as our annual and largest event, Atlassian Summit, will affect our marketing costs in a particular quarter.

General and administrative

General and administrative expenses consist of salaries and related expenses, including share-based payment expense, for finance, legal, human resources and information technology personnel, as well as external legal, accounting and other, professional fees, other corporate expenses and related overhead.

We incurred additional expenses in order to become a publicly-traded company, and we expect to incur additional expenses associated with our operations as a publicly-traded company, including higher legal, corporate insurance and accounting costs as well as costs of achieving and maintaining compliance with public company regulations. We expect that in the future, general and administrative expenses will increase as we invest in our infrastructure and we incur additional employee-related costs and professional fees related to the growth of our business.

Income taxes

Income taxes primarily consist of income taxes in the United Kingdom, Australia and the United States, as well as income taxes in certain other foreign jurisdictions.

We generally conduct our international operations through direct and indirect wholly-owned subsidiaries and report our taxable income in various jurisdictions.

Net income

While we have been profitable for each of the last 11 fiscal years, our net income in fiscal 2016 decreased from the prior year as we continue to make significant investments in research and development and technology infrastructure for our cloud-based offerings, expand our operations globally and develop new products and features for, and enhancements of, our existing products. As a result of these ongoing significant investments, as well as additional share-based payment expense associated with our growth, we may not achieve IFRS net income in future periods.

Results of Operations

The following table sets forth our results of operations for the periods indicated:

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(in thousands)		
Revenues			
Subscription	\$ 146,659	\$ 85,891	\$ 51,007
Maintenance	218,848	160,373	112,134
Perpetual license	65,487	57,373	44,186
Other	26,064	15,884	7,782
Total revenues	457,058	319,521	215,109
Cost of revenues (1) (2)	75,783	52,932	37,986
Gross profit	381,275	266,589	177,123
Operating expenses			
Research and development (1)	208,306	140,853	78,640
Marketing and sales (1) (2)	93,391	67,989	34,968
General and administrative (1)	85,458	56,033	40,814
Total operating expenses	387,155	264,875	154,422
Operating income (loss)	(5,880)	1,714	22,701
Other non-operating income (expense), net	(1,072)	(2,615)	(562)
Finance income	2,116	226	317
Finance costs	(71)	(74)	(228)
Income (loss) before income tax benefit (expense)	(4,907)	(749)	22,228
Income tax benefit (expense)	9,280	7,524	(3,246)
Net income	\$ 4,373	\$ 6,775	\$ 18,982

(1) Amounts include share-based payment expense, as follows:

Cost of revenues	\$ 5,371	\$ 2,862	\$ 625
Research and development	35,735	22,842	5,120
Marketing and sales	11,945	6,670	2,068
General and administrative	22,429	9,160	3,551

(2) Amounts include amortization of acquired intangible assets, as follows:

Cost of revenues	\$ 7,405	\$ 6,417	\$ 7,591
Marketing and sales	86	40	98

The following table sets forth our results of operations data for each of the periods indicated as a percentage of total revenues:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Revenues			
Subscription	32%	27%	24%
Maintenance	48	50	52
Perpetual license	14	18	20
Other	6	5	4
Total revenues	100	100	100
Cost of revenues	17	17	18
Gross profit	83	83	82
Operating expenses			
Research and development	45	44	37
Marketing and sales	20	21	16
General and administrative	19	17	18
Total operating expenses	84	82	71
Operating income (loss)	(1)	1	11
Other non-operating income (expense), net	—	(1)	(1)
Finance income	—	—	—
Finance costs	—	—	—
Income (loss) before income tax benefit (expense)	(1)	—	10
Income tax benefit (expense)	2	2	(1)
Net income	1%	2%	9%

Fiscal Year Ended June 30, 2016 and 2015

Revenues

	Fiscal Year Ended June 30,			
	2016	2015	\$ Change	% Change
	(in thousands)			
Subscription	\$ 146,659	\$ 85,891	\$ 60,768	71%
Maintenance	218,848	160,373	58,475	36
Perpetual license	65,487	57,373	8,114	14
Other	26,064	15,884	10,180	64
Total revenues	\$ 457,058	\$ 319,521	\$ 137,537	43

Total revenues increased \$137.5 million, or 43%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. Growth in total revenues was attributable to increased demand for our products from both new and existing customers. Of total revenues recognized in the fiscal year ended June 30, 2016, over 90% was attributable to sales to customer accounts existing on or before June 30, 2015. Our number of total customers increased to 60,950 at June 30, 2016 from 48,622 at June 30, 2015. Additionally, we attribute approximately 11 of the 43 percentage points of the increase in total revenues in the fiscal year ended June 30, 2016 to customers who made purchases under new pricing plans that were introduced in calendar year 2012. The grandfathering of these historical pricing optimizations concluded during the fiscal quarter ended December 31, 2015, however we expect the fiscal quarter ending September 30, 2016 to be the last full fiscal quarter in which we will continue to receive a non-recurring benefit from the conclusion of this grandfathering. We do not expect the benefit to be material for the fiscal year ending June 30, 2017. Additionally, we expect this concluding benefit from this prior pricing optimization to be partially offset by a slight decrease in revenues due to summer seasonality during the fiscal quarter ending September 30, 2016.

Subscription revenues increased \$60.8 million, or 71%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. The increase in subscription revenues was primarily attributable to additional subscriptions from our existing customer base. As customers increasingly adopt cloud-based, subscription services for their business needs, we expect our subscription revenues to continue to increase at a rate higher than the rate of increase of our perpetual license revenues in future periods.

Maintenance revenues increased \$58.5 million, or 36%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. The increase in maintenance revenues was attributable to a growing customer base renewing software maintenance contracts related to our perpetual license software offerings.

Perpetual license revenues increased \$8.1 million, or 14%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. A substantial majority of the increase in perpetual license revenues was attributable to additional licenses to existing customers.

Other revenues increased \$10.2 million, or 64%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. The increase in other revenues was primarily attributable to a \$9.4 million increase in revenue from sales of third-party add-ons and extensions through the Atlassian Marketplace.

Total revenues by geography were as follows:

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Americas	\$ 232,793	\$ 159,380	\$ 73,413	46%
Europe	178,087	127,704	50,383	39
Asia Pacific	46,178	32,437	13,741	42
	<u>\$ 457,058</u>	<u>\$ 319,521</u>	<u>\$ 137,537</u>	43

Cost of Revenues

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Cost of revenues	\$ 75,783	\$ 52,932	\$ 22,851	43%
Gross profit	83%	82%		

Cost of revenues increased \$22.9 million, or 43%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. The overall increase was primarily due to an increase in compensation expense for employees and contractors of \$9.1 million, which included an increase of \$2.5 million in share-based payment expense, an increase in depreciation expense and other hosting costs associated with our data centers of \$8.2 million, an increase in credit card processing fees of \$2.0 million, an increase in related overhead of \$1.6 million and an increase in amortization of acquired intangible assets of \$1.0 million. We increased our headcount during the period to meet the higher demand for support services from our customers. We expect to continue to invest in additional personnel as we scale. We intend to continue to invest in our cloud infrastructure, which we expect to lead to an increase in cost of revenues as a percentage of revenue during the fiscal year ending June 30, 2017. Additionally, the amortization of acquired intangible assets will increase if we acquire additional businesses and technologies.

Operating Expenses

Research and development

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Research and development	\$ 208,306	\$ 140,853	\$ 67,453	48%

Research and development expenses increased \$67.5 million, or 48%, in the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. The overall increase was primarily a result of an increase in compensation expense for employees and contractors of \$53.0 million, which included an increase of \$12.9 million in share-based payment expenses, an increase of \$8.3 million in facilities and related overhead costs to support our employees and an increase of \$5.2 million in internal hosting costs for development. We increased our research and development headcount during the period in order to enhance and extend our service offerings and develop new technologies. We expect that research and development expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to invest in additional personnel and technology to support the development, improvement and integration of technologies.

Marketing and sales

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Marketing and sales	\$ 93,391	\$ 67,989	\$ 25,402	37%

Marketing and sales expenses increased \$25.4 million, or 37%, for the fiscal year ended June 30, 2016, compared to the fiscal year ended June 30, 2015. Marketing and sales expenses increased primarily due to an increase of \$15.2 million in employee-related costs, which included an increase of \$5.3 million in share-based payment expenses, an increase of \$4.9 million in advertising, marketing and event costs, an increase of \$2.2 million in facilities and related overhead costs, and an increase of \$1.9 million in professional and outside services. Our marketing and sales headcount increased during the period as a result of hiring additional marketing personnel and support personnel to expand our relationship with our existing customers. We expect marketing and sales expenses to increase in absolute dollars as we continue to invest in additional marketing and sales personnel, expand our global promotional activities, build brand awareness, attract new customers and sponsor additional marketing events.

General and administrative

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
	(in thousands)			
General and administrative	\$ 85,458	\$ 56,033	\$ 29,425	53%

General and administrative expenses increased \$29.4 million, or 53%, in the fiscal year ended June 30, 2016, compared to the fiscal year ended June 30, 2015. The increase was primarily due to an increase of \$23.2 million in compensation expense for employees and contractors, which included an increase of \$13.3 million in share-based payment expenses, and an increase of \$4.0 million in professional and outside services. Our general and administrative headcount increased during the period as we added personnel to support our growth and increased compliance requirements related to being a public company. We expect that general and administrative expenses will increase in absolute dollars as we continue to invest in additional personnel and our infrastructure and incur additional professional fees related to the growth of our business.

Income tax benefit

	Fiscal Year Ended June 30,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Income tax benefit	\$ 9,280	\$ 7,524	\$ 1,756	23%
Effective tax rate	*	*		

* Not meaningful

We reported a tax benefit of \$9.3 million on pretax loss of \$4.9 million for the fiscal year ended June 30, 2016, as compared to a tax benefit of \$7.5 million on pretax income of \$0.7 million for the fiscal year ended June 30, 2015. Our effective tax rate substantially differed from the United Kingdom income tax rate of 20%

primarily due to the recognition of significant permanent differences during the fiscal years ended June 30, 2016 and 2015. Significant permanent differences included a non-assessable non-operating item, foreign tax credits not utilized, nondeductible share-based payment expense, research and development incentives and taxes in foreign jurisdictions with a tax rate different than the United Kingdom statutory rate (Australia and the United States).

Principle Risks and Uncertainties

We operate in a fast moving, competitive and highly technologically-focused environment. Our management and Directors oversee the Group's risk objectives. We believe our management team and Directors possess the requisite skills to manage such risks. The Directors are made aware of and review management's risk assessments prior to entering into significant transactions.

The following are the principal risks and uncertainties facing the Group. The risks shown are not necessarily all those associated with the Group and are not listed in priority order.

Our rapid growth makes it difficult to evaluate our future prospects and may increase the risk that we will not continue to grow at or near historical rates.

We have been growing rapidly over the last several years, and as a result, our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. Our recent and historical growth should not be considered indicative of our future performance. We have encountered in the past, and will encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If our assumptions regarding these risks and uncertainties, which we use to plan and operate our business, are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, our growth rates may slow and our business would suffer.

We may not be able to sustain our revenue growth rate or maintain profitability in the future.

Our historical growth rate should not be considered indicative of our future performance and may decline in the future. In future periods, our revenue could grow more slowly than in recent periods or decline for a number of reasons, including any reduction in demand for our products, increase in competition, limited ability to, or our decision not to, increase pricing, contraction of our overall market or our failure to capitalize on growth opportunities. In addition, we expect expenses to increase substantially in the near term, particularly as we continue to make significant investments in research and development and technology infrastructure for our cloud offerings, expand our operations globally and develop new products and features for, and enhancements of, our existing products. In addition, in connection with operating as a public company, we will incur significant additional legal, accounting and other expenses that we did not incur as a private company. As a result of these significant investments, and in particular share-based compensation associated with our growth, we do not expect to achieve IFRS profitability in the near term and may not be able to achieve IFRS profitability in future periods. In addition, the additional expenses we will incur may not lead to sufficient additional revenue to maintain historical revenue growth rates and profitability.

The markets in which we participate are intensely competitive, and if we do not compete effectively, our business, results of operations and financial condition could be harmed.

The markets for our solutions are fragmented, rapidly evolving and highly competitive, and have relatively low barriers to entry. We face competition from both traditional, larger software vendors offering full collaboration and productivity suites and smaller companies offering point products for features and use cases. Our principal competitors vary depending on the product category and include Microsoft, IBM, Hewlett Packard Enterprise, Google, ServiceNow, salesforce.com, Zendesk and several smaller software vendors like Slack and GitHub. In addition, some of our competitors have made acquisitions to offer a more comprehensive product or service offering, which may allow them to compete more effectively with our products. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry. Companies resulting from these possible consolidations may create more compelling product offerings and be able to offer more attractive pricing options, making it more difficult for us to compete effectively.

Our competitors, particularly our larger competitors with greater financial and operating resources, may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our products, and new market entrants, we expect competition to intensify in the future. For example, as we expand our focus into new use cases or other product offerings beyond software development teams, we expect competition to increase. Pricing

pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our products to achieve or maintain more widespread market acceptance, any of which could harm our business, results of operations and financial condition.

Many of our current and potential competitors have greater resources than we do with established marketing relationships, large enterprise salesforces, access to larger customer bases, pre-existing customer relationships, and major distribution agreements with consultants, system integrators and resellers. Additionally, some current and potential customers, particularly large organizations, have elected, and may in the future elect, to develop or acquire their own internal collaboration and productivity software tools that would reduce or eliminate the demand for our solutions.

Our products seek to serve multiple markets, and we are subject to competition from a wide and varied field of competitors. Some competitors, particularly new and emerging companies, could focus all their energy and resources on one product line or use case and, as a result, any one competitor could develop a more successful product or service in a particular market which could decrease our market share and harm our brand recognition and results of operations. For all of these reasons and others we cannot anticipate today, we may not be able to compete successfully against our current and future competitors, which could harm our business, results of operations and financial condition.

Our distribution model of offering and deploying our products via both the cloud and on premises increases our expenses, may impact revenue recognition timing and may pose other challenges to our business.

We offer and sell our products via both the cloud and on premises using the customer's own infrastructure. Our cloud offering enables quick setup and subscription pricing, while our on-premises offering permits more customization, a perpetual or term license fee structure and complete application control. Historically, our products were developed in the context of the on-premises offering, and we have less operating experience offering and selling our products via our cloud offering. Although a substantial majority of our revenue has historically been generated from customers using our on-premises products, we believe that over time more customers will move to the cloud offering, and the cloud offering will become more central to our distribution model. As more of our customers transition to the cloud, we may be subject to additional competitive pressures, which may harm our business. Further, as more customers elect our cloud offering as opposed to our on-premises offerings, revenues from such customers is typically lower in the initial year, which may impact our near-term revenue growth rates. If our cloud offering does not develop as quickly as we expect, or if we are unable to continue to scale our systems to meet the requirements of a successful large, cloud offering, our business may be harmed. We are directing a significant portion of our financial and operating resources to implement a robust cloud offering for our products, but even if we continue to make these investments, we may be unsuccessful in growing or implementing our cloud offering that competes successfully against our current and future competitors and our business, results of operations and financial condition could be harmed.

Our business depends on our customers renewing their subscriptions and maintenance plans and purchasing additional licenses or subscriptions from us. Any decline in our customer retention or expansion would harm our future results of operations.

In order for us to maintain or improve our results of operations, it is important that our customers renew their subscriptions and maintenance plans when existing contract terms expire and that we expand our commercial relationships with our existing customers. Our customers have no obligation to renew their subscriptions or maintenance plans, and our customers may not renew subscriptions or maintenance plans with a similar contract period or with the same or greater number of users. Our customers do not enter into long-term contracts, rather they primarily have monthly or annual terms. Some of our customers have elected not to renew their agreements with us and it is difficult to accurately predict long-term customer retention.

Our customer retention and expansion may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our products, new market entrants, our product support, our prices and pricing plans, the prices of competing software products, reductions in our customers' spending levels, new product releases and changes to packaging of our product offerings, mergers and acquisitions affecting our customer base or the effects of global economic conditions. Although it is important to our business that our customers renew their subscriptions and maintenance plans when existing contract terms expire and that we expand our commercial relationships with our existing customers, given the volume of our customers, we do not track the retention rates of our individual customers. As a result, we may be unable to timely address any retention issues with specific customers, which could harm our results of operations. If our customers do not purchase additional licenses or

subscriptions or renew their subscriptions or maintenance plans, renew on less favorable terms or fail to add more users, our revenue may decline or grow less quickly, which would harm our future results of operations and prospects.

If we are not able to develop new products and enhancements to our products that achieve market acceptance and that keep pace with technological developments, our business and results of operations would be harmed.

Our ability to attract new customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our existing products and to introduce compelling new products that reflect the changing nature of our markets. The success of any enhancement to our products depends on several factors, including timely completion and delivery, competitive pricing, adequate quality testing, integration with existing technologies and our platform and overall market acceptance. Any new product that we develop may not be introduced in a timely or cost-effective manner, may contain bugs, or may not achieve the market acceptance necessary to generate significant revenue. If we are unable to successfully develop new products, enhance our existing products to meet customer requirements, or otherwise gain market acceptance, our business, results of operations and financial condition would be harmed.

If we cannot continue to expand the use of our products beyond our initial focus on software developers, our ability to grow our business may be harmed.

Our ability to grow our business depends in part on our ability to persuade current and future customers to expand their use of our products to additional use cases beyond software developers. If we fail to predict customer demands or achieve further market acceptance of our products within these additional areas and teams, or if a competitor establishes a more widely adopted product for these applications, our ability to grow our business may be harmed.

We invest significantly in research and development, and to the extent our research and development investments do not translate into new products or material enhancements to our current products, or if we do not use those investments efficiently, our business and results of operations would be harmed.

A key element of our strategy is to invest significantly in our research and development efforts to develop new products and enhance our existing products to address additional applications and markets. In fiscal 2016 and 2015, our research and development expenses were 46% and 44% of our revenue, respectively. If we do not spend our research and development budget efficiently or effectively on compelling innovation and technologies, our business may be harmed and we may not realize the expected benefits of our strategy. Moreover, research and development projects can be technically challenging and expensive. The nature of these research and development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we are able to offer compelling products and generate revenue, if any, from such investment. Additionally, anticipated customer demand for a product we are developing could decrease after the development cycle has commenced, and we would nonetheless be unable to avoid substantial costs associated with the development of any such product. If we expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction or improvement of products that are competitive in our current or future markets, it would harm our business and results of operations.

If we fail to effectively manage our growth, our business and results of operations could be harmed.

We have experienced and expect to continue to experience rapid growth, which has placed, and may continue to place, significant demands on our management, operational and financial resources. In addition, we operate globally, sell our products to customers in more than 170 countries, and have employees in Australia, the United States, the United Kingdom, the Netherlands, the Philippines, Japan, Germany and France. We plan to continue to expand our operations into other countries in the future, which will place additional demands on our resources and operations. We have also experienced significant growth in the number of customers, users, transactions and data that our products and our associated infrastructure support. If we fail to successfully manage our anticipated growth and change, the quality of our products may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract customers. Finally, our organizational structure is becoming more complex and if we fail to scale and adapt our operational, financial and management controls and systems, as well as our reporting systems and procedures to manage this complexity, our business, results of operations and financial condition would be harmed. We will require significant capital expenditures and the allocation of management resources to grow and change in these areas.

If our current marketing model is not effective in attracting new customers, we may need to incur additional expenses to attract new customers and our business and results of operations could be harmed.

Unlike traditional enterprise software vendors, who rely on direct sales methodologies and face long sales cycles, complex customer requirements and substantial upfront sales costs, we utilize a viral marketing model to target new customers. Through this word-of-mouth marketing, we have been able to build our brand with relatively low sales and marketing costs. We also build our customer base through various online marketing activities as well as targeted web-based content and online communications. This strategy has allowed us to build a substantial customer base and community of users who use our products and act as advocates for our brand and solutions, often within their own corporate organizations. Attracting new customers and retaining existing customers requires that we continue to provide high-quality products at an affordable price and convince customers of our value proposition. If we do not attract new customers through word-of-mouth referrals, our revenue may grow more slowly than expected or decline. In addition, high levels of customer satisfaction and market adoption are central to our marketing model. Any decrease in our customers' satisfaction with our products, including as a result of actions outside of our control, could harm word-of-mouth referrals and our brand. If our customer base does not continue to grow through word-of-mouth marketing and viral adoption, we may be required to incur significantly higher sales and marketing expenses in order to acquire new subscribers, which could harm our business and results of operations.

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our products may be perceived as insecure, we may lose existing customers or fail to attract new customers, and we may incur significant liabilities.

Use of our solutions involve the storage, transmission and processing of our customers' proprietary data, including potentially personal or identifying information. Unauthorized access to, or security breaches of, our products could result in the loss, compromise or corruption of data, loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, significant costs for remediation and other liabilities. We have incurred and expect to incur significant expenses to prevent security breaches, including deploying additional personnel and protection technologies, training employees, and engaging third-party experts and consultants. Our errors and omissions insurance coverage covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all liabilities we incur.

We have in the past experienced breaches of our security measures and our products are at risk for future breaches as a result of third-party action, or employee, vendor or contractor error or malfeasance.

Because the techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period and, therefore, have a greater impact on the products we offer, the proprietary data contained therein, and ultimately on our business.

One of our marketing strategies is to offer free trials or a limited free version or affordable starter license for certain products, and we may not be able to realize the benefits of this strategy.

We offer free trials, a limited free version or an affordable starter license for certain products in order to promote additional usage, brand and product awareness and adoption. Historically, a majority of users never convert to a paid version of our products from these free trials or limited free versions or upgrade beyond the starter license. Our marketing strategy also depends in part on persuading users who use the free trials, free version or starter license of our products to convince others within their organization to purchase and deploy our products. To the extent that these users do not become, or lead others to become, customers, we will not realize the intended benefits of this marketing strategy, and our ability to grow our business may be harmed.

Our business model relies on a high volume of transactions and affordable pricing. As lower cost competitive products are introduced into the marketplace, our ability to generate new customers could be harmed.

Our business model is based in part on selling our products at prices lower than competing products from other commercial vendors. For example, we offer entry-level pricing for certain products for small teams at a price that typically does not require capital budget approval and is orders-of-magnitude less than the price of traditional enterprise software. As a result, our software is frequently purchased by first-time customers to solve specific problems and not as part of a strategic technology purchasing decision. As competitors enter the market with low

cost alternatives to our products, it may be increasingly more difficult for us to compete effectively and our ability to garner new customers could be harmed. We may also from time to time increase our prices. Additionally, some customers may consider our products to be discretionary purchases, which may contribute to reduced demand for our offerings in times of economic uncertainty. If we are unable to sell our software in high volume, across new and existing customers, our business, results of operations and financial condition could be harmed.

We derive, and expect to continue to derive, a substantial majority of our revenue from a limited number of software products.

We derive, and expect to continue to derive, a substantial majority of our revenue from our JIRA and Confluence products. Revenue generated from our JIRA and Confluence products comprised over two-thirds of our total revenues for each of the prior three fiscal years. As such, the market acceptance of these products is critical to our success. Demand for these products and our other products is affected by a number of factors, many of which are beyond our control, such as continued market acceptance of our products by customers for existing and new use cases, the timing of development and release of new products, features and functionality that are lower cost alternatives introduced by us or our competitors, technological changes and developments within the markets we serve and growth or contraction in our addressable markets. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our products, our business, results of operations and financial condition could be harmed.

If the Atlassian Marketplace does not continue to be successful, our business and results of operations could be harmed.

We operate Atlassian Marketplace, an online marketplace, for selling third-party, as well as Atlassian-built, add-ons and extensions. We rely on the Atlassian Marketplace to supplement our promotional efforts and build awareness of our products, and believe that third-party add-ons and extensions from the Atlassian Marketplace facilitate greater usage and customization of our products. If these vendors and developers stop developing or supporting these add-ons and extensions that they sell on Atlassian Marketplace, our business could be harmed.

Interruptions or performance problems associated with our technology and infrastructure may harm our business and results of operations.

Our continued growth depends in part on the ability of our existing and potential customers to access our solutions at any time and within an acceptable amount of time. In addition, we rely almost exclusively on our websites for the downloading and payment of all our products. We have experienced, and may in the future experience, disruptions, data loss, outages and other performance problems with our infrastructure and websites due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints, denial of service attacks or other security-related incidents. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our products and websites become more complex and our user traffic increases. If our products and websites are unavailable or if our users are unable to access our products within a reasonable amount of time, or at all, our business would be harmed. Moreover, we depend on services from various third parties, such as Amazon Web Services and NTT Communications, to maintain our infrastructure and distribute our products via the Internet. Any disruptions in these services, including as a result of actions outside of our control, would significantly impact the continued performance of our products. In the future, these services may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of these services could result in decreased functionality of our products until equivalent technology is either developed by us or, if available from another provider, is identified, obtained and integrated into our infrastructure. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, results of operations and financial condition could be harmed.

Real or perceived errors, failures, vulnerabilities or bugs in our products or in the products on Atlassian Marketplace could harm our business and results of operations.

Errors, failures, vulnerabilities or bugs may occur in our products, especially when updates are deployed or new products are rolled out. Our solutions are often used in connection with large-scale computing environments with different operating systems, system management software, equipment and networking configurations, which may cause errors or failures of products, or other aspects of the computing environment into which they are deployed. In addition, deployment of our products into complicated, large-scale computing environments may expose errors, failures, vulnerabilities or bugs in our products. Any such errors, failures, vulnerabilities or bugs may not be found until after they are deployed to our customers. Real or perceived errors, failures, vulnerabilities or bugs in our products could result in negative publicity, loss of customer data, loss of or delay in market acceptance of our products, loss of competitive position, or claims by customers for losses sustained by them, all of which could harm our business and results of operations.

In addition, third-party add-ons and extensions on Atlassian Marketplace may not meet the same quality standards that we apply to our own development efforts and, to the extent they contain bugs or defects, they may create disruptions in our customers' use of our products, lead to data loss, damage our brand and reputation and affect the continued use of our products, any of which could harm our business, results of operations and financial condition.

Any failure to offer high-quality product support may harm our relationships with our customers and our financial results.

In deploying and using our products, our customers depend on our product support teams to resolve complex technical and operational issues. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for product support. We also may be unable to modify the nature, scope and delivery of our product support to compete with changes in product support services provided by our competitors. Increased customer demand for product support, without corresponding revenue, could increase costs and harm our results of operations. In addition, as we continue to grow our operations and reach a global and vast customer base, we need to be able to provide efficient product support that meets our customers' needs globally at scale. The number of our customers has grown significantly and that will put additional pressure on our support organization. For example, the number of our customers has grown from 48,622 as of June 30, 2015 to 60,950 as of June 30, 2016. In order to meet these needs, we have relied in the past and will continue to rely on third-party contractors and self-service product support to resolve common or frequently asked questions, which supplement our customer support teams. If we are unable to provide efficient product support globally at scale, including through the use of third-party contractors and self-service support, our ability to grow our operations may be harmed and we may need to hire additional support personnel, which could harm our results of operations. Our sales are highly dependent on our business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality product support, or a market perception that we do not maintain high-quality product support, could harm our reputation, our ability to sell our products to existing and prospective customers, and our business, results of operations and financial condition.

Our lack of a direct salesforce may impede the growth of our business.

We do not have a direct salesforce and our sales model does not include traditional, quota-carrying sales personnel. Although we believe our business model can continue to scale without a large enterprise salesforce, our viral marketing model may not continue to be as successful as we anticipate and the absence of a direct sales function may impede our future growth. As we continue to scale our business, a sales infrastructure could assist in reaching larger enterprise customers and growing our revenue. Identifying and recruiting qualified sales personnel and training them would require significant time, expense and attention and would significantly impact our business model. In addition, adding sales personnel would considerably change our cost structure and results of operations, and we may have to reduce other expenses, such as our research and development expenses, in order to accommodate a corresponding increase in marketing and sales expenses and maintain our profitability. If our lack of a direct salesforce limits us from reaching larger enterprise customers and growing our revenue and we are unable to hire, develop and retain talented sales personnel in the future, our revenue growth and results of operations may be harmed.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow us, the price of our Class A ordinary shares could decline substantially. Factors that may cause our revenue, results of operations and cash flows to fluctuate from quarter to quarter include, but are not limited to:

- our ability to attract new customers, retain and increase sales to existing customers, and satisfy our customers' requirements;
- changes in our or our competitors' pricing policies and offerings;
- new products, features, enhancements or functionalities introduced by our competitors;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- significant security breaches, technical difficulties or interruptions to our products;
- the number of new employees added;
- changes in foreign currency exchange rates or adding additional currencies in which our sales are denominated;
- the amount and timing of acquisitions or other strategic transactions;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional licenses, subscriptions and maintenance plans, delay a prospective customer's purchasing decision, reduce the value of new license, subscription or maintenance plans or affect customer retention;
- summer seasonality in our operations that may become more pronounced over time as the impact of certain historical pricing optimizations are reduced;
- the impact of new accounting pronouncements; and
- the timing of the grant or vesting of equity awards to employees or directors.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our revenue, results of operations and cash flows to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenue, results of operations and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

If we are unable to develop and maintain successful relationships with channel partners, our business, results of operations and financial condition could be harmed.

We have established relationships with certain channel partners to distribute our products. We believe that continued growth in our business is dependent upon identifying, developing and maintaining strategic relationships with our existing and potential channel partners that can drive substantial revenue and provide additional valued-added services to our customers. Our agreements with our existing channel partners are non-exclusive, meaning our channel partners may offer customers the products of several different companies, including products that compete with ours. They may also cease marketing our products with limited or no notice and with little or no penalty. We expect that any additional channel partners we identify and develop will be similarly non-exclusive and not bound by any requirement to continue to market our products. If we fail to identify additional channel partners, in a timely and cost-effective manner, or at all, or are unable to assist our current and future channel partners in independently distributing and deploying our products, our business, results of operations and financial condition could be harmed. If resellers do not effectively market and sell our products, or fail to meet the needs of our customers, our reputation and ability to grow our business may also be harmed.

If we are not able to maintain and enhance our brand, our business, results of operations and financial condition may be harmed.

We believe that maintaining and enhancing our reputation as a differentiated and category-defining company is critical to our relationships with our existing customers and to our ability to attract new customers. The successful promotion of our brand attributes will depend on a number of factors, including our channel partners' marketing efforts, our ability to continue to develop high-quality products and our ability to successfully differentiate our products from competitive products. In addition, independent industry analysts often provide reviews of our products, as well as the products offered by our competitors, and perception of the relative value of our products in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products, our brand may be harmed.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets, and as more sales are generated through our channel partners. To the extent that these activities yield increased revenue, this revenue may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors, and we could lose customers or fail to attract potential customers, any of which would harm our business, results of operations and financial condition.

Our global operations subject us to risks that can harm our business, results of operations and financial condition.

A key element of our strategy is to operate globally and sell our products to customers across the world. Operating globally requires significant resources and management attention and will subject us to regulatory, economic, geographic and political risks. In particular, our global operations subject us to a variety of additional risks and challenges, including:

- increased management, travel, infrastructure and legal compliance costs associated with having operations in many countries;
- difficulties in enforcing contracts, including so-called “clickwrap” contracts that are entered into online, on which we have historically relied as part of our product licensing strategy, but which may be subject to additional legal uncertainty in some foreign jurisdictions;
- increased financial accounting and reporting burdens and complexities;
- requirements or preferences for domestic products, and difficulties in replacing products offered by more established or known regional competitors;
- differing technical standards, existing or future regulatory and certification requirements and required features and functionality;
- communication and integration problems related to entering and serving new markets with different languages, cultures and political systems;
- compliance with foreign privacy and security laws and regulations and the risks and costs of non-compliance;
- compliance with laws and regulations for foreign operations, including anti-bribery laws (such as the U.S. Foreign Corrupt Practices Act, the U.S. Travel Act, and the U.K. Bribery Act), import and export control laws, tariffs, trade barriers, economic sanctions, and other regulatory or contractual limitations on our ability to sell our products in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies that may impact our financial results and result in restatements of our consolidated financial statements;
- fluctuations in currency exchange rates and related effects on our results of operations;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- weak economic conditions in each country or region and general economic uncertainty around the world, including political and economic instability created by the United Kingdom’s recent vote to leave the European Union;
- differing labor standards, including restrictions related to, and the increased cost of, terminating employees in some countries;
- difficulties in recruiting and hiring employees in certain countries;
- the preference for localized software and licensing programs and localized language support;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad; and
- compliance with the laws of numerous foreign taxing jurisdictions, including withholding obligations, and overlapping of different tax regimes.

Compliance with laws and regulations applicable to our global operations substantially increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with changes in government requirements as they change from time to time. Failure to comply with these regulations could harm our business. In many countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or other regulations applicable to us. Although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, partners and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, partners or agents could result in delays in revenue recognition, financial reporting misstatements, enforcement actions, reputational harm, disgorgement of profits, fines, civil and

criminal penalties, damages, injunctions, other collateral consequences or the prohibition of the importation or exportation of our products and could harm our business, results of operations and financial condition.

We depend on our executive officers and other key employees and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could harm our business.

Our success depends largely upon the continued services of our executive officers and key employees. We rely on our leadership team and other key employees in the areas of research and development, products, operations, security, marketing, IT, support and general and administrative functions. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. In addition, we do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers, especially our Co-Chief Executive Officers, or key employees could harm our business.

In addition, in order to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel in Sydney, Australia, the San Francisco Bay Area, and in other locations where we maintain offices, is intense, especially for engineers experienced in designing and developing software and cloud-based services. We have, from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. In particular, recruiting and hiring senior product engineering personnel to work in our Sydney, Australia office, where our product team is concentrated, has been, and we expect to continue to be, challenging. If we are unable to hire talented product engineering personnel, we may be unable to scale our operations or release new products in a timely fashion and, as a result, customer satisfaction with our products may decline.

Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, these employers may attempt to assert that the employees or we have breached certain legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the value or perceived value of our equity awards declines, it may harm our ability to recruit and retain highly skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business, results of operations and financial condition could be harmed.

Acquisitions of other businesses, products or technologies could disrupt our business, and we may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.

We have completed a number of acquisitions and expect to evaluate and consider additional strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products, and other assets in the future. We also may enter into relationships with other businesses to expand our products, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

Any acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired companies choose not to work for us, their software and services are not easily adapted to work with our products, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

In the future, we may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. Our previous and future acquisitions may not achieve our goals, and any future acquisitions we complete could be viewed negatively by users, customers, developers or investors.

Negotiating these transactions can be time consuming, difficult and expensive, and our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our existing shareholders;
- use cash that we may need in the future to operate our business;
- incur large charges, expenses or substantial liabilities;
- incur debt on terms unfavorable to us or that we are unable to repay;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation, impairment or deferred compensation charges.

Our corporate values have contributed to our success, and if we cannot maintain these values as we grow, we could lose the innovative approach, creativity and teamwork fostered by our values and our business could be harmed.

We believe that a critical contributor to our success has been our corporate values, which we believe foster innovation, teamwork and an emphasis on customer-focused results. In addition, we believe that our values create an environment that drives and perpetuates our product strategy and low-cost distribution approach. As we grow and develop the infrastructure of a public company, we may find it difficult to maintain our corporate values. Any failure to preserve our values could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively and execute on our business strategy.

We face exposure to foreign currency exchange rate fluctuations.

While we sell our products exclusively in U.S. dollars, we incur expenses in currencies other than the U.S. dollar, which exposes us to foreign currency exchange rate fluctuations. A large percentage of our expenses are denominated in the Australian dollar and our results of operations have been positively impacted by foreign currency rate fluctuations in prior periods due to the Australian dollar's depreciation relative to the U.S. dollar. However, this may not continue, and future fluctuations could have a material negative impact on our results of operations. Moreover, our subsidiaries, other than our U.S. subsidiaries, maintain net assets that are denominated in currencies other than the U.S. dollar. In addition, in the future, we may transact in non-U.S. dollar currencies for our products, and, accordingly, future changes in the value of non-U.S. dollar currencies relative to the U.S. dollar could affect our revenue and results of operations due to transactional and translational remeasurements that are reflected in our results of operations.

As of June 30, 2016, we had not engaged in hedging of our foreign currency exposures to date. Beginning July 1, 2016, we initiated such a program and will hedge a portion of certain exposures to fluctuations in non-U.S. dollar currency exchange rates. The use of such hedging instruments may not fully offset the adverse financial effects of unfavorable movements in foreign currency exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments or if we are unable to forecast hedged exposures accurately.

We are subject to government regulation, including import, export, economic sanctions and anti-corruption laws and regulations, that may expose us to liability and increase our costs.

Various of our products are subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations and economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. These regulations may limit the export of our products and provision of our services outside of the United States, or may require export authorizations, including by license, a license exception or other appropriate government authorizations, including annual or semi-annual reporting and the filing of an encryption registration. Export control and economic sanctions laws may also include prohibitions on the sale or supply of certain of our products to embargoed or sanctioned countries, regions, governments, persons and entities. In addition, various countries regulate the importation of certain products, through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products. The exportation, reexportation, and importation of our products and the provision of services, including by our partners, must comply with these laws or else we may be adversely affected, through reputational harm, government investigations, penalties, and a denial or curtailment of our ability to export our products or provide services. Complying with export control and sanctions laws can be time consuming and complex and may result in the delay or loss of sales opportunities. Although we take precautions to prevent our products from being provided in violation of such laws, we are aware of previous exports of certain of our products to a small number of persons and organizations that are the subject of U.S. sanctions or located in countries or regions subject to U.S. sanctions. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us. Changes in export or import laws or corresponding sanctions,

may delay the introduction and sale of our products in international markets, or, in some cases, prevent the export or import of our products to certain countries, regions, governments, persons or entities altogether, which could adversely affect our business, financial condition and results of operations.

We are also subject to various domestic and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering or providing improper payments or benefits to officials and other recipients for improper purposes. We rely on certain third parties to support our sales and regulatory compliance efforts and can be held liable for their corrupt or other illegal activities, even if we do not explicitly authorize or have actual knowledge of such activities. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions.

We recognize certain revenue streams over the term of our subscription and maintenance contracts. Consequently, downturns in new sales may not be immediately reflected in our results of operations and may be difficult to discern.

We generally recognize subscription and maintenance revenue from customers ratably over the terms of their contracts. As a result, a significant portion of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to subscription and maintenance plans entered into during previous quarters. Consequently, a decline in new or renewed licenses, subscriptions and maintenance plans in any single quarter may only have a small impact on our revenue results for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our products, and potential changes in our pricing policies or rate of expansion or retention, may not be fully reflected in our results of operations until future periods. We may also be unable to reduce our cost structure in line with a significant deterioration in sales. In addition, a significant majority of our costs are expensed as incurred, while a significant portion of our revenue is recognized over the life of the agreement with our customer. As a result, increased growth in the number of our customers could continue to result in our recognition of more costs than revenue in the earlier periods of the terms of certain of our customer agreements. Our subscription and maintenance revenue also makes it more difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from certain new customers must be recognized over the applicable term.

If we fail to integrate our products with a variety of operating systems, software applications, platforms and hardware that are developed by others, our products may become less marketable, less competitive, or obsolete and our results of operations would be harmed.

Our products must integrate with a variety of network, hardware, and software platforms, and we need to continuously modify and enhance our products to adapt to changes in hardware, software, networking, browser and database technologies. In particular, we have developed our products to be able to easily integrate with third-party applications, including the applications of software providers that compete with us, through the interaction of application programming interfaces, or APIs. In general, we rely on the fact that the providers of such software systems continue to allow us access to their APIs to enable these customer integrations. To date, we have not relied on long-term written contracts to govern our relationship with these providers. Instead, we are subject to the standard terms and conditions for application developers of such providers, which govern the distribution, operation and fees of such software systems, and which are subject to change by such providers from time to time. Our business may be harmed if any provider of such software systems:

- discontinues or limits our access to its APIs;
- modifies its terms of service or other policies, including fees charged to, or other restrictions on us or other application developers;
- changes how customer information is accessed by us or our customers;
- establishes more favorable relationships with one or more of our competitors; or
- develops or otherwise favors its own competitive offerings over ours.

We believe a significant component of our value proposition to customers is the ability to optimize and configure our products with these third-party applications through our respective APIs. If we are not permitted or able to integrate with these and other third-party applications in the future, demand for our products could decline and our business and results of operations would be harmed.

In addition, an increasing number of individuals within organizations are utilizing mobile devices to access the Internet and corporate resources and to conduct business. We have designed and continue to design mobile applications to provide access to our products through these devices. If we cannot provide effective functionality through these mobile applications as required by organizations and individuals that widely use mobile devices, we may experience difficulty attracting and retaining customers. Failure of our products to operate effectively with future infrastructure platforms and technologies could also reduce the demand for our products, resulting in customer dissatisfaction and harm to our business. If we are unable to respond to changes in a cost-effective manner, our products may become less marketable, less competitive or obsolete and our results of operations may be harmed.

Because our products can be used to collect and store personal information, global privacy and data security concerns could result in additional costs and liabilities to us or inhibit sales of our products.

Privacy and data security have become significant issues in the United States, Europe and in many other jurisdictions where we offer our products. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted, or are considering adopting, laws and regulations regarding the collection, use and disclosure of personal information. In the United States, these include rules and regulations promulgated under the authority of federal agencies and state attorneys general and consumer protection agencies. Globally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply, including the Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data, or the Data Protection Directive, established in the European Union and data protection legislation of the individual member states subject to the Directive. The Data Protection Directive will be replaced with the European General Data Protection Regulation which may impose additional obligations and risk upon our business. In many jurisdictions enforcement actions and consequences for non-compliance are also rising.

If we are not able to comply with certain regulations or produce various certifications or reports, such as SOC2, which is an audited report on the effectiveness of a service organization's internal controls regarding the security, availability, processing integrity, confidentiality and data privacy maintained by the organization, our business and reputation may be harmed.

In the past, we have relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union, which established a means for legitimating the transfer of personally identifiable information, by U.S. companies doing business in Europe from the European Economic Area to the U.S. As a result of the October 6, 2015 European Union Court of Justice ("ECJ"), opinion in Case C-362/14 (Schrems v. Data Protection Commissioner), the U.S.-EU Safe Harbor Framework is no longer deemed to be an adequate method of compliance with restrictions set forth in the Data Protection Directive (and member states' implementations thereof) regarding the transfer of data outside of the European Economic Area. We anticipate that the tentative agreement with respect to a new EU-U.S. Privacy Shield announced on February 2, 2016 may provide a workable framework for the transfer of personally identifiable information, but until this new privacy framework is adopted and additional details and guidance are released, uncertainty remains. In the meantime, we continue to explore options to legitimize certain data transfers from the European Economic Area, including without limitation adopting model contractual clauses with certain suppliers, and are considering suppliers that house data in the European Economic Area. We may be unsuccessful in establishing legitimate means of transferring certain data from the European Economic Area, and we are at risk of enforcement actions taken by a European Union data protection authority until such point in time that we ensure that all data transfers to us from the European Economic Area are legitimized. We may find it necessary to establish additional systems to maintain European Union-origin data in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. We and our customers are at risk of enforcement actions taken by a European Union data protection authority until such point in time that we ensure that all data transfers to us from the European Economic Area are legitimized. Despite actions we have taken or will be taking to address the changes brought on by the ECJ opinion, we may be unsuccessful in establishing a conforming means of transferring data from the European Economic Area due to ongoing legislative activity that could vary the current data protection landscape. As we expand into new industries and grow our customer base, we will need to comply with these and other new requirements. If we cannot comply or if we incur a violation in one or more of these requirements, some customers may be limited in their ability to purchase our products, our growth could be harmed and we could incur significant liabilities.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. Further, our customers may require us to comply with more stringent privacy and data security contractual requirements or obtain certifications that we do not currently have and any failure to obtain these certifications could reduce the demand for our products. If we were required to obtain additional industry certifications, we may incur significant additional expenses and have to divert resources which could slow the release of new products, all of which could harm our ability to effectively compete.

Because the interpretation and application of many privacy and data protection laws are uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products. If so, in addition to the possibility of fines, lawsuits and other claims and penalties, we could be required to fundamentally change our business activities and practices or modify our products, which could harm our business. Any inability to adequately address privacy and data security concerns, even if unfounded, or comply with applicable privacy or data security laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and harm our business.

Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations and policies that are applicable to the businesses of our customers may limit the adoption and use of, and reduce the overall demand for, our products.

We may be sued by third parties for alleged infringement or misappropriation of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our future success depends in part on not infringing upon or misappropriating the intellectual property rights of others. From time to time, our competitors or other third parties have claimed or may claim that we are infringing upon or misappropriating their intellectual property rights, and we may be found to be infringing upon or misappropriating such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology, or technology that we obtain from third parties. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our products or using certain technologies, require us to implement expensive work-arounds or require that we comply with other unfavorable terms. In the case of infringement or misappropriation caused by technology that we obtain from third parties, any indemnification or other contractual protections we obtain from such third parties, if any, may be insufficient to cover the liabilities we incur as a result of such infringement or misappropriation. We may also be obligated to indemnify our customers or business partners in connection with any such litigation and to obtain licenses, modify our products or refund fees, which could further exhaust our resources. In addition, we may incur substantial costs to resolve claims or litigation, whether or not successfully asserted against us, which could include payment of significant settlement, royalty or license fees, modification of our products or refunds to customers of fees. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business operations and disrupt our business.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with customers and other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our products or other acts or omissions. The term of these contractual provisions often survives termination or expiration of the applicable agreement. Large indemnity payments or damage claims from contractual breach could harm our business, results of operations and financial condition. Although we normally contractually limit our liability with respect to such obligations, we may still incur substantial liability related to them. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other current and prospective customers, reduce demand for our products, damage our reputation and harm our business, results of operations and financial condition.

We use open source software in our products that may subject our products to general release or require us to re-engineer our products, which may harm our business.

We use open source software in our products and expect to continue to use open source software in the future. There are uncertainties regarding the proper interpretation of and compliance with open source software licenses. Consequently, there is a risk that the owners of the copyrights in such open source software may claim

that the open source licenses governing their use impose certain conditions or restrictions on our ability to use the software that we did not anticipate. Such owners may seek to enforce the terms of the applicable open source license, including by demanding release of the source code for the open source software, derivative works of such software, or, in some cases, our proprietary source code that uses or was developed using such open source software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our products, any of which could result in additional cost and liability to us, reputational damage and harm to our business and results of operations. In addition, if the license terms for the open source software we utilize change, we may be forced to re-engineer our products or incur additional costs to comply with the changed license terms or to replace the affected open source software. Although we have implemented policies and tools to regulate the use and incorporation of open source software into our products, we cannot be certain that we have not incorporated open source software in our products in a manner that is inconsistent with such policies.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part upon our intellectual property. We primarily rely on a combination of patent, copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. We make business decisions about when to seek patent protection for a particular technology and when to rely upon trade secret protection, and the approach we select may ultimately prove to be inadequate. Even in cases where we seek patent protection, there is no assurance that the resulting patents will effectively protect every significant feature of our products. In addition, we believe that the protection of our trademark rights is an important factor in product recognition, protecting our brand and maintaining goodwill. If we do not adequately protect our rights in our trademarks from infringement, any goodwill that we have developed in those trademarks could be lost or impaired, which could harm our brand and our business. In any event, in order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights.

For example, in order to promote the transparency and adoption of our downloadable software, we provide our customers with the ability to request a copy of the source code of those products, which they may customize for their internal use under limited license terms, subject to confidentiality and use restrictions. If any of our customers misuses or distributes our source code in violation of our agreements with them, or anyone else obtains access to our source code, it could cost us significant time and resources to enforce our rights and remediate any resulting competitive harms.

Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights, which could result in the impairment or loss of portions of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could harm our brand and our business.

We may require additional capital to support our operations or the growth of our business and we cannot be certain that we will be able to secure this capital on favorable terms, or at all.

We may require additional capital to respond to business opportunities, challenges, acquisitions, a decline in the level of license, subscription or maintenance revenue for our products, or other unforeseen circumstances. We may not be able to timely secure debt or equity financing on favorable terms, or at all. Any debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing shareholders could suffer significant dilution in their percentage ownership of the Company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our Class A ordinary shares. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar taxes, and we could be subject to liability with respect to past or future sales, which could harm our results of operations.

We do not collect sales and use, value added and similar taxes in all jurisdictions in which we have sales, based on our understanding that such taxes are not applicable. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties, and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest, or future requirements may harm our results of operations.

Our global operations and structure subject us to potentially adverse tax consequences.

We generally conduct our global operations through subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. A change in our global operations could result in higher effective tax rates, reduced cash flows and lower overall profitability. In particular, our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant revenue and taxing authorities may disagree with positions we have taken generally, or our determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

We restructured our corporate entities in fiscal 2014 and, as a result, our parent entity is now a company organized in the United Kingdom. Certain government agencies in jurisdictions where we and our affiliates do business have had an extended focus on issues related to the taxation of multinational companies. In addition, the Organization for Economic Co-operation and Development has completed the base erosion and profit shifting project which seeks to establish certain international standards for taxing the worldwide income of multinational companies. The measures have been endorsed by the leaders of the world's 20 largest economies. As a result of these developments, the tax laws of certain countries in which we and our affiliates do business could change on a prospective or retroactive basis, and any such changes could increase our liabilities for taxes, interest and penalties, and therefore could harm our cash flows, results of operations and financial position.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our products, and could harm our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication, and business applications. Federal, state, or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our products in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees, or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based products such as ours. In addition, the use of the Internet as a business tool could be harmed due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility, and quality of service. The performance of the Internet and its acceptance as a business tool has been harmed by "viruses," "worms," and similar malicious programs and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our products could decline.

We are exposed to credit risk and fluctuations in the market values of our investment portfolio.

Given the global nature of our business, we have diversified U.S. and non-U.S. investments. Credit ratings and pricing of our investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of our investments may fluctuate substantially. Therefore, although we have not realized any significant losses on our investments, future fluctuations in their value could result in a significant realized loss.

Catastrophic events may disrupt our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could harm our business. We have a large employee presence in the San Francisco Bay Area, California and we operate or utilize data centers that are located in northern California and Virginia. The west coast of the United States contains active earthquake zones. In the event of a major earthquake, hurricane or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our application development, lengthy interruptions in our products, breaches of data security and loss of critical data, all of which could harm our business, results of operations and financial condition.

Additionally, we rely on our network and third-party infrastructure and applications, internal technology systems, and our websites for our development, marketing, operational support, hosted services and sales activities. If these systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver products to our customers would be impaired.

As we grow our business, the need for business continuity planning and disaster recovery plans will grow in significance. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster, and successfully execute on those plans in the event of a disaster or emergency, our business and reputation would be harmed.

Adverse economic conditions could negatively impact our business.

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers. Our business depends on demand for business software applications generally and for collaboration software solutions in particular. In addition, the market adoption of our products and our revenue is dependent on the number of users of our products. To the extent that weak economic conditions reduce the number of personnel providing development or engineering services or that limit the available budgets within organizations for software products, demand for our products may be harmed. If economic conditions deteriorate, our customers and prospective customers may elect to decrease their information technology budgets, which would limit our ability to grow our business and harm our results of operations.

Directors, Senior Management and Employees

The Company's employees are our greatest asset and we strive to foster a collaborative, productive and fun work environment. The quality and integrity of our employees is fundamental to our reputation, financial success and long-term viability. That is the bedrock of our team culture and we are therefore highly focused on ensuring that our workplace environment, our employees' well-being, and their work-life balance are as good as we can make it.

As we mentioned in the Business Overview above, Atlassian has five core values that guide our business, our product development and our brand. This is what we look for in every employee. As our Company continues to evolve and grow, these five values remain constant. Atlassian's values reflect the qualities sought in every employee: fearless honesty; ethical decision-making; passionate commitment to excellence and to constantly improve their own work, Atlassian's products, Atlassian as a workplace, and the world at large.

The Group also maintains a Code of Business Conduct and Ethics to aid our directors, officers and employees in making ethical and legal decisions when conducting the Group's business and performing their day-to-day duties.

We are proud that our culture has been recognized with multiple awards by local industry publications, including the:

- #1 Place to Work in Australia (over 100 employees, 2015, 2014, Great Place to Work)
- #1 Best Place to Work in Asia (small and medium companies, 2015, 2014, Great Place to Work)
- #1 Best Place to Work in the Netherlands (large & multinational companies, 2015, Great Place to Work)
- #2 Best Place to Work in the United States (medium companies, 2015, Great Place to Work)

In fiscal 2016, we released our first diversity report, taking a groundbreaking approach by focusing on team diversity data as the benchmark against which we will measure progress. We also pioneered the addition of other categories such as age and international representation to our report. A broader set of team-level data provides crucial insight into how well people from underrepresented backgrounds are spread across the Group.

Confluence - our social and team collaboration platform, is used as the key hub of all information at the Group. Group activities are freely published, including everyone's ideas and opinions, and management's subsequent responses, in real time. By commenting on the intranet, our management team interacts with the organization every day where their comments are visible to all and allow active conversations to take place that span the globe. The Group has also established regular meeting cadences, whether it is daily stand ups with internal teams, weekly one on one meetings held between employees and their immediate managers or weekly global all staffs, to help keep all employees informed about the Group's strategies and execution on those strategies.

The Group conducts a multitude of surveys and initiatives throughout the year including getting frequent feedback as well as taking a regular "temperature check" through our global employee surveys. Every year all the results are shared on our intranet, allowing employees to see both the good and the areas that need improvement. Every year we also do an analysis with previous year's results to gain insight into what is changing within the Group.

All employees are encouraged to regularly undertake short-term courses, attend conferences, seminars and workshops and in-house learning opportunities. We pay tuition fees for any study program up to a set amount per person annually and provide exam leave.

One of our unique corporate rituals, "Shiplt," is a 24-hour event held every quarter where we encourage every employee to form into teams and develop new products or innovations. "Shiplts" have resulted in everything from new products like JIRA Service Desk to new office features like an iPad room booking system.

We provide generous global benefits to our employees, including paid maternity and paternity leave, profit sharing, new hire, retention and annual equity programs, 3, 5 and 10 year long service awards, flexible work schedules, a global secondment program, and free healthy snacks, breakfast and lunch food, among other benefits. Additionally, employees can thank one another for great work through our Kudos program. Kudos provides a mechanism for our employees to arrange a gift of recognition to someone who particularly embodies our values, a unique no approval peer recognition program.

As of June 30, 2016, 2015, 2014 and 2013 we had 1,760, 1,259, 769, and 533 employees, respectively.

The following table provides details of our full-time equivalent directors, senior managers and employees by gender as of June 30, 2016:

	Women	%	Men	%
Directors	2	22	7	78
Senior Management	26	24	82	76
Total Employees	453	26	1,307	74

Corporate Social Responsibility and Environmental Matters

Atlassian Foundation

We created the Atlassian Foundation with the vision of helping to make the world better. As a young company, we elected to contribute 1% of our annual profits, 1% of our employee time, 1% of Company equity and all revenues associated with our starter licenses for on-premise products towards the Atlassian Foundation. In 2014, we co-founded Pledge 1% with salesforce.com and others, an organization focused on sharing the model that's been so powerful for our business. We have helped educate thousands of other organizations and entrepreneurs on how they can give back - more than 850 companies in 29 countries have taken the pledge.

Over the years, we have donated an aggregate of \$5.8 million to charities and over 37,000 licenses worth more than \$100 million to non-profit, academic and open source organizations. The Atlassian Foundation works on a range of different projects including Room to Read, Cambodian Children's Trust, Social Ventures Australia, Conservation Volunteers Australia and Habitat for Humanity, among others. Through our Room to Read initiative, we have helped over 250,000 children in the developing world gain access to quality educational opportunities by establishing libraries, constructing schools, publishing titles and supporting young women towards completing secondary school.

Every full-time employee gets five days paid leave per year to work with a nonprofit of their choice.

"Be the change you seek" is not only a core Company value of ours, but a guiding principle for our charitable efforts. We will endeavor to stay true to these values and continue our efforts to make a sustainable difference to the world.

The Environment

The Group recognizes the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. Our operations are office-based. As such, we believe we have a relatively low impact on the environment in comparison to many other global businesses. We utilize rented or serviced offices in all locations and consequently rely heavily on our landlords for environmentally-friendly facilities.

Approval

This Strategic Report was approved by the Directors on August 26, 2016 and signed on its behalf by Scott Farquhar.

A handwritten signature in black ink, appearing to be 'S. Farquhar', is written over a horizontal line.

Scott Farquhar
Company Director

Directors' Remuneration Report for the fiscal year ended June 30, 2016

This Directors' Remuneration Report (the "Remuneration Report") has been prepared in accordance with the provisions of the United Kingdom Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in 2013).

Annual Statement by the Chairman of the Compensation and Leadership Development Committee

Dear shareholder,

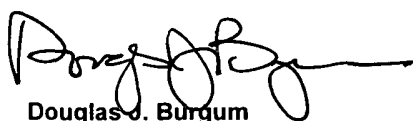
On behalf of the Compensation and Leadership Development Committee (the "Committee") of Atlassian Corporation Plc (the "Company"), I am pleased to present the Remuneration Report for the fiscal year ended June 30, 2016.

This is the Company's first Remuneration Report since its listing on the NASDAQ Global Select Market on December 10, 2015.

This Remuneration Report sets out the Directors' Remuneration Policy for Employee and Non-Employee Directors (the "Remuneration Policy") that, in accordance with United Kingdom law requirements (which apply by virtue of the Company being incorporated in the United Kingdom), the Company is required to seek approval for from its shareholders at its 2016 Annual General Meeting ("AGM") to be held on December 6, 2016.

Also in accordance with United Kingdom law, the Company is required to seek shareholder approval for its Remuneration Policy at least every three years. This means that the Remuneration Policy set out below needs to cover all the possible remuneration scenarios that the Company may face with its current and future directors until the next approval cycle. In particular, the Remuneration Policy needs to explain what the Company's approach to remuneration would be in the event that new directors, including new employee directors, were to be appointed, even though this may not occur prior to re-approval of the Remuneration Policy. In other words, the Remuneration Policy addresses elements of remuneration that are not currently part of any current directors' remuneration package. For example, our two employee directors, our Co-Chief Executive Officers (the "Co-CEOs"), do not have typical remuneration packages for the chief executive officer role given that they co-founded the Company and each hold a very significant equity ownership stake in the Company.

The Company's Annual Report on Remuneration, sets forth the remuneration paid to directors in respect of the fiscal year ended June 30, 2016. Again, the format of this Annual Report on Remuneration is specified in accordance with United Kingdom law. This Annual Report on Remuneration will be subject to a separate advisory vote at the Company's 2016 AGM.



Douglas J. Burgum

Chair of the Compensation and Leadership Development Committee

August 26, 2016

Directors' Remuneration Policy for Employee and Non-Employee Directors

This Remuneration Policy will become effective as of December 6, 2016, the date on which shareholders are asked to approve it at the 2016 AGM. All amounts in this Remuneration Policy are in U.S. dollars unless noted otherwise.

Employee Directors

The Company's approach to this Remuneration Policy for employee directors

The Company currently has two employee directors serving as Co-CEOs, Michael Cannon-Brookes and Scott Farquhar Co-CEO. Each is a founder and significant shareholder in the Company (each owning over 32% of our outstanding shares) and this is reflected in their non-market remuneration structure. For example, each Co-CEO currently waives his entitlement to participate in any annual bonus arrangement and neither currently participates in any of the Company's long-term incentive arrangements. Consequently, the remuneration packages of our Co-CEOs would not be indicative of the remuneration package that the Company would be expected to provide in the event that any new employee director were to be appointed during the duration of this Remuneration Policy. This section of the Remuneration Policy therefore distinguishes between those elements of remuneration that our Co-CEOs currently receive, and what the Company's approach to offering other elements of remuneration would be to newly appointed employee directors.

Employee Directors' Remuneration Policy Table

The following sets out the Remuneration Policy in respect of the components of remuneration that our Co-CEOs currently receive. Any newly appointed employee director would also be eligible to receive these components of remuneration. These elements of remuneration are not performance-related. Employee directors will only receive remuneration for their service as employees to the Company and not for their service as members of the Company's Board of Directors (the "Board"); hence, they do not receive the remuneration components set out in the Non-Employee Directors' Remuneration Policy Table below.

Element	Purpose and link to strategy	Operation
Salary	To provide the base level of remuneration for the role in order to attract, retain and reward high caliber employee directors.	Salaries for employee directors are set by the Committee, taking into account such factors as it determines to be necessary to recruit the caliber of employee directors needed to operate a company of our size and complexity. Salaries for existing employee directors are normally reviewed annually, but not necessarily increased annually. If increased, increases are generally effective in January of any particular year. The levels of any salary increases would generally be expected to take into account remuneration levels at benchmarked companies, although the Committee may award bigger increases if it determines that the circumstances warrant such increases. This limit is not included as a target or an indication of the salary increases that the Committee may expect or be prepared to award.
Retirement Benefits	To provide a market competitive level of retirement benefits.	Any retirement provision required by law (or similar) in the jurisdiction in which the employee director is resident would be provided (this includes, without limitation, mandatory superannuation requirements in Australia, where our current Co-CEOs reside). In addition, while the Company does not currently do so, this Remuneration Policy allows for retirement-related benefits in excess of mandatory benefits to employee directors, including provisions of additional benefit contributions or a cash payment in lieu of such contributions up to an annual maximum of 30% of base salary.

The following table summarizes the Remuneration Policy with respect to other components of remuneration, which we would expect to offer to any newly appointed employee directors. Newly appointed employee directors will only receive such remuneration for their service as employees to the Company and not for their service as members of the Board; hence, they do not receive the remuneration components set out in the Non-Employee Directors' Remuneration Policy Table below. In addition, the current employee directors are eligible to receive the following components of remuneration, although they do not do so currently, and there is no intention that they will do so in the fiscal year ending June 30, 2017.

Element	Purpose and link to strategy	Operation and assessment of performance
Benefits	To provide a market competitive level of benefits.	Benefits to be provided to employee directors would be determined by the Committee taking into account such factors as it determines to be necessary, with the aim of creating a competitive overall remuneration package. The provision of benefits would not be expected to be performance-related. Benefits may include, but are not limited to, the provision of private medical, health and/or life insurance, tax gross-ups and/or other perquisites. Benefits may also be provided to reflect the jurisdiction in which an employee director is recruited or to which an employee director is relocated for business
Long-term incentive plans	To enable a closer alignment of employee directors' interests with those of the Company and its shareholders, thereby stimulating their efforts on the Company's behalf. To incentivize key employee directors to achieve key long-term objectives. To retain employee directors.	Employee directors are eligible to participate in the Company's 2015 Share Incentive Plan, which was approved by shareholders in November 2015 (the "Equity Plan"). Annual participation in the Equity Plan is subject to the individual limits on participation determined under the terms of the Equity Plan. Participation in the Equity Plan would be in such form permitted under its rules as is determined by the Committee. In the event that the Company adopts new equity incentive plans, employee directors would be eligible to participate in such plans, subject to the terms of, and the maximum levels of participation provided in, such plans. In respect of any performance-related equity awards granted to employee directors, performance measures, vesting provisions, weightings and targets would be set by the Committee. Following the grant of an award, the Committee would have the authority to amend performance measures and targets if events happen that cause such measures and targets to no longer qualify as fair tests of performance. As the Company currently does not have any employee directors who participate in equity incentive plans, the complete terms of an employee director's participation in such arrangements would be determined by the Committee at the applicable time.
Broad-based equity purchase plans	To enable participation in the same equity arrangements as may be offered to a broad employee population.	Employee directors may also participate in any stock purchase plan adopted by the Company from time to time, up to the relevant limits for participation as applies to such arrangements.

Element	Purpose and link to strategy	Operation and assessment of performance
Annual bonus	To provide an incentive for superior performance and to motivate employee directors toward even higher achievement and business results, to tie their goals and interests to those of the Company and its shareholders and to enable the Company to attract and retain highly qualified employee directors. The performance metrics would be set to align to the Company's objectives for the relevant year, and may include individual performance measures.	Annual bonuses would be determined by reference to performance, in the normal course measured over one fiscal year. The performance measures, weightings and targets for the annual bonus would be set by the Committee on an annual basis. Performance measures may include tests of both business and individual performance. The maximum annual bonus that may be awarded would be 200% of salary. As the Company currently does not have any employee directors who participate in annual bonus arrangements, the complete terms of an employee director's participation in such arrangements would be determined by the Committee at the applicable time. In respect of an employee directors' participation in annual bonus arrangements in any year, the Committee would have the authority to amend performance measures and targets if events happen that cause such measures and targets to no longer qualify as fair tests of performance. The Company expects that annual bonuses would be delivered in cash (but the Company may also elect to deliver part of the value of any annual bonus in the form of an equity award).

In addition to the components of remuneration above, the Company would continue to deliver on any contractual entitlement to remuneration or benefits, and any cash or equity incentive awards, which are held by: (i) any current employee director on the effective date of this Remuneration Policy; or (ii) an employee or officer of the Atlassian group of companies (the "Group") on the date he or she is promoted to the role of employee director. Appropriate disclosure would be made of any remuneration paid (or similar) to an employee director pursuant to any such arrangements.

The Company would reimburse all reasonable expenses incurred by employee directors in connection with their service on the Board. This would include expenses incurred for attending Board or committee meetings, or the Company may alternatively provide a travel allowance for such purpose. The Company may reimburse reasonable expenses for items which, for tax purposes, would be treated as a taxable benefit, and in which case the Company may also pay any such tax on behalf of the employee director or provide a tax gross-up. In addition, the Company would provide liability-related insurance and indemnification benefits to employee directors.

A statement of the consideration of the Company's approach to remuneration for employees other than directors is included in the "statement of consideration of employment conditions elsewhere in the Company" below.

External non-executive appointments

Employee directors are able to accept non-executive appointments outside of the Group (as long as this does not lead to a conflict of interest) with the consent of the Board, as such appointments can enhance their Board

experience and add value to the Company. Any fees received from such appointments may be retained by the employee director.

Service contracts

Service contracts of the Co-CEOs

The Company has not entered into a director or employment agreement with either of the Co-CEOs.

External recruitments

Under this Remuneration Policy, any new agreement with a newly appointed employee director would comply with the following principles:

Notice period	The Company may, but shall not be obliged to, include a notice period, to reflect local employment law or practices. To the extent that a service contract includes a notice period, an employee director may be placed on garden leave during the notice period and the Company may have the discretion to terminate the employee director's employment immediately by making a payment in lieu of notice.
Salary	The service contract would include a salary, subject to the provisions and limits set out in this Remuneration Policy. The salary may continue during any notice period.
Annual bonus	The service contract may include eligibility for an annual bonus, subject to the provisions and limits set out in this Remuneration Policy. Eligibility for bonus payouts may continue during any notice period.
Retirement benefits	The service contract may include entitlement to retirement benefits, subject to the provisions and limits set out in this Remuneration Policy. The entitlement to retirement benefits may continue during any notice period.
Benefits	The service contract may include entitlement to other benefits, subject to the provisions and limits set out in this Remuneration Policy. The entitlement to other benefits may continue during any notice period.
Long-term incentive plans	The employee director would be eligible to participate (in the Committee's discretion) in the Company's long-term incentive arrangements (whether cash or equity-based). Participation in such arrangements would be subject to the provisions and limits set out in this Remuneration Policy. Eligibility to participate in long-term incentive arrangements may continue during any notice period.
Broad-based equity purchase plans	The employee director would be eligible to participate in the Company's broad-based equity purchase plans. Participation in such arrangements would be subject to the provisions and limits set out in such plans and applicable governing law. The eligibility to participate in broad-based equity purchase plans may continue during any notice period.

New service contracts would also take into account any local law requirements.

In recruiting an employee director, including the promotion of an employee or officer from within the Group to the role of employee director, the Committee would offer the recruit a remuneration package that it believes is appropriate, taking into account the skills and experience of the individual and the need to recruit, retain and motivate individuals of the appropriate caliber.

The remuneration package offered may include the components of remuneration described above in the Employee Directors' Remuneration Policy Table.

For external hires, the Committee may determine that it would be appropriate to provide equity grants or cash bonuses to make whole any individuals who would be required to forfeit equity or cash awards from their existing employer to become an employee of the Company. The Committee may also determine that it would be appropriate to grant recruitment-related awards (cash or equity-related). In the case of any award granted, the award may be subject to vesting and/or performance conditions as the Committee determines to be appropriate, either under a one-time arrangement or under the terms of the Company's incentive arrangements. In determining the

terms of such awards, the Committee may take into account the vesting schedule and conditions attached to the forfeited awards, if any, as well as other factors that it determines to be relevant, including the need to suitably incentivize and retain the individual during their initial years in office.

Loss of office payments

Contractual entitlements

A departing employee director's rights to remuneration upon a termination of employment would be determined in accordance with his or her service contract and, if applicable, the Executive Severance Plan as described in detail below.

Executive Severance Plan

The Company maintains an Executive Severance Plan, and any new employee director would be eligible to participate (at the Company's discretion) in such Executive Severance Plan. However, Messrs. Cannon-Brookes and Farquhar, our Co-CEOs, are not eligible to participate in the Executive Severance Plan. Employee directors who participate in the Executive Severance Plan would be entitled to receive such payments thereunder as are determined in accordance with the terms of such Executive Severance Plan. In summary, the Executive Severance Plan provides for a severance payment equal to six months of base salary upon a termination by the Company without "Cause" (as defined in the Executive Severance Plan) or a resignation by the participant for "Good Reason" (as defined in the Executive Severance Plan). In addition, upon such qualifying termination within 12 months following a "Change in Control" (as defined in the Executive Severance Plan) in which outstanding equity awards of the Company will be assumed, continued or substituted by the successor entity, a participant would generally receive 100% (or such lower percentage as may be determined by the Board or Committee) accelerated vesting of all unvested and outstanding equity awards held by him or her at such time (provided, that any equity awards subject to performance conditions will be deemed satisfied at the target levels specified in the applicable equity award agreements). Notwithstanding the foregoing, if the outstanding equity awards of the Company will not be assumed, continued or substituted by the successor entity in connection with the Change in Control, then each participant would receive 100% accelerated vesting of all unvested and outstanding equity awards held by him or her at such time (provided that any equity awards subject to performance conditions will be deemed satisfied at the target levels specified in the applicable equity award agreements).

Annual bonus and long-term incentive plans

The terms of a departing employee director's participation in any annual bonus or long-term incentive plans would be governed by the terms of such arrangements. As the Company currently does not have any employee directors who participate in any such arrangements, the Committee would determine such terms at the applicable time. Without limiting the contractual entitlements which such terms may convey, it is expected that such terms would include discretion for the Committee to permit payment of an annual bonus for any full or partial year of service provided by the departing employee director and/or under notice and/or with respect of which a payment in lieu of notice payment is made. In addition, the Committee would have the authority to accelerate the vesting of any equity awards.

With respect to any awards made to an employee director under any broad-based equity purchase plans, the same termination provisions would apply as those for employees generally.

Other

The Company may enter into new contractual arrangements with a departing employee director in connection with his or her separation of service from the Company, including, but not limited to, a release of claims, as well as confidentiality, restrictive covenants and/or consultancy arrangements, where the Committee determines it necessary or appropriate to do so. The Company may pay reasonable legal fees on behalf of an employee director in connection with his or her separation of service from the Company. The Company may agree to provide other ancillary or non-material benefits, payments or similar, or ongoing benefits (or a cash-equivalent) for a specified period, to a departing employee director.

Change in Control

The Executive Severance Plan referred to above includes provisions that may apply following a "Change in Control." Separately, the treatment of incentive awards in the event of a Change in Control, or other corporate event, affecting the Company would be determined in accordance with the terms of such awards, and the effect of a Change in Control or such other corporate event may include accelerated vesting separate and apart from the accelerated vesting provisions in the Executive Severance Plan. The Company may agree to pay reasonable legal fees on behalf of an employee director with respect to the effect of a Change in Control or other corporate event on such employee director's personal position.

Share ownership requirement for employee directors

Given the very significant equity ownership stake our Co-CEOs hold in the Company, the Company does not currently require a target level of share ownership for employee directors. The Committee would consider this in the event that any new employee director is appointed.

Non-Employee Directors

Non-Employee Directors' Remuneration Policy Table

Element	Purpose and link to strategy	Operation (including maximum levels)
Fees	To attract and retain high-caliber non-employee directors.	Non-employee directors each receive an annual retainer for his or her service on the Board paid in equal quarterly installments, with supplementary retainers payable for additional Board and committee responsibilities. Retainers are for general availability and participation in meetings and conference calls of the Board. Annual retainer for Board membership \$50,000 Additional retainer for the Chair of the Board \$35,000 Additional retainers for the committee chairs Audit Committee \$20,000 Compensation and Leadership Development Committee \$15,000 Nominating and Corporate Governance Committee \$10,000 The fee levels are reviewed on a periodic basis, and may be increased by the Company after taking into account factors such as the time commitment of the role and market levels in peer companies of comparable size and complexity. Additional payments may also be made above these retainer levels if time commitments significantly exceed expectations.
Equity awards	To attract and retain high-caliber non-employee directors.	Upon the first eligible grant date following initial election to the Board, each non-employee director is granted an initial, one-time grant of restricted share units ("RSUs") having a Value (as defined below) of \$250,000 (the "Initial Grant"). The Initial Grant vests as to 25% on the one-year anniversary of the grant date and the remaining 75% vests in equal quarterly installments over the next three years, subject to continued service as a director through the applicable vesting dates, unless the Committee determines that circumstances warrant continuation of vesting. In addition, on the date of each AGM, each non-employee director who continues as a non-employee director following the AGM is granted RSUs on the date of such AGM having a Value of \$225,000 (the "Annual Grant"). A new non-employee director who joins other than at an AGM (on the first eligible grant date following his or her appointment to the Board) is granted a pro-rata proportion of an Annual Grant based on the time between his or her appointment and the next AGM. The Annual Grant vests in full on the earlier of: (i) the one-year anniversary of the grant date; and (ii) the next AGM, subject to continued service as a director through the applicable vesting date, unless the Committee determines that circumstances warrant continuation of vesting. All such equity awards become fully vested in the event of a "Sale Event" (as defined in the Equity Plan) affecting the Company, in accordance with the terms of the Equity Plan. The RSUs are currently granted under the terms of the Equity Plan. The Committee may change or otherwise revise the terms of such awards (including in granting the awards in a form other than as RSUs). "Value" means the product of (i) the fair market value of one Class A ordinary share of the Company on the grant date, and (ii) the aggregate number of shares pursuant to such award.

Other matters

In addition to the components of remuneration above, the Company will continue to deliver on any contractual entitlement to remuneration or benefits, and any cash or equity incentive awards, which are held by any current or former non-employee director on the effective date of this Remuneration Policy. Appropriate disclosure will be made of any remuneration paid (or similar) to a non-employee director pursuant to any such arrangements.

The Company would reimburse all reasonable expenses incurred by non-employee directors in connection with their service on the Board. This would include expenses incurred for attending Board or committee meetings, or the Company may alternatively provide a travel allowance for such purpose. The Company may reimburse reasonable expenses for items which, for tax purposes, would be treated as a taxable benefit, and in which case the Company may also pay any such tax on behalf of the non-employee director or provide a tax gross-up. In addition, the Company would provide liability-related insurance and indemnification benefits to employee directors.

Share ownership requirement for non-employee directors

Each non-employee director is required, within four years of his or her initial election to the Board to own Class A ordinary shares having an aggregate value of at least \$250,000. Compliance with this requirement will be assessed on each July 1 based on the 90-day average closing price of the Company's Class A ordinary shares ending on the trading day immediately preceding such date. Only Class A ordinary shares owned in the following forms shall be considered in determining compliance with this requirement: shares held directly by, or in a grantor trust for the benefit of, the non-employee director or his or her immediately family members; shares owned by a partnership, limited liability company or other entity to the extent of the non-employee directors' interest therein (or the interest therein of his or her immediate family members) but only if the non-employee director has or shares power to vote or dispose of such shares; and shares underlying vested RSUs that have not yet been settled.

Non-employee directors are subject to this share ownership requirement for as long as they continue to serve on the Board. Failure to meet this requirement may result in cash retainers being paid in the form of Class A ordinary shares and/or in a restriction being imposed on the non-employee director's right to sell Class A ordinary shares, as determined by the Committee. The Committee, in its sole discretion, may evaluate whether exceptions to this requirement shall be made in the event of severe financial hardship, a requirement to comply with a court order to transfer shares or as a result of significant share price fluctuations.

Terms of appointment and terms on termination of office

Current director agreements for the non-employee directors

Details of the director agreements currently in place for the non-employee directors are as follows:

	Date of director agreement
Douglas J. Burgum	June 7, 2012
Jay Parikh	July 30, 2013
Enrique Salem	July 30, 2013
Shona Brown	November 3, 2015
Heather Mirjahangir Fernandez	November 3, 2015
Steven Sordello	November 26, 2015

None of the director agreements above have a fixed term, contain a notice period or termination provisions or contain any provision for benefits upon a termination of service. In line with the Non-Employee Directors' Remuneration Policy Table above, the director agreements do provide for full vesting of equity awards in the event of a Sale Event.

The Company has not entered into a director agreement with Richard P. Wong.

Murray Demo, who entered into a director agreement with us on December 29, 2011, resigned as a director in October 2015 to become our Chief Financial Officer.

We are asking our shareholders to approve at this year's AGM an amendment to our Articles of Association that require the directors, if the Board so determines, to stand for re-election at each general meeting of the Company. If approved, our directors will stand for annual re-election starting at our FY 2017 AGM.

Current non-employee directors' equity awards

The director agreement for Mr. Burgum provided him with an option to purchase 300,000 shares of restricted stock (automatically converted into the right to receive Class A ordinary shares upon our initial public offering on December 10, 2016 (the "IPO")) at an exercise price of \$1.59. The option vests in 48 equal monthly installments from the grant date (June 12, 2012), subject to Mr. Burgum's continued service as a director through the applicable vesting dates, unless the Committee determines that the circumstances warrant continued vesting. Mr. Burgum early exercised the option and received shares subject to the Company's right of repurchase if Mr. Burgum terminates his service for any reason prior to the applicable vesting dates. As of June 30, 2016, the Company's right of repurchase for such shares has lapsed and Mr. Burgum's shares were fully vested.

The director agreements for Messrs. Parikh and Salem each provided the non-employee director with an option to purchase 200,000 shares of restricted stock (automatically converted into the right to receive Class A ordinary shares upon our IPO), in each case at an exercise price of \$2.92. The options vests in 48 equal monthly installments from their respective grant dates (each on July 30, 2013), subject to the applicable director's continued service as a director through the applicable vesting dates, unless the Committee determines that the circumstances warrant continued vesting. Messrs. Parikh and Salem each early exercised his option and received shares subject to the Company's right of repurchase if the applicable director terminates his service for any reason prior to the applicable vesting dates. As of June 30, 2016, 54,167 shares for each of Messrs. Parikh and Salem remain unvested and subject to the Company's right of repurchase.

The director agreement for Mr. Demo provided him with an option to purchase 300,000 shares of restricted stock (automatically converted into the right to receive Class A ordinary shares upon our IPO) at an exercise price of AUD \$0.81. The option vests in 48 equal monthly installments from the grant date (December 29, 2011), subject to Mr. Demo's continued service as a director through the applicable vesting dates, unless the Committee determines that the circumstances warrant continued vesting. Mr. Demo early exercised the option and received shares subject to the Company's right of repurchase if Mr. Demo terminates his service for any reason prior to the applicable vesting dates. Although Mr. Demo resigned as a non-employee director in October 2015 to assume the role of the Company's Chief Financial Officer, the Committee determined, given the reason for which Mr. Demo ceased to be a director, that the unvested shares held by Mr. Demo would continue to vest in accordance with the schedule set out above as long as Mr. Demo continued to hold employment with the Group. As of June 30, 2016, the Company's right of repurchase for such shares has lapsed and Mr. Demo's shares were fully vested.

The director agreements for Dr. Brown, Ms. Mirjahangir Fernandez and Mr. Sordello each provide for an Initial Grant and Annual Grant in accordance with the terms set forth in the Non-Employee Directors' Remuneration Policy Table above. As described in the Non-Employee Directors' Remuneration Policy Table above, the vesting of Initial Grants and Annual Grants to non-employee directors are subject to continued service as a director through the applicable vesting dates, unless the Committee determines that the circumstances warrant continued vesting.

In addition, Messrs. Wong, Burgum, Parikh and Salem each received a pro-rata portion of an Annual Grant that was contingent upon and effective immediately prior to our IPO.

New non-employee directors and approach to recruitment remuneration

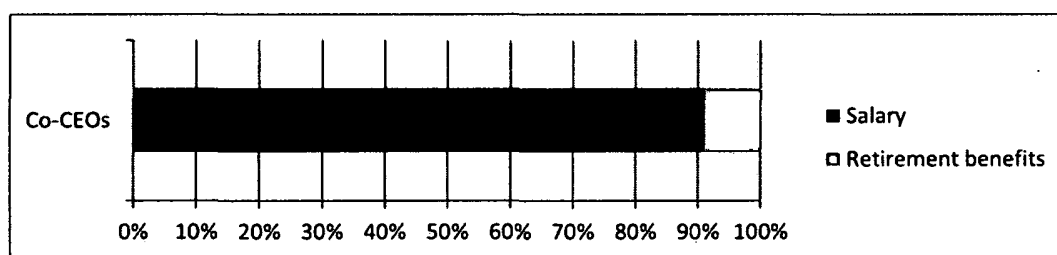
Director agreements for any newly elected non-employee director would include an entitlement to fees and equity awards in line and on the same terms with those set forth in the Non-Employee Directors' Remuneration Policy Table above. Any such agreement would not contain a notice period or termination provisions or any provision for benefits upon a termination of service. In line with the Non-Employee Directors' Remuneration Policy Table above, the director agreements would provide for full vesting of equity awards in the event of a Sale Event.

Development of this Remuneration Policy

Illustration of applicable Remuneration Policy for current employee directors

While this Remuneration Policy permits employee directors to participate in annual bonus and long-term incentive arrangements, each employee director has waived his entitlement to an annual bonus in respect of the fiscal year ending June 30, 2017 and neither will be granted any long-term incentive awards during the fiscal year ending June 30, 2017.

As illustrated below, the remuneration payable to the Co-CEOs in the first year in which this Remuneration Policy applies, being the fiscal year ending June 30, 2017, will consist of a base salary of AUD \$383,000 and retirement benefits of a level required in accordance with Australian requirements (currently at 9.5% of base salary). In line with the Company's normal practices, salaries will be reviewed, but not necessarily changed, in January 2017. As the Co-CEOs will not participate in any performance-related component of remuneration in the fiscal year ending June 30, 2017, this level of remuneration is not dependent on personal or Company performance.



Statement of consideration of employment conditions elsewhere in the Company

The Company does not consult with employees as part of its usual process for determining director remuneration and did not consult with employees in formulating this Remuneration Policy. However, compensation across the senior management population was taken into account when setting pay levels for the employee directors. For the non-employee directors, the Committee was advised by Semler Brossy, independent compensation consultants, on developments and benchmarks in non-employee director remuneration which were used to set the remuneration for the non-employee directors. This Remuneration Policy was designed to take into account the Company's need to be able to recruit and retain high caliber non-employee directors and to reflect the position of the two current employee directors who are significant shareholders in the Company. While the provisions of the Remuneration Policy as they would apply to future employee directors would be generally in line with the remuneration arrangements for the Group's other senior management, the remuneration, including terms and levels of awards for any new employee director, may differ from those of other senior management as the Company sets remuneration by reference to external benchmarking and local market practice in place at the relevant time of hire.

Statement of consideration of shareholder views

The Company included details of its Remuneration Policy as it related to the non-employee directors in its IPO prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on December 10, 2015.

The Committee may make minor changes to this Remuneration Policy that do not have a material advantage to directors without seeking shareholder approval.

Annual Report on Remuneration

Employee Directors

Single total figure of remuneration for each employee director (audited)

The amount earned by each of the employee directors for the fiscal years ended June 30, 2016 and 2015 are set out in the table below (Australian dollars (AUD), 000s):

	Salary		Benefits		Annual bonus		Long-term incentives		Retirement benefits		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Michael Cannon-Brookes	\$383	\$343	-	-	-	-	-	-	\$36	\$32	\$419	\$375
Scott Farquhar	\$383	\$343	-	-	-	-	-	-	\$36	\$32	\$419	\$375

Details of amounts included in the single total figure for the fiscal years ended June 30, 2016 and 2015 (audited)

Benefits

Other than salary and retirement benefits, no other benefits were provided to either employee director during the fiscal years ended June 30, 2016 and 2015.

Annual bonus

While the Remuneration Policy permits employee directors to participate in annual bonus arrangements, each employee director waived any annual bonus payment for the fiscal years ended June 30, 2016 and 2015.

Long-term incentives

While the Remuneration Policy permits employee directors to participate in long-term incentive arrangements, neither employee director held any such awards that vested during the fiscal years ended June 30, 2016 and 2015.

Retirement benefits

During the fiscal years ended June 30, 2016 and 2015, contributions were made to each employee director's retirement fund, as required by applicable jurisdictional law. No defined benefit or cash balance benefits were provided during the fiscal years ended June 30, 2016 and 2015.

Scheme interests granted during the fiscal year (audited)

While the Remuneration Policy permits employee directors to participate in equity incentive arrangements, neither employee director was granted any such award during the fiscal years ended June 30, 2016 and 2015.

Non-Employee Directors

Single total figure of remuneration for each non-employee director (audited)

The amount earned by each of the non-employee directors for the fiscal years ended June 30, 2016 and 2015 are set out in the table below (000s):

	Base fees (5)		Other fees (5)		Equity awards (6)		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Shona Brown	\$28	-	-	-	\$475	-	\$503	-
Douglas J. Burgum (1)	\$56	-	-	-	\$216	-	\$272	-
Murray Demo (2)	-	-	-	-	-	-	-	-
Heather Mirjahangir Fernandez	\$28	-	-	-	\$475	-	\$503	-
Jay Parikh	\$28	-	-	-	\$216	-	\$244	-
Enrique Salem	\$28	-	-	-	\$216	-	\$244	-
Steven Sordello (3)	\$39	-	-	-	\$475	-	\$514	-
Richard P. Wong (4)	\$34	-	-	-	\$216	-	\$250	-

- (1) Mr. Burgum is chair of the Board and Compensation and Leadership Development Committee.
- (2) Mr. Demo resigned as a non-employee director in October 2015 to assume the role of the Company's Chief Financial Officer and did not receive any equity awards or fees for his service as a non-employee director during the fiscal year ended June 30, 2016.
- (3) Mr. Sordello is chair of the Audit Committee.
- (4) Mr. Wong is chair of the Nominating and Corporate Governance Committee.
- (5) Our non-employee directors were not paid any fees prior to our IPO in December 2015.
- (6) Details of the equity awards granted to non-employee directors during the fiscal year ended June 30, 2016 are set out below. As the equity awards are not subject to performance measures, the value of the equity awards is required to be included in full in the above table, notwithstanding that the equity awards are subject to outstanding service-based vesting conditions. If the equity awards lapse in future years by virtue of the service-based vesting conditions not being met, such lapse will be reflected in the single total figure table for the relevant fiscal year as a recovery of value from the relevant director.

Details of amounts included in the single total figure for the fiscal year ended June 30, 2016 (audited)

Equity awards

The following equity awards were granted to non-employee directors during the fiscal year ended June 30, 2016. The equity awards were granted as Initial Grants with a grant date fair market value of \$250,000 and Annual Grants with a grant date fair market value of \$225,000 (except as described below for Messrs. Burgum, Parikh, Salem and Wong), in line with the Non-Employee Directors' Remuneration Policy Table above.

	Date of grant	Type of award	Form of award	Number of shares subject to award	Face value of award at award date (2)	Vesting schedule (3)
Shona Brown	12/9/15	Initial Grant	RSU	13,913	\$250,000	25% vests on the one-year anniversary of the grant date and the remaining 75% vests in equal quarterly installments over the next three years
	12/9/15	Annual Grant	RSU	12,521	\$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Douglas J. Burgum	12/9/15	Annual Grant	RSU	12,007	\$215,753	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Murray Demo (1)	N/A	N/A	N/A	N/A	N/A	N/A
Heather Mirjahangir Fernandez	12/9/15	Initial Grant	RSU	13,913	\$250,000	25% vests on the one-year anniversary of the grant date and the remaining 75% vests in equal quarterly installments over the next three years
	12/9/15	Annual Grant	RSU	12,521	\$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Jay Parikh	12/9/15	Annual Grant	RSU	12,007	\$215,753	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Enrique Salem	12/9/15	Annual Grant	RSU	12,007	\$215,753	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Steven Sordello	12/9/15	Initial Grant	RSU	13,913	\$250,000	25% vests on the one-year anniversary of the grant date and the remaining 75% vests in equal quarterly installments over the next three years
	12/9/15	Annual Grant	RSU	12,521	\$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Richard P. Wong	12/9/15	Annual Grant	RSU	12,007	\$215,753	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM

- (1) Mr. Demo resigned as a non-employee director in October 2015 to assume the role of the Company's Chief Financial Officer and did not receive any equity awards for his service as a non-employee director during the fiscal year ended June 30, 2016. Mr. Demo received an RSU grant of 1,000,000 shares in December 2015 as part of his remuneration package as Chief Financial Officer of the Company. This RSU grant had a face value of \$17,970,000 based on an assumed price per share of \$17.97 based on external valuation and is subject to a continued service condition, but not to any personal or corporate performance conditions. This RSU grant is unrelated to Mr. Demo's service as a non-employee director.
- (2) The Value of the awards was calculated based on an assumed price per share of \$17.97 based on external valuation. The Value of the Annual Grant for each of Messrs. Burgum, Parikh, Salem and Wong was \$225,000, pro-rated by a fraction, the numerator of which was equal to the number of days between the date of our IPO and the one-year anniversary of our 2015 AGM and the denominator of which was equal to 365.
- (3) In accordance with the Remuneration Policy, the above equity grants are subject to a continued service condition but not to any personal or corporate performance conditions.

Other Payments to Employee and Non-Employee Directors During the Fiscal Year Ended June 30, 2016

Payments to past directors (audited)

Since Mr. Demo ceased to be a non-employee director in October 2015 in order to assume the role of the Company's Chief Financial Officer, he did not receive any remuneration in connection with his role as a non-employee director. In addition, Mr. Demo did not receive any remuneration in connection with him ceasing to be a non-employee director during the fiscal year ended June 30, 2016; however, the Committee determined, given the reason for which Mr. Demo ceased to be a director, that the unvested shares held by Mr. Demo would continue to vest in accordance with its original vesting schedule as long as Mr. Demo continued to hold employment with the

Group. As of June 30, 2016, the Company's right of repurchase for such shares has lapsed and Mr. Demo's shares were fully vested. Since October 2015, Mr. Demo has only received remuneration related to his role as Chief Financial Officer of the Company.

No other payments were made to any other former director during the fiscal year ended June 30, 2016.

Payments for loss of office (audited)

No payments were made in connection with a director's loss of office during the fiscal year ended June 30, 2016.

Statement of Employee and Non-Employee Directors Shareholdings and Interests

The interests of the persons who served as a director during the year, and their connected persons (if any), in the shares, options, and listed securities of the Company as at June 30, 2016, are set out below (audited).

	Interests in shares held at June 30, 2016, excluding outstanding scheme interests	Total shares subject to outstanding scheme interests at June 30, 2016	Total of all share interests and outstanding scheme interests, at June 30, 2016
Michael Cannon-Brookes	69,541,867 (1)	-	69,541,867
Scott Farquhar	69,541,867 (2)	-	69,541,867
Shona Brown	-	26,434	26,434
Douglas J. Burgum	694,478 (3)	12,007	706,458
Murray Demo	300,000	1,000,000 (5)	1,300,000
Heather Mirjahangir Fernandez	-	26,434	26,434
Jay Parikh	145,833	66,174	212,007
Enrique Salem	141,665	66,174	207,839
Steven Sordello	-	26,434	26,434
Richard P. Wong	186,789 (4)	12,007	198,796

- (1) Consists of (i) 15,093,377 Class B ordinary shares held of record by Mr. Cannon-Brookes and (ii) 54,448,490 Class B ordinary shares held of record by Grokco Pty Ltd as trustee for the Grok Trust.
- (2) Consists of (i) 15,093,377 Class B ordinary shares held of record by Mr. Farquhar and (ii) 54,448,490 Class B ordinary shares held of record by Skip Enterprises Pty Limited as trustee for the Farquhar Family Trust.
- (3) Consists of 694,478 Class A ordinary shares held of record by the Douglas J. Burgum Revocable Trust. 394,478 of these shares are unrelated to Mr. Burgum's service as a non-employee director.
- (4) Separate from the shares held by Mr. Wong in his personal capacity as shown in the table above, Mr. Wong is a partner of Accel Partners which, on June 30, 2016, held 11,092,592 shares in the Company through various funds it controls. Mr. Wong's shares are unrelated to his service as a non-employee director.
- (5) Mr. Demo received an RSU grant of 1,000,000 shares in December 2015 as part of his remuneration package as Chief Financial Officer of the Company. This RSU grant is unrelated to his service as a non-employee director.

Further details of the outstanding scheme interests are shown in the following table (1) (audited):

	Description	Type	Vesting schedule	At June 30, 2015	Changes during the year			At June 30, 2016
					Granted	Lapsed	Shares released on vesting	
Shona Brown	Initial Grant	RSU	(6)	-	13,913	-	-	13,913
	Annual Grant	RSU	(7)	-	12,521	-	-	12,521
Douglas J. Burgum	(2)	Shares	(2)	75,000	-	-	75,000	-
	Annual Grant	RSU	(7)	-	12,007	-	-	12,007
Murray Demo	(3)	Shares	(3)	37,500	-	-	37,500	-
	(4)	RSU	(4)	-	1,000,000	-	-	1,000,000
Heather Mirjahangir Fernandez	Initial Grant	RSU	(6)	-	13,913	-	-	13,913
	Annual Grant	RSU	(7)	-	12,521	-	-	12,521
Jay Parikh	(5)	Shares	(5)	104,167	-	-	50,000	54,167
	Annual Grant	RSU	(7)	-	12,007	-	-	12,007
Enrique Salem	(5)	Shares	(5)	104,167	-	-	50,000	54,167
	Annual Grant	RSU	(7)	-	12,007	-	-	12,007
Steven Sordello	Initial Grant	RSU	(6)	-	13,913	-	-	13,913
	Annual Grant	RSU	(7)	-	12,521	-	-	12,521
Richard P. Wong	Annual Grant	RSU	(7)	-	12,007	-	-	12,007

- (1) The scheme interests are subject to a continued service condition but not to any personal or corporate performance conditions.
- (2) Consists of the portion of shares previously acquired upon early exercise of the option granted to Mr. Burgum under his director agreement at an exercise price of \$1.59, which remained unvested as of June 30, 2015. The shares vest in 48 equal monthly installments from the grant date (June 12, 2012). As of June 30, 2016, Mr. Burgum's shares were fully vested.
- (3) Consists of the portion of shares previously acquired upon early exercise of the option granted to Mr. Demo under his director agreement at an exercise price of AUD \$0.81, which remained unvested as of June 30, 2015. The shares vest in 48 equal monthly installments from the grant date (December 29, 2011). As of June 30, 2016, Mr. Demo's shares were fully vested.
- (4) Mr. Demo received an RSU grant of 1,000,000 shares in December 2015 as part of his remuneration package as Chief Financial Officer of the Company. This RSU grant had a face value of \$17,970,000 based on an assumed price per share of \$17.97 based on external valuation and is subject to a continued service condition, but not to any personal or corporate performance conditions. This RSU grant is unrelated to Mr. Demo's service as a non-employee director.
- (5) Consists of the portion of shares previously acquired upon early exercise of the options granted to Messrs. Parikh and Salem under each of their director agreements at an exercise price of \$2.92, which remained unvested as of June 30, 2015 and 2016. The shares vest in 48 equal monthly installments from the grant date (July 30, 2013).
- (6) 25% of the RSUs vests on November 18, 2016. Thereafter, the remaining 75% of the RSUs vests in twelve (12) equal quarterly installments following November 18, 2016 (on February 18th, May 18th, August 18th and November 18th of each subsequent year).
- (7) The RSUs vest in full on the earlier of (i) the one-year anniversary of the grant date (12/9/15) or (ii) the next AGM.

Comparison to Company Performance

Performance graph and table and comparison to CEO pay

The following table shows details of the remuneration paid to the individuals in the role of CEO over the past five fiscal years of the Company. In future annual reports, the Company will also include a graph showing the Total Shareholder Return (TSR) performance of the Company over the complete fiscal periods within the relevant period (but as the Company only became listed during the fiscal year ended June 30, 2016, it is not currently possible to include the TSR graph).

		2016	2015	2014	2013	2012
CEO single figure of remuneration (AUD, 000s)	Michael Cannon-Brookes	\$419	\$375	\$339	\$312	\$300
	Scott Farquhar	\$419	\$375	\$342	\$312	\$300
	Total	\$838	\$750	\$681	\$624	\$600
Annual bonus as a % of maximum opportunity (%) (1)	Michael Cannon-Brookes	N/A	N/A	N/A	N/A	N/A
	Scott Farquhar	N/A	N/A	N/A	N/A	N/A
Long-term incentive awards as a % of maximum opportunity (%) (2)	Michael Cannon-Brookes	N/A	N/A	N/A	N/A	N/A
	Scott Farquhar	N/A	N/A	N/A	N/A	N/A

(1) Messrs. Cannon-Brookes and Farquhar did not receive any annual bonuses during these time periods.

(2) Messrs. Cannon-Brookes and Farquhar did not receive any long-term incentive awards during these time periods.

Percentage change in remuneration

The table below shows the year over year change in the salary, benefits and annual bonus earned between the year ended June 30, 2016 and June 30, 2015 for the Co-CEOs as compared to employees generally.

	Salary	Benefits	Bonus
Co-CEOs	11.7%	N/A	N/A
Group employees	4.04%	9.91%	(23.50)%

Relative importance of spend on pay

The table below shows the total pay for all of the Group's employees compared to other key financial indicators.

	2016	2015	% change
Employee remuneration (000's) (1)	\$161,835	\$113,756	42%
Distributions to shareholders (000's)	\$0	\$0	N/A

(1) As of June 30, 2016 and 2015, we had 1,760 and 1,259 employees, respectively.

Statement of implementation of Remuneration Policy for the year to June 30, 2017

Employee Directors

The employee directors' salaries are currently AUD \$383,000 and retirement benefits of a level required in accordance with Australian requirements (currently at 9.5% of base salary). In line with the Company's normal practices, salaries will be reviewed, but not necessarily changed, in January 2017.

While this Remuneration Policy permits employee directors to participate in annual bonus and long-term incentive arrangements, each employee director has waived his entitlement to an annual bonus in respect of the fiscal year ending June 30, 2017 and neither will be granted any long-term incentive awards during the fiscal year ending June 30, 2017.

Non-Employee Directors

Non-employee director retainers and equity grants will be paid and awarded in accordance with the Non-Employee Directors' Remuneration Policy Table above.

Consideration of Matters Relating to Directors' Remuneration

Compensation and Leadership Development Committee

The members of the Committee during the fiscal year ended June 30, 2016, and their attendance at meetings of the Committee, is set out below:

Member	Attendance
Douglas J. Burgum (Chairman)	8/8
Jay Parikh	7/8
Shona Brown (1)	2/2

(1) Dr. Brown joined the Committee in November 2015.

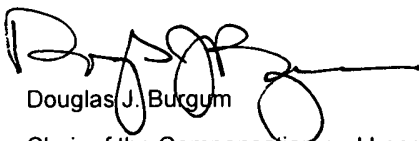
No non-employee directors are involved in deciding their own remuneration.

The Committee is advised by Semler Brossy. Semler Brossy was appointed by the Board in May 2015. Semler Brossy provided advice to keep the Committee up to date on developments in director remuneration. The total fees paid to Semler Brossy in respect of its service to the Committee during the fiscal year ended June 30, 2016 were \$125,461. The Committee considers the advice received from Semler Brossy to be independent, as Semler Brossy provides no other services to the Company.

Statement of voting at general meeting

The Company will report on the votes cast by shareholders on the Remuneration Policy and Annual Report on Remuneration in future annual reports.

The Remuneration Report was approved by the Board on August 26, 2016 and signed on its behalf by Douglas J. Burgum.



Douglas J. Burgum

Chair of the Compensation and Leadership Development Committee

August 26, 2016

Directors' Report

The Directors present the annual report on the affairs of the Group together with the financial statements for the fiscal year ended June 30, 2016. All amounts in this Directors' Report are in U.S. dollars unless noted otherwise.

Basis of Presentation

Group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes all standards issued by the International Accounting Standards Board, as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS, and related interpretations issued by the IFRS Interpretations Committee. Parent financial statements are prepared in accordance with applicable law and United Kingdom Accounting Standards. All amounts are in U.S. dollars unless noted otherwise.

Corporate Structure

The Company is a public company limited by shares, incorporated and registered in the United Kingdom. The registered offices of the Company and other members of the Group incorporated in the United Kingdom are located at Exchange House, Primrose Street, London EC2A 2EG, c/o Herbert Smith Freehills LLP.

The Group's principal offices are located at Level 6, 341 George St., Sydney, NSW, 2000 Australia for Atlassian Pty Ltd and at 1098 Harrison Street, San Francisco, California 94103 for Atlassian, Inc.

The Company is a holding company and the Group conducts substantially all of its business through certain of its subsidiaries, including Atlassian Pty Ltd and Atlassian, Inc.

As of June 30, 2016, the Group's subsidiaries, all of which are wholly-owned, are as follows:

Name	Country of Incorporation
Atlassian (UK) Limited	United Kingdom
Atlassian (Australia) Limited	United Kingdom
Atlassian (Global) Limited	United Kingdom
Atlassian (UK) Operations Limited	United Kingdom
Atlassian, Inc.	United States of America
Atlassian LLC	United States of America
Atlassian Network Services, Inc.	United States of America
Atlassian Australia 1 Pty Ltd	Australia
Atlassian Australia 2 Pty Ltd	Australia
Atlassian Corporation Pty. Ltd.	Australia
Atlassian Pty Ltd	Australia
Atlassian Capital Pty. Ltd.	Australia
MITT Australia Pty Ltd	Australia
MITT Trust	Australia
Atlassian K.K.	Japan
Atlassian Germany GmbH	Germany
Atlassian B.V.	Netherlands
Atlassian Philippines, Inc.	Philippines
Atlassian France	France
SIP Communicator Ltd.	Bulgaria

Future Developments

The principal activities of the Group during the year were the designing, developing, licensing and maintaining of software and the provisioning of software hosting services to help teams organize, discuss and complete their work. There have been no significant changes in the nature of these activities during the year. The Group's products include software for collaboration, planning and project management, content creation and sharing, real-time messaging and communications, code sharing and management and service and support applications. The Group intends to continue operating in these areas in the foreseeable future.

Business Review

The Strategic Report includes the Directors' view on the development of the business, its position at the end of the fiscal year, and future developments, with reference to performance indicators used by the Directors to monitor the business. The key performance indicators discussed are:

- customers; and
- free cash flow

Profits

Net income for the fiscal year ended June 30, 2016 was \$4.4 million.

Dividends

For the fiscal year ended June 30, 2016, the Group did not declare any dividends.

The Directors currently anticipate that the Group will retain future earnings for the development, operation and expansion of its business, and do not anticipate declaring or paying any cash dividends for the foreseeable future.

Research and Development

We remain committed to research and development to maintain our position as a market leader in our industry. In fiscal 2016 and 2015, our research and development expenses were 46% and 44% of our revenue, respectively.

Our investment in research and development is significant relative to other enterprise software companies. We invest significantly in research and development to enable our products to be both powerful and extremely easy to use. The goal is to focus our spending on measures that improve quality, ease of adoption and expansion and create organic customer demand for our products. We also invest in initiatives that automate and streamline distribution and customer support functions to enhance the customer experience and improve efficiency.

We expect that, in the future, research and development expenses will increase as we invest in building the necessary employee and system infrastructure required to enhance existing, and support development of new, technologies and the integration of acquired businesses and technologies.

Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Management regularly reviews the Group's risk management objectives to ensure that risks are identified and managed appropriately. The Directors are made aware of and reviews management's risk assessments prior to entering into significant transactions.

Market Risk

Foreign exchange risk

The Group operates globally and is exposed to foreign exchange risk arising from exposure to various currencies in the ordinary course of business. Our exposures primarily consist of the Australian dollar, British pound, Euro, Japanese yen, Philippine peso and Swiss franc. Foreign exchange risk arises from commercial transactions and recognized financial assets and liabilities denominated in a currency other than the U.S. dollar. The Group's foreign exchange policy is reviewed annually by the Group's audit committee and requires the Group to monitor its foreign exchange exposure on a regular basis.

The Group's sales contracts are denominated in U.S. dollars, and its operating expenses are generally denominated in the local currencies of the countries where the Group's operations are located. We therefore benefit from a strengthening of the U.S. dollar and are adversely affected by the weakening of the U.S. dollar. Most of our expenses are incurred in Australia and the United States. The effect of a hypothetical 10% strengthening of the U.S. dollar against other currencies applicable to our business would have had a positive \$13.0 million impact on our results of operations, before tax, for the fiscal year ended June 30, 2016 and the effect of a hypothetical 10% weakening of the U.S. dollar against other currencies would have had a negative \$13.0 million impact on our result of operations, before tax, for the fiscal year ended June 30, 2016. The Group has not entered into any derivatives or hedging transactions as of June 30, 2016; however, as our exposure to foreign currency exchange rates is significant, we expect to do so beginning in fiscal 2017.

The Group had the following foreign currency exposures resulting from its financial assets and liabilities, which are not externally hedged:

	As of June 30,	
	2016	2015
	(in thousands)	
Cash and cash equivalents		
Australian dollar	\$ 16,652	\$ 5,674
British pound	174	1,081
Euro	2,641	741
Japanese yen	142	240
Philippine peso	412	717
	<u>\$ 20,021</u>	<u>\$ 8,453</u>
Trade receivables		
Australian dollar	\$ 220	\$ —
Current tax receivables		
Australian dollar	\$ 177	\$ 851
British pound	603	—
Euro	—	113
	<u>\$ 780</u>	<u>\$ 964</u>
Other current assets		
Australian dollar	\$ 924	\$ 674
British pound	23	14
Euro	1,048	125
Philippine peso	268	192
	<u>\$ 2,263</u>	<u>\$ 1,005</u>
Other non-current assets		
Australian dollar	\$ 359	\$ 463
Euro	126	—
Japanese yen	92	—
Philippine peso	209	116
Swiss franc	204	229
	<u>\$ 990</u>	<u>\$ 808</u>

	As of June 30,	
	2016	2015
	(in thousands)	
Trade and other payables		
Australian dollar	\$ 10,601	\$ 9,403
Euro	1,189	874
British pound	131	128
Japanese yen	242	131
Philippine peso	322	183
	<u>\$ 12,485</u>	<u>\$ 10,719</u>
Current tax liabilities		
Euro	\$ 71	\$ 37
Japanese yen	101	120
Philippine peso	66	76
	<u>\$ 238</u>	<u>\$ 233</u>
Current provisions		
Australian dollar	\$ 4,288	\$ 3,019
Euro	231	158
Japanese yen	53	33
Philippine peso	20	14
	<u>\$ 4,592</u>	<u>\$ 3,224</u>
Non-current provisions		
Australian dollar	<u>\$ 2,085</u>	<u>\$ 2,058</u>
Other non-current liabilities		
Australian dollar	\$ 932	\$ 936
Euro	818	—
Japanese yen	—	10
Philippine peso	18	36
	<u>\$ 1,768</u>	<u>\$ 982</u>

Based on the exposures listed above, as of June 30, 2016 and 2015, a 10% weakening of the U.S. dollar relative to foreign currencies would positively impact operating results by \$0.1 million and \$0.4 million, respectively, while a 10% strengthening of the U.S. dollar relative to foreign currencies would negatively impact operating results by \$0.1 million and \$0.4 million, respectively.

The above sensitivity analysis is not representative of the actual risk inherent to the Group's financial assets and liabilities, as the exposure at the end of the reporting period does not reflect the exposure during the period.

Interest rate risk

The Group had cash and cash equivalents totalling \$259.7 million and short-term investments totalling \$483.4 million as of June 30, 2016. These primarily consisted of investments in money market funds, time deposits, commercial paper, corporate notes and bonds, government securities and other debt securities with credit ratings of at least A- or better. The primary objective of the Group's investment activities is the preservation of capital, and we do not enter into investments for trading or speculative purposes.

Our cash equivalents and investment portfolio are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our investments at fair value through other comprehensive income, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or an investment is impaired. Our fixed-income portfolio is subject to interest rate risk.

A hypothetical 100 basis point increase in interest rates at June 30, 2016 could result in a \$3.6 million decrease in the market value of our investments. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities

caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group has a minimum credit rating requirement for banks and financial institutions with which it transacts.

The Group's customer base is highly diversified, thereby limiting credit risk. The Group manages its credit risk with customers by closely monitoring its receivables. Sales are typically settled using major credit cards, mitigating credit risk. No one customer accounted for more than 10% of total revenues during each of the fiscal years ended June 30, 2016, 2015 or 2014.

Liquidity Risk

Maturities of financial assets and liabilities

The following tables present the Group's financial assets and liabilities based on their contractual maturities. The amounts disclosed in the tables are the contractual, undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Group evaluated its liquidity risk based on its cash inflows and outflows for the next 12 months and concluded it to be low. The Group had sufficient cash in the short term as of June 30, 2016 to meet its long-term cash outflows and it does not expect the impact of a discounted cash flow analysis to change the conclusion of its risk assessment.

Contractual maturities of current financial assets and liabilities is as follows:

	Up to Three Months	Four to 12 Months	Over 12 Months	Total Contractual Cash Flows
	(in thousands)			
As of June 30, 2016				
Financial assets:				
Cash and cash equivalents	\$ 259,709	\$ —	\$ —	\$ 259,709
Short-term investments	—	359,485	123,920	483,405
Trade receivables	15,233	—	—	15,233
Current tax receivables	—	6,013	—	6,013
Financial liabilities:				
Trade and other payables	(57,886)	—	—	(57,886)
Current tax liabilities	(286)	—	—	(286)
Provisions	(4,716)	—	—	(4,716)
	<u>\$ 212,054</u>	<u>\$ 365,498</u>	<u>\$ 123,920</u>	<u>\$ 701,472</u>
As of June 30, 2015				
Financial assets:				
Cash and cash equivalents	\$ 187,094	\$ —	\$ —	\$ 187,094
Short-term investments	211	30,040	—	30,251
Trade receivables	11,747	—	—	11,747
Current tax receivables	—	939	—	939
Financial liabilities:				
Trade and other payables	(52,636)	—	—	(52,636)
Current tax liabilities	(973)	—	—	(973)
Provisions	—	(3,314)	—	(3,314)
	<u>\$ 145,443</u>	<u>\$ 27,665</u>	<u>\$ —</u>	<u>\$ 173,108</u>

Cash Flow Risk

Since our inception, we have financed our operations primarily through cash flows generated by operations. At June 30, 2016, we had cash and cash equivalents totalling \$259.7 million, short-term investments totalling \$483.4 million and trade receivables totalling \$15.2 million.

Our cash flows from operating activities, investing activities and financing activities for the fiscal years ended June 30, 2016, 2015 and 2014 were as follows:

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(in thousands)		
Net cash provided by operating activities	\$ 129,542	\$ 98,221	\$ 75,280
Net cash used in investing activities	(489,510)	(28,566)	(46,554)
Net cash provided by (used in) financing activities	432,784	2,338	(2,571)
Effect of exchange rate changes on cash and cash equivalents	(201)	(1,665)	445
Net increase in cash and cash equivalents	<u>\$ 72,615</u>	<u>\$ 70,328</u>	<u>\$ 26,600</u>

At June 30, 2016, our cash and cash equivalents and short-term investments were held for working capital purposes. The majority of our cash and cash equivalents was held in cash deposits, money market funds and low-risk, highly liquid investments with original maturities of three months or less. Our short-term investments primarily consist of time deposits, commercial paper, corporate bonds, government securities and other debt securities. While we expect to continue to incur capital expenditures to support the growth in our business and operations, such as new office build-outs, we expect total capital expenditures to decrease in absolute dollars in the fiscal year ending June 30, 2017 as compared with the fiscal year ended June 30, 2016. We believe that our existing cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spend on research and development efforts, employee headcount, marketing and sales activities, acquisitions of additional businesses and technologies, the introduction of new software and services offerings, enhancements to our existing software and services offerings and the continued market acceptance of our products.

Board of Directors

The Board of Directors is comprised of the following individuals:

Employee Directors

Michael Cannon-Brookes

Scott Farquhar

Non-employee Directors

Shona Brown

Douglas J. Burgum

Heather Mirjahangir Fernandez

Jay Parikh

Enrique Salem

Steven Sordello

Richard P. Wong

Qualifying Third-Party Indemnities

The Company has granted an indemnity to all of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006. Such qualifying third-party indemnity provisions were in force throughout the fiscal year and remain in force as at the date of approving the Directors' Report.

Greenhouse Gas (GHG) Emissions

Global GHG emissions data for the period July 1, 2015 to June 30, 2016

Emissions from:	Current Year (Tonnes of CO ₂ -e)	Previous Year*
Combustion of fuel & operation of facilities	124	n/a
Electricity, heat, steam and cooling purchased for own use	1,150	n/a
Total	1,275	
The Company's chosen intensity measurement:		
Emissions reported above normalized per sq. m. (kg CO ₂ -e/m ²)	48.57	n/a

* This is the first year of reporting, no comparison year is provided.

The Company has reported on all of the emission sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within the consolidated financial statements for the Group. The Company does not have responsibility for any emission sources that fall outside of the consolidated financial statements for the Group.

Atlassian has used the 2013 DEFRA Environmental Reporting Guidelines and the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2016 (Scope 1 emissions). We note that the DEFRA factors publication directs companies to use the IEA factors for Scope 2 reporting (overseas electricity). The preliminary 2016 edition of the IEA emission factors focusing on data for OECD countries and regions†, was released ahead of the usual release date of the full edition. As non-OECD factors have not been released, the 2015 DEFRA emission factors have been used as required (this only affects Atlassian Philippines, Inc.).

† Based on IEA data from the *World CO₂ Emissions from Fuel Combustion online data service* © OECD/ IEA 2016, www.iea.org/statistics, Licence: www.iea.org/t&c; as modified by JLL.

Political Contributions

No political donations were made during the fiscal year.

Purchase and charges of own shares

The Group has not acquired any of its own shares during the fiscal year ended June 30, 2016.

Auditors

Ernst & Young LLP, UK was appointed as auditor to the Company following its incorporation and has expressed its willingness to continue in office for the next fiscal year.

Disclosure to Auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Authorization of Financial Statements

The consolidated financial statements for the Group and the financial statements for the Company for the fiscal year ended June 30, 2016 were authorized for issue by the Board of Directors on August 26, 2016. The Statements of Financial Position were signed on behalf of the Board of Directors by Scott Farquhar.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the consolidated financial statements in accordance with applicable United Kingdom law and regulations. The Directors have elected to prepare the consolidated financial statements for the Group in accordance with IFRS as adopted by the International Accounting Standards Board and the financial statements for the Company in accordance with the United Kingdom Generally Accepted Accounting Practices, including Financial Reporting Standard 101, Reduced Disclosure Framework.

The Directors are required to prepare consolidated financial statements for each financial year which present fairly the Group's financial position, financial performance and cash flows for that period. In preparing the consolidated financial statements of the Group, the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standards ("IAS") 8 and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; 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 required to prepare financial statements for each financial year which present fairly the Company's financial position and financial performance for that period. In preparing the financial statements of the Company, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 which are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approval

This Directors' Report was approved by the Directors on August 26, 2016 and signed on its behalf by Scott Farquhar.



Scott Farquhar

Company Director

Atlassian Corporation Plc. Registered in England & Wales with No. 8776021

Registered office: c/o Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ATLISSIAN CORPORATION PLC

We have audited the financial statements of Atlassian Corporation Plc for the year ended June 30, 2016 which comprise of the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company's Statement of Financial Position, the Company's Statement of Comprehensive Loss, the Company's Statement of Changes in Equity and the related notes 1 to 23 for the Group accounts and notes 1 to 8 for the Company accounts. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at June 30, 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

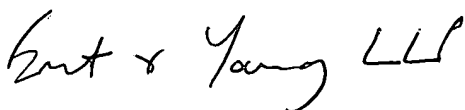
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 parent Company 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.



David Hales
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, UK, Statutory Auditor
Reading
August 25, 2016

Note:

1. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ATLASSIAN CORPORATION PLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. \$ and shares in thousands, except per share data)

		Fiscal Year Ended June 30,	
	Notes	2016	2015
Revenues			
Subscription		\$ 146,659	\$ 85,891
Maintenance		218,848	160,373
Perpetual license		65,487	57,373
Other		26,064	15,884
Total revenues	20	457,058	319,521
Cost of revenues		75,783	52,932
Gross profit		381,275	266,589
Operating expenses			
Research and development		208,306	140,853
Marketing and sales		93,391	67,989
General and administrative		85,458	56,033
Total operating expenses		387,155	264,875
Operating income (loss)		(5,880)	1,714
Other non-operating income (expense), net	6	(1,072)	(2,615)
Finance income		2,116	226
Finance costs		(71)	(74)
Loss before income tax benefit		(4,907)	(749)
Income tax benefit	8	9,280	7,524
Net income		<u>\$ 4,373</u>	<u>\$ 6,775</u>
Net income attributable to:			
Owners of Atlassian Corporation Plc		<u>\$ 4,373</u>	<u>\$ 6,775</u>
Net income per share attributable to ordinary shareholders:			
Basic	17	<u>\$ 0.02</u>	<u>\$ 0.04</u>
Diluted	17	<u>\$ 0.02</u>	<u>\$ 0.04</u>
Weighted-average shares outstanding used to compute net income per share attributable to ordinary shareholders:			
Basic	17	<u>182,773</u>	<u>144,008</u>
Diluted	17	<u>193,481</u>	<u>145,500</u>

The above consolidated statements of operations should be read in conjunction with the accompanying notes.

ATLASSIAN CORPORATION PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(U.S. \$ in thousands)

		Fiscal Year Ended June 30,	
	Notes	2016	2015
Net income		\$ 4,373	\$ 6,775
Other comprehensive income:			
Foreign currency translation adjustment	15	(4)	118
Net change in unrealized gain (loss) on investments classified at fair value through other comprehensive income		687	—
Income tax effect		(137)	—
Other comprehensive income net of tax that will be reclassified to profit or loss in subsequent periods		546	118
Total comprehensive income		<u>\$ 4,919</u>	<u>\$ 6,893</u>
Total comprehensive income attributable to:			
Owners of Atlassian Corporation Plc		<u>\$ 4,919</u>	<u>\$ 6,893</u>

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

ATLASSIAN CORPORATION PLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(U.S. \$ in thousands)

		June 30,	
	Notes	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	13	\$ 259,709	\$ 187,094
Short-term investments	5	483,405	30,251
Trade receivables	9	15,233	11,747
Current tax receivables		6,013	939
Prepaid expenses and other current assets	13	14,178	8,600
Total current assets		<u>778,538</u>	<u>238,631</u>
Non-current assets:			
Property and equipment, net	10	58,762	41,948
Deferred tax assets	8	127,411	81,519
Goodwill	11	7,138	7,152
Intangible assets, net	11	13,577	21,099
Other non-current assets	13	5,547	6,812
Total non-current assets		<u>212,435</u>	<u>158,530</u>
Total assets		<u>\$ 990,973</u>	<u>\$ 397,161</u>
Liabilities			
Current liabilities:			
Trade and other payables	13	\$ 57,886	\$ 52,636
Current tax liabilities		286	973
Provisions	13	4,716	3,314
Deferred revenue		173,612	131,231
Total current liabilities		<u>236,500</u>	<u>188,154</u>
Non-current liabilities:			
Deferred tax liabilities	8	6,639	4,919
Provisions	13	2,170	1,873
Deferred revenue		7,456	5,334
Other non-current liabilities	13	6,545	6,827
Total non-current liabilities		<u>22,810</u>	<u>18,953</u>
Total liabilities		<u>\$ 259,310</u>	<u>\$ 207,107</u>
Equity			
Share capital	14	\$ 21,620	\$ 18,461
Share premium	15	441,734	5,744
Other capital reserves	15	244,335	146,794
Other components of equity	15	4,699	4,153
Retained earnings		19,275	14,902
Total equity		<u>\$ 731,663</u>	<u>\$ 190,054</u>
Total liabilities and equity		<u>\$ 990,973</u>	<u>\$ 397,161</u>

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

On behalf of the Board of Directors


 Scott Farquhar
 Company Director

ATLASSIAN CORPORATION PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(U.S. \$ in thousands)

	Notes	Other components of equity						Total equity
		Share capital	Share premium	Other capital reserves	Foreign currency translation reserve	Investments at fair value through other comprehensive income reserve	Retained earnings	
Balance as of July 1, 2014		\$ 18,190	\$ 2,677	\$ 92,300	\$ 4,035	\$ —	\$ 8,127	\$125,329
Net income		—	—	—	—	—	6,775	6,775
Other comprehensive income		—	—	—	118	—	—	118
Total comprehensive income		—	—	—	118	—	6,775	6,893
Exercise of share options, net of early exercise	14, 15	210	2,128	—	—	—	—	2,338
Vesting of early exercised shares	14, 15	61	939	—	—	—	—	1,000
Share-based payment		—	—	41,534	—	—	—	41,534
Tax benefit from share plans	8	—	—	12,960	—	—	—	12,960
		<u>271</u>	<u>3,067</u>	<u>54,494</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,832</u>
Balance as of June 30, 2015		18,461	5,744	146,794	4,153	—	14,902	190,054
Net income		—	—	—	—	—	4,373	4,373
Other comprehensive income		—	—	—	(4)	550	—	546
Total comprehensive income		—	—	—	(4)	550	4,373	4,919
Issuance of ordinary shares upon initial public offering, net of offering costs	14	2,200	429,273	—	—	—	—	431,473
Exercise of share options	14, 15	633	6,099	—	—	—	—	6,732
Vesting of early exercised shares	14, 15	35	618	—	—	—	—	653
Issuance of ordinary shares for settlement of restricted share units (RSUs)	14	291	—	(291)	—	—	—	—
Shares withheld related to net share settlement of RSUs		—	—	(5,395)	—	—	—	(5,395)
Share-based payment		—	—	75,480	—	—	—	75,480
Tax benefit from share plans	8	—	—	27,747	—	—	—	27,747
		<u>3,159</u>	<u>435,990</u>	<u>97,541</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>536,690</u>
Balance as of June 30, 2016		<u>\$ 21,620</u>	<u>\$ 441,734</u>	<u>\$ 244,335</u>	<u>\$ 4,149</u>	<u>\$ 550</u>	<u>\$ 19,275</u>	<u>\$731,663</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

ATLASSIAN CORPORATION PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. \$ in thousands)

		Fiscal Year Ended June 30,	
	Notes	2016	2015
Operating activities			
Loss before income tax		\$ (4,907)	\$ (749)
Adjustments to reconcile loss before income tax to net cash provided by operating activities:			
Depreciation and amortization	10, 11	21,926	15,511
Net loss on disposal of property and equipment		165	71
Net unrealized foreign currency loss		152	1,473
Share-based payment expense		75,480	41,534
Change in fair value of contingent consideration	5	—	(155)
Interest income		(2,116)	(225)
Changes in assets and liabilities:			
Trade receivables		(3,487)	(7,932)
Prepaid expenses and other assets		(4,203)	(9,846)
Trade and other payables, provisions and other non-current liabilities		11,622	16,067
Deferred revenue		44,503	47,381
Interest received		2,839	156
Income tax paid, net of refunds		(12,432)	(5,065)
Net cash provided by operating activities		129,542	98,221
Investing activities			
Business combinations, net of cash acquired		—	(10,615)
Purchases of property and equipment	10	(34,213)	(31,776)
Purchases of intangible assets	11	—	(900)
Purchases of investments		(569,067)	(50,033)
Proceeds from maturities of investments		65,294	64,758
Proceeds from sales of investments		49,501	—
Payment of deferred consideration		(1,025)	—
Net cash used in investing activities		(489,510)	(28,566)
Financing activities			
Proceeds from issuance of ordinary shares upon initial public offering, net of offering costs		431,447	—
Proceeds from exercise of share options, including early exercised options		6,732	2,338
Employee payroll taxes paid related to net share settlement of equity awards		(5,395)	—
Net cash provided by financing activities		432,784	2,338
Effect of exchange rate changes on cash and cash equivalents		(201)	(1,665)
Net increase in cash and cash equivalents		72,615	70,328
Cash and cash equivalents at beginning of year		187,094	116,766
Cash and cash equivalents at end of year		<u>\$ 259,709</u>	<u>\$ 187,094</u>

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

ATLASSIAN CORPORATION PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Atlassian Corporation Plc (the "Company") is a public company limited by shares, incorporated and registered in the United Kingdom. The registered office of the Company and its subsidiaries (collectively, "Atlassian," the "Group," "our," or "we") is located at Exchange House, Primrose Street, London EC2A 2EG, c/o Herbert Smith Freehills LLP.

We design, develop, license and maintain software and provision software hosting services to help teams organize, discuss and complete their work. Our products include JIRA for team planning and project management, Confluence for team content creation and sharing, HipChat for team messaging and communications, Bitbucket for team code sharing and management and JIRA Service Desk for team services and support applications.

The accompanying consolidated financial statements of the Company and its subsidiaries for the year ended June 30, 2016 were authorized for issue in accordance with a resolution of the audit committee of the Board of Directors on August 17, 2016.

2. Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied to all years presented, unless otherwise stated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying the Group's accounting policies. The areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3, "Critical accounting estimates and judgments."

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes all standards issued by the International Accounting Standards Board ("IASB") and related interpretations issued by the IFRS Interpretations Committee. The consolidated financial statements have been prepared on a going concern and on a historical cost basis, except for financial assets and liabilities that have been measured at fair value through other comprehensive income or profit or loss.

All amounts included in the Consolidated Financial Statements are reported in thousands of U.S. dollars (\$ in thousands) except where otherwise stated. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

The Group operates as a single cash-generating unit ("CGU") and as a single operating segment, which is also its reporting segment. An operating segment is defined as a component of an entity for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision maker. The Group's chief operating decision makers are the Group's Co-Chief Executive Officers, who review operating results to make decisions about allocating resources and assessing performance based on consolidated financial information. Accordingly, the Group has determined it operates in one operating segment.

Reclassifications

Certain reclassifications to prior fiscal year balances were made to conform to the current period presentation in the Consolidated Statements of Financial Position and Statements of Cash Flows. These reclassifications include other receivables and accrued interest on short-term investments.

Contributions to the Atlassian Foundation, our charitable foundation, have been reclassified for previously reported periods to conform to the current period presentation on the consolidated statements of operations. Such contributions, which were previously included in general and administrative operating expense, have been included in other non-operating income (expense), net. This change in classification had no impact on net income or cash flows for any period.

Initial Public Offering

In December 2015, we completed our initial public offering ("IPO") in which we issued and sold 22 million Class A ordinary shares at a public offering price of \$21.00 per share. We received net proceeds of \$431.4 million after deducting underwriting discounts and commissions of \$25.4 million and other offering expenses of approximately \$5.1 million. Upon the closing of our IPO, all then-outstanding Series A preference shares automatically converted into an aggregate of 12.4 million Class A ordinary shares, all then-outstanding restricted shares automatically converted into an aggregate of 17.2 million Class A ordinary shares and all then-outstanding Series B preference shares automatically converted into an aggregate of 15.0 million Class B ordinary shares.

Reorganization

In February 2014, the shareholders of the former parent company, Atlassian Corporation Pty. Ltd. (the "Former Parent Company"), approved a formal business entity reorganization whereby Atlassian Corporation Plc, a United Kingdom public limited company, became the parent of the Group (the "Reorganization"). Immediately subsequent to the Reorganization, shareholders of the Company had the same economic interest in the Company as they had in the Former Parent Company immediately prior to the Reorganization. Similarly, holders of restricted share options and Class B ordinary share options in the Former Parent Company also received a reciprocal option for restricted shares and Class B ordinary share options (as applicable) in the Company.

The Reorganization has been accounted for as a capital reorganization. The consolidated financial statements are therefore presented as if the Company had been the parent company of the Group throughout the periods presented. No reclassifications or adjustments to previously reported figures and no changes in the operations of the Group resulted from this change.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities and the results of operations of all subsidiaries of the Company.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. From the date that control ceases, these entities are no longer consolidated.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized intercompany losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Foreign currency translation

The Group's consolidated financial statements are presented using the U.S. dollar, which is the Company's functional currency. The Group determines the functional currency for each entity in accordance with International Accounting Standards ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*, based on the currency of the primary economic environment in which each subsidiary operates, and items included in the financial statements of such entity are measured using that functional currency. The Group uses the direct method of consolidation, and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at each reporting date.

All differences arising on settlement or translation of monetary items are recorded in other non-operating income (expense) on the consolidated statements of operations, with the exception of monetary items that are designated as part of the Group's net investment in foreign operations. These differences on translation of the foreign operations account are recognized in other comprehensive income until the net investment is disposed.

Certain non-monetary items, such as property and equipment, which are measured at historical cost in a foreign currency, are translated using the exchange rates as of the dates of the initial transactions. Certain non-monetary items initially measured at fair value in a foreign currency, such as intangible assets, are translated using the exchange rates as of the date when the fair value is determined.

Group companies

On consolidation, assets and liabilities of foreign operations are translated into U.S. dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at average exchange rates. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at each reporting date.

Revenue recognition

The Group primarily derives revenues from subscription, maintenance, perpetual license, and training and other services.

Revenue is recognized in line with the requirements as stated in IAS 18, *Revenue*, when evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue and associated costs can be measured reliably, and collection of the related receivable is probable. In the absence of industry-specific software revenue recognition guidance under IFRS, the Group refers to generally accepted accounting principles adopted in the United States ("U.S. GAAP") when establishing policies related to revenue recognition. The Group's revenue recognition policy considers the guidance provided by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 985-605, *Software Revenue Recognition*, and FASB ASC Subtopic 605-25, *Multiple-Element Arrangements*, where applicable, as authorized by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

If, at the outset of an arrangement, revenue cannot be measured reliably, revenue recognition is deferred until the arrangement fee becomes due and payable by the customer. Additionally, if, at the outset of an arrangement, it is determined that collectability is not probable, revenue recognition is deferred until the earlier of when collectability becomes probable or payment is received. The Group enters into arrangements directly with end users as well as indirectly through value added resellers (e.g., "Experts"). Revenue recognition for indirect customers is the same as for direct customers as the terms of sale are substantially the same.

Subscription revenue

Subscription revenue represents fees earned from subscription-based arrangements for: (1) cloud-based services for providing customers the right to use software in a cloud-based-infrastructure provided by the Group, where the customer does not have the right to terminate the hosting contract and take possession of the software without significant penalty; and (2) software licensed for a specified period, in which fees for support and maintenance are bundled with the license fee over the entire term of the license period. Subscription-based arrangements generally have a contractual term of one to twelve months. Subscription revenue is recognized ratably as the services are performed, commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied.

Maintenance revenue

Maintenance revenue represents fees earned from providing customers unspecified future updates, upgrades and enhancements and technical product support for perpetual license products on an if and when available basis. The first year of maintenance is purchased concurrently with the purchase of perpetual licenses, and subsequent renewals extend for an additional year in most cases. Maintenance services are priced as a percentage of the total product sale, and a substantial majority of customers elect to renew software support contracts annually at standard list maintenance renewal pricing. Maintenance revenue is recognized ratably over the term of the support period. For these arrangements, revenue is recognized ratably over the term of the maintenance arrangements.

Perpetual license revenue

Perpetual license revenue represents fees earned from the license of software to customers for use on the customer's premises. Software is licensed on a perpetual basis, subject to a standard licensing agreement. The Group recognizes revenue on the license portion of perpetual license arrangements on the date of product delivery in substantially all situations.

Other revenue

Other revenues include fees received for sales of third-party add-ons and extensions in the Group's online marketplace, Atlassian Marketplace, and for training services. Revenue from the sale of third-party vendor products via Atlassian Marketplace is recognized net of the vendor liability portion as the Group functions as an agent in the relationship. The Group's revenue portion is recognized on the date of product delivery given that the Group has no future obligations. Revenue from training is recognized as delivered or as the rights to receive training expire.

Multiple-element arrangements

Many of the Group's arrangements include purchases of both software related products and services. For these software related multiple-element arrangements, the Group applies the residual method to determine the amount of software license revenue to be recognized. The Group first allocates fair value to elements of a software related multiple-element arrangement based on its fair value as determined by vendor specific objective evidence ("VSOE"), with any remaining amount allocated to the software license. The Group determines VSOE based on its historical pricing for a specific product or service when sold separately and when a substantial majority of the selling prices for these services fall within a narrow range.

Cloud-based arrangements may be purchased alongside other services that are intended to be used with the cloud offering. Such arrangements are considered to be non-software multiple-element arrangements. The Group accordingly allocates revenue to each element considered to be a separate unit of accounting using the relative selling prices of each unit.

The relative selling price for each element is based upon the following selling price hierarchy: VSOE if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price if neither VSOE nor TPE are available. Historically, the Group has established VSOE for all non-software elements using the same methodology applied to software-related elements, as a substantial majority of the selling prices for these elements fall within a narrow range when sold separately.

If the Group enters into an arrangement with both software and non-software deliverables, the Group will first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole and the non-software elements. The Group then further allocates consideration within the software group in accordance with the residual method described above.

The revenue amount allocated to each element is recognized when the revenue recognition criteria described above have been met for the respective element.

Taxation

Current tax

Current income tax assets and/or liabilities comprise amounts expected to be recovered or paid to HM Revenue & Customs, the Australian Taxation Office, the United States Internal Revenue Service and other fiscal authorities relating to the current or prior reporting periods, which are unpaid at each reporting date. Current tax is payable on taxable income that differs from the consolidated statements of operations in the financial statements due to permanent and temporary timing differences. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

The Group uses the liability method of accounting for income taxes. Deferred income tax assets and liabilities represent temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their corresponding tax basis used in the computation of taxable income. Deferred tax however is not recognized on the initial recognition of goodwill, or the initial recognition of an asset or liability (other than in a business combination) in a transaction that affects neither tax nor accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are generally provided for in full.

Deferred tax assets are recognized to the extent that they are expected to reverse in the foreseeable future and it is probable that they will be able to be utilized against future taxable income, based on the Group's forecast of future operating results. Deferred tax assets are adjusted for significant non-taxable income, expenses and specific limits on the use of any unused tax loss or credit. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates and laws that are expected to apply to their respective period of realization, provided the tax rates and laws are enacted or substantively enacted by the end of the reporting period. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in the consolidated statements of operations, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively. Where deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Share-based payments

Employees of the Group receive, in part, remuneration for services rendered in the form of share-based payments, which are considered equity-settled transactions. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The share-based payment expense for each reporting period reflects the movement in cumulative expense recognized at the beginning and end of that period. The Group follows the accelerated method of expense recognition for share-based awards, as the awards vest in tranches over the vesting period.

The estimation of share awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from current estimates, such amounts will be recorded as a cumulative adjustment in the period the estimates are revised. Actual results, and future changes in estimates, may differ substantially from current estimates.

If an equity-settled award is cancelled, it is treated as if it had forfeited on the date of cancellation, and any expense previously recognized for unvested shares is immediately reversed.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Expenses incurred in operating leases (net of any incentives received from the lessor) are recognized on a straight-line basis over the term of the lease. Operating lease incentives are recognized as a liability when received and subsequently reduced by allocating lease payments between rental expense and a reduction of the liability.

Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. Settlements of pre-existing relationships are not included in the consideration transferred and are recognized in the consolidated statements of operations. Identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. Upon acquisition, the Group recognizes any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange.

Goodwill

Goodwill is initially measured at cost, which is the excess of the aggregate of the consideration transferred and the amount recognized for the non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net of these assets acquired and liabilities assumed, the difference is recognized in the consolidated statements of operations. After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's CGU that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at banks, short-term deposits and low-risk, highly liquid investments with original maturities of three months or less when initially recorded. Cash equivalents also include amounts due from third-party credit card processors as they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction.

Trade receivables

Trade receivables are recognized at fair value, less a provision for impairment. Trade receivables are unsecured and substantially all are due for settlement within 30 days of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance for doubtful accounts (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the impairment loss is recognized within general and administrative expense. When a trade receivable for which an impairment allowance had been recognized becomes uncollectible in a subsequent period, it is written off against an allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the consolidated statements of operations.

Investments

Classification

The Group classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition with the classification dependent on the business model for managing the financial assets and the contractual cash flow characteristics of the assets. Management evaluates the business model for managing its financial assets at the end of each reporting period.

Recognition and derecognition

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, for financial assets not at fair value through profit or loss, the Group measures the assets at its purchase price plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statements of operations.

Subsequently, financial assets are carried at fair value or amortized cost less impairment. Financial assets classified at amortized cost are measured using the effective interest method.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified at fair value through profit or loss, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the investment is impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortized cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognized in the consolidated statement of operations.

If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent event, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of operations.

Fair value estimation

The fair value of financial assets and financial liabilities are estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices as of the statement of financial position date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing as of the statement of financial position date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value, less the impairment provision of trade receivables and payables, is assumed to approximate the fair value due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Historical cost includes expenditures directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are expensed as incurred.

Depreciation is calculated using the straight-line method to allocate the cost over the estimated useful lives or, in the case of leasehold improvements and certain leased equipment, the remaining lease term if shorter. The estimated useful lives for each asset class are as follows:

Equipment	3 - 5 years
Computer hardware and computer-related software	3 - 5 years
Furniture and fittings	5 - 10 years
Leasehold improvements	Shorter of the remaining lease term or 7 years

Research and development

Research and development includes the employee and hardware costs incurred for the development of new products, enhancements and updates of existing products and quality assurance activities. These costs incurred internally from development of computer software are capitalized only when technological feasibility has been established for the solution. To establish technological feasibility, the Group must demonstrate it intends to complete development and the solution will be available for sale or internal use, it is probable the solution will generate future economic benefits, and the Group has the ability to reliably measure the expenditure attributable to the solution during its development. The Group has determined that technological feasibility of software solutions is reached shortly before the solution is released or deployed. The Company has not capitalized any research and development costs.

Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost, net of accumulated amortization.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful life using the straight-line method. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each fiscal year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortization period or method, as appropriate, which is a change in an accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of operations in the expense category, consistent with the function of the intangible asset.

The estimated useful lives for each intangible asset class are as follows:

Patents, trademarks and other rights	2 - 7 years
Customer relationships	2 - 4 years
Software	3 - 10 years

Impairment of goodwill, intangible assets and long-lived assets

Goodwill is tested for impairment annually during the fourth quarter of the Group's fiscal year and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets are tested for impairment annually, during the fourth quarter, and when circumstances indicate that the carrying value may be impaired. When the recoverable amount of an intangible asset is less than its carrying amount, an impairment loss is recognized.

The residual values and useful lives of long-lived assets are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In assessing value in use, the estimated

future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Provisions and accrued liabilities

Provisions and accrued expenses are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs.

Shareholders' equity

Preference, ordinary and restricted shares are classified as equity. When the Group purchases its own equity instruments, for example as the result of a share buyback or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company as treasury shares, until the shares are cancelled or reissued. When such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

Refer to Note 14, "Shareholders' Equity," for the terms and conditions on preference, ordinary and restricted shares.

Dividends

Provision is made for any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Royalties

Royalties payable are recognized as an expense on an accruals basis in accordance with the applicable royalty agreement.

New accounting standards not yet adopted

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The standard applies to the classification and measurement of financial assets and financial liabilities and will be effective for the Group beginning in the fiscal year ending June 30, 2019. The Group is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which supersedes most current revenue recognition requirements. The standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration to be entitled to in exchange for those goods or services. The standard also requires new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for the Group beginning for its fiscal year ending June 30, 2019, and early application is permitted under IFRS. The Group is currently assessing the adoption methodology, which allows the amendment to be applied retrospectively to each prior period presented, or with the cumulative effect recognized as of the date of initial application. The Group is also currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In January 2016, the IASB issued the IFRS 16, *Leases*, which supersedes the existing leases standard, IAS 17, *Leases*, and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize all leases with a term of more than 12 months, as assets and liabilities on its statement of financial position. The standard also contains enhanced disclosure requirements for lessees and is effective for the

Group beginning for its fiscal year ending June 30, 2020, though early adoption is permitted for companies that early adopt IFRS 15. The Group is currently evaluating the impact of adopting the standard on its consolidated financial statements.

3. Critical Accounting Estimates and Judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial results or the financial position reported in future periods.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made.

Significant accounting judgments

Taxation

Deferred tax assets are recognized for deductible temporary differences for which management considers it is probable that future taxable income will be available to utilize those temporary differences. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income, together with future tax-planning strategies.

Management judgment is required to determine the extent to which deferred tax assets should be recognized based upon the likely timing and the level of future taxable income available to utilize the Group's deferred tax benefits. Assumptions about the generation of future taxable income depend on management's estimates of future cash flows, future business expectations, capital expenditure, dividends, and other capital management transactions.

Management judgment is also required in relation to the application of income tax legislation, which involves an element of inherent risk and uncertainty. Where management judgment is found to be misplaced, some or all of recognized deferred tax asset and liability carrying amounts may require adjustment, resulting in a corresponding credit or charge to the consolidated statements of operations.

Impairment of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments, and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. No indicators of impairment existed that were significant enough to warrant such assets to be tested for impairment in the fiscal years ended June 30, 2016, 2015 and 2014.

Significant accounting estimates and assumptions

Revenue

As described in the Group's revenue accounting policy, revenue will be recognized when all criteria are met in accordance with IAS 18, *Revenue*. Most of the Group's revenue-generating arrangements include more than one deliverable. Assumptions have to be applied in order to determine when to account for deliverables separately and how to allocate the total arrangement fee to its individual elements. The Group does not allocate different deliverables under one arrangement separately if a basis for allocating the overall arrangement fee cannot be identified. The Group has concluded that a reasonable allocation basis exists if vendor-specific objective evidence of fair value can be established for each undelivered software element in an arrangement. However, estimation is required and the Group's conclusions around the approach to allocate fair value may significantly impact the timing and amount of revenue recognized.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to

equity-settled share-based payments may impact expenses, equity and the carrying amounts of liabilities within the next financial reporting period.

4. Group Information

As of June 30, 2016, the Group's subsidiaries, all of which are wholly-owned, were as follows:

Name	Country of Incorporation
Atlassian (UK) Limited	United Kingdom
Atlassian (Australia) Limited	United Kingdom
Atlassian (Global) Limited	United Kingdom
Atlassian (UK) Operations Limited	United Kingdom
Atlassian, Inc.	United States of America
Atlassian LLC	United States of America
Atlassian Network Services, Inc.	United States of America
Atlassian Australia 1 Pty Ltd	Australia
Atlassian Australia 2 Pty Ltd	Australia
Atlassian Corporation Pty. Ltd.	Australia
Atlassian Pty Ltd	Australia
Atlassian Capital Pty. Ltd.	Australia
MITT Australia Pty Ltd	Australia
MITT Trust	Australia
Atlassian K.K.	Japan
Atlassian Germany GmbH	Germany
Atlassian B.V.	Netherlands
Atlassian Philippines, Inc.	Philippines
Atlassian France	France
SIP Communicator Ltd.	Bulgaria

Subsidiaries exempt from audit

The following United Kingdom subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended June 30, 2016:

Name	Registration number
Atlassian (UK) Limited	8777838
Atlassian (Australia) Limited	8779888
Atlassian (Global) Limited	8781674
Atlassian (UK) Operations Limited	8855064

5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Management regularly reviews the Group's risk management objectives to ensure that risks are identified and managed appropriately. The Board of Directors is made aware of and reviews management's risk assessments prior to entering into significant transactions.

Market risk

Foreign exchange risk

The Group operates globally and is exposed to foreign exchange risk arising from exposure to various currencies in the ordinary course of business. Our exposures primarily consist of the Australian dollar, British pound, Euro, Japanese yen, Philippine peso and Swiss franc. Foreign exchange risk arises from commercial transactions and recognized financial assets and liabilities denominated in a currency other than the U.S. dollar. The Group's foreign exchange policy is reviewed annually by the Group's audit committee and requires the Group to monitor its foreign exchange exposure on a regular basis.

All of our sales contracts are denominated in U.S. dollars, and our operating expenses are generally denominated in the local currencies of the countries where our operations are located. We therefore benefit from a strengthening of the U.S. dollar and are adversely affected by the weakening of the U.S. dollar. We had not entered into any derivatives or hedging transactions as of June 30, 2016; however, as our exposure to foreign currency exchange rates is significant, we expect to do so beginning in fiscal 2017.

The Group had the following foreign currency exposures resulting from its financial assets and liabilities, which are not externally hedged:

	As of June 30,	
	2016	2015
	(in thousands)	
Cash and cash equivalents		
Australian dollar	\$ 16,652	\$ 5,674
British pound	174	1,081
Euro	2,641	741
Japanese yen	142	240
Philippine peso	412	717
	<u>\$ 20,021</u>	<u>\$ 8,453</u>
Trade receivables		
Australian dollar	<u>\$ 220</u>	<u>\$ —</u>
Current tax receivables		
Australian dollar	\$ 177	\$ 851
British pound	603	—
Euro	—	113
	<u>\$ 780</u>	<u>\$ 964</u>
Other current assets		
Australian dollar	\$ 924	\$ 674
British pound	23	14
Euro	1,048	125
Philippine peso	268	192
	<u>\$ 2,263</u>	<u>\$ 1,005</u>
Other non-current assets		
Australian dollar	\$ 359	\$ 463
Euro	126	—
Japanese yen	92	—
Philippine peso	209	116
Swiss franc	204	229
	<u>\$ 990</u>	<u>\$ 808</u>

	As of June 30,	
	2016	2015
	(in thousands)	
Trade and other payables		
Australian dollar	\$ 10,601	\$ 9,403
Euro	1,189	874
British pound	131	128
Japanese yen	242	131
Philippine peso	322	183
	<u>\$ 12,485</u>	<u>\$ 10,719</u>
Current tax liabilities		
Euro	\$ 71	\$ 37
Japanese yen	101	120
Philippine peso	66	76
	<u>\$ 238</u>	<u>\$ 233</u>
Current provisions		
Australian dollar	\$ 4,288	\$ 3,019
Euro	231	158
Japanese yen	53	33
Philippine peso	20	14
	<u>\$ 4,592</u>	<u>\$ 3,224</u>
Non-current provisions		
Australian dollar	<u>\$ 2,085</u>	<u>\$ 2,058</u>
Other non-current liabilities		
Australian dollar	\$ 932	\$ 936
Euro	818	—
Japanese yen	—	10
Philippine peso	18	36
	<u>\$ 1,768</u>	<u>\$ 982</u>

Based on the exposures listed above, as of June 30, 2016 and 2015, a 10% weakening of the U.S. dollar relative to foreign currencies would positively impact operating results by \$0.1 million and \$0.4 million, respectively, while a 10% strengthening of the U.S. dollar relative to foreign currencies would negatively impact operating results by \$0.1 million and \$0.4 million, respectively.

The above sensitivity analysis is not representative of the actual risk inherent to the Group's financial assets and liabilities, as the exposure at the end of the reporting period does not reflect the exposure during the period.

Interest rate risk

The Group had cash and cash equivalents totaling \$259.7 million and short-term investments totaling \$483.4 million as of June 30, 2016. These primarily consisted of investments in money market funds, time deposits, commercial paper, corporate notes and bonds, government securities and other debt securities with credit ratings of at least A- or better. The primary objective of our investment activities is the preservation of capital, and we do not enter into investments for trading or speculative purposes.

Our cash equivalents and investment portfolio are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our investments at fair value through other comprehensive income, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Our fixed-income portfolio is subject to interest rate risk.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group has a minimum credit rating requirement for banks and financial institutions with which it transacts.

The Group's customer base is highly diversified, thereby limiting credit risk. The Group manages its credit risk with customers by closely monitoring its receivables. Sales are typically settled using major credit cards, mitigating credit risk. No one customer accounted for more than 10% of total revenues during each of the fiscal years ended June 30, 2016, 2015 or 2014.

Liquidity risk

Maturities of Financial Assets and Liabilities

The following tables present the Group's financial assets and liabilities based on their contractual maturities. The amounts disclosed in the tables are the contractual, undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Group evaluated its liquidity risk based on its cash inflows and outflows for the next 12 months and concluded it to be low. The Group had sufficient cash in the short term as of June 30, 2016 to meet its long-term cash outflows and it does not expect the impact of a discounted cash flow analysis to change the conclusion of its risk assessment. The Group's long-term commitments representing its undiscounted future cash outflows are disclosed in Note 18, "Commitments."

Contractual maturities of current financial assets and liabilities is as follows:

	Up to Three Months	Four to 12 Months	Over 12 Months	Total Contractual Cash Flows
	(in thousands)			
As of June 30, 2016				
Financial assets:				
Cash and cash equivalents	\$ 259,709	\$ —	\$ —	\$ 259,709
Short-term investments	—	359,485	123,920	483,405
Trade receivables	15,233	—	—	15,233
Current tax receivables	—	6,013	—	6,013
Financial liabilities:				
Trade and other payables	(57,886)	—	—	(57,886)
Current tax liabilities	(286)	—	—	(286)
Provisions	(4,716)	—	—	(4,716)
	<u>\$ 212,054</u>	<u>\$ 365,498</u>	<u>\$ 123,920</u>	<u>\$ 701,472</u>
As of June 30, 2015				
Financial assets:				
Cash and cash equivalents	\$ 187,094	\$ —	\$ —	\$ 187,094
Short-term investments	211	30,040	—	30,251
Trade receivables	11,747	—	—	11,747
Current tax receivables	—	939	—	939
Financial liabilities:				
Trade and other payables	(52,636)	—	—	(52,636)
Current tax liabilities	(973)	—	—	(973)
Provisions	—	(3,314)	—	(3,314)
	<u>\$ 145,443</u>	<u>\$ 27,665</u>	<u>\$ —</u>	<u>\$ 173,108</u>

Capital Risk Management

The primary objective of the Group's capital structure management is to ensure that it maintains appropriate capital ratios to support its business and maximize shareholder value.

The Group manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or consider external lending options. No material changes were made to the process of managing capital during the fiscal years ended June 30, 2016 and 2015.

Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

IFRS 13, *Fair value measurement*, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2)
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The fair value of financial instruments traded in active markets is included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This fair value was based on significant inputs not observed in the market and, thus, represents all Level 3 inputs. The significant unobservable inputs include management's evaluation of the probabilities of certain outcomes as well as management's forecasts used as inputs to the discounted cash flow model.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Group's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and considers factors specific to the asset or liability.

The following table presents the Group's financial assets and liabilities measured and recognized at fair value as of June 30, 2016, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description				
Cash and cash equivalents:				
Money market funds	\$ 124,760	\$ —	\$ —	\$ 124,760
Agency securities	—	8,998	—	8,998
Commercial paper	—	5,998	—	5,998
Total cash and cash equivalents	<u>\$ 124,760</u>	<u>\$ 14,996</u>	<u>\$ —</u>	<u>\$ 139,756</u>
Investments:				
U.S. treasury securities	—	102,922	—	\$ 102,922
Agency securities	—	47,548	—	47,548
Certificates of deposit and time deposits	—	42,484	—	42,484
Commercial paper	—	37,881	—	37,881
Corporate debt securities	—	250,854	—	250,854
Municipal securities	—	1,902	—	1,902
International government securities	—	3,997	—	3,997
Total investments	<u>\$ —</u>	<u>\$ 487,588</u>	<u>\$ —</u>	<u>\$ 487,588</u>
Total assets	<u>\$ 124,760</u>	<u>\$ 502,584</u>	<u>\$ —</u>	<u>\$ 627,344</u>

As of June 30, 2016, the Group had \$483.4 million of investments with an original maturity date of less than 24 months, which were classified as short-term investments on the Group's statement of financial position. Additionally, the Group had certificates of deposit and time deposits totaling \$4.2 million which were classified as long-term and were included in other non-current assets on the Group's statement of financial position.

The Group had no financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015. The Group's financial assets include cash and cash equivalents, trade receivables, tax receivables, and short-term and long-term deposits with fixed interest rates.

As of June 30, 2016, the Group's short-term investments were classified as debt instruments at fair value through other comprehensive income. As of June 30, 2015, the Group's short-term investments were exclusively comprised of time deposits that matured within one year. Those investments were classified as debt instruments at amortized cost.

As of June 30, 2016, the Group's investments consisted of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Investments				
U.S. treasury securities	\$ 102,740	\$ 183	\$ (1)	\$ 102,922
U.S. agency securities	47,511	37	—	47,548
Certificates of deposit and time deposits	42,614	—	(130)	42,484
Commercial paper	37,881	—	—	37,881
Corporate debt securities	250,388	519	(53)	250,854
Municipal securities	1,900	2	—	1,902
International government securities	3,998	—	(1)	3,997
Total investments	<u>\$ 487,032</u>	<u>\$ 741</u>	<u>\$ (185)</u>	<u>\$ 487,588</u>

As of June 30, 2016, the Group's unrealized losses on its certificates of deposit and time deposits included an unrealized loss due to changes in foreign currency exchange rates totaling approximately \$0.1 million.

The table below summarizes the Group's investments by remaining contractual maturity based on the effective maturity date:

	As of June 30,	
	2016	2015
	(in thousands)	
Recorded as follows:		
Due in one year or less	\$ 364,575	\$ 34,651
Due after one year	123,013	344
Total investments	<u>\$ 487,588</u>	<u>\$ 34,995</u>

6. Other Non-operating Income (Expense), Net

Other non-operating income (expense), net consisted of the following:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Foreign currency exchange gain (loss), net	\$ 376	\$ (1,328)
Contributions to Atlassian Foundation	(1,463)	(1,297)
Other income	15	10
	<u>\$ (1,072)</u>	<u>\$ (2,615)</u>

7. Expenses

Loss before income tax benefit included the following expenses:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Depreciation:		
Equipment	\$ 762	\$ 518
Computer hardware and software	9,537	5,428
Furniture and fittings	720	308
Leasehold improvements	3,416	2,800
Total depreciation	14,435	9,054
Amortization:		
Patents and trademarks	31	31
Customer relationships	55	9
Software	7,405	6,417
Total amortization	7,491	6,457
Total depreciation and amortization	\$ 21,926	\$ 15,511
Employee benefits expense:		
Salaries and wages	\$ 149,506	\$ 102,220
Variable compensation	14,260	13,435
Payroll taxes	14,250	7,977
Share-based payment expense	75,480	41,534
Defined contribution plan expense	10,105	6,964
Contractor expense	18,352	21,884
Other	31,946	19,443
Total employee benefits expense	\$ 313,899	\$ 213,457

The average number of full-time equivalents during the year was made up as follows:

	Fiscal Year Ended June 30,	
	2016	2015
Cost of revenues	174	211
Research and development	892	652
Marketing and sales	240	167
General and administration	279	205
	1,585	1,235

Share-based payment expense has been allocated as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Cost of revenues	\$ 5,371	\$ 2,862
Research and development	35,735	22,842
Marketing and sales	11,945	6,670
General and administration	22,429	9,160
	\$ 75,480	\$ 41,534

Amortization of intangible assets has been allocated as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Cost of revenues	\$ 7,405	\$ 6,417
Marketing and sales	86	40
	<u>\$ 7,491</u>	<u>\$ 6,457</u>

8. Income Tax

The major components of income tax benefit for the fiscal years ended June 30, 2016 and 2015 are as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Current income tax:		
Current income tax charge	\$ (6,481)	\$ (12,252)
Adjustments in respect of current income tax of previous years	987	236
Deferred tax:		
Benefit relating to origination and reversal of temporary differences	14,536	19,336
Adjustments in respect of temporary differences of previous years	238	204
Income tax benefit	<u>\$ 9,280</u>	<u>\$ 7,524</u>

A reconciliation between income tax benefit and the product of accounting income multiplied by the United Kingdom's domestic tax rate for the fiscal years ended June 30, 2016, 2015 and 2014, is as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Loss before tax benefit	\$ (4,907)	\$ (749)
At the United Kingdom's statutory income tax rate of 20.0% and 20.8% in fiscal 2016 and 2015, respectively	\$ 981	\$ 155
Tax effect of amounts that are not taxable (deductible) in calculating taxable income:		
Research and development deduction	10,336	5,765
Share-based payment	(9,039)	(5,124)
Foreign tax credits not utilized	(4,011)	(4,337)
Amortization of intangible assets that do not give rise to deferred taxes	(1,321)	(1,417)
Non-deductible retention on acquisition	(405)	(123)
Non-deductible finance costs	—	(655)
Non-assessable non-operating items	7,995	9,808
Foreign tax rate adjustment	3,765	3,151
Adjustment to deferred tax balance	—	605
Other items, net	(228)	(540)
	8,073	7,288
Adjustments in respect to current income tax of previous years	1,207	236
Income tax benefit	<u>\$ 9,280</u>	<u>\$ 7,524</u>

Deferred tax

	Consolidated Statements of Financial Position		Consolidated Statements of Operations	
	As of June 30,		Fiscal Year Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Depreciation and amortization for tax purposes	\$ 2,791	\$ 3,290	\$ (498)	\$ 146
Provisions, accruals and prepayments	4,832	7,177	(2,279)	4,453
Deferred revenue	4,973	—	4,973	—
Unrealized foreign currency exchange losses (gains)	(119)	(45)	(140)	156
Carried forward tax losses—equity	—	—	—	(4,975)
Carried forward tax losses—business combinations	1,140	1,281	(141)	(24)
Carried forward tax credits—credited to profit and loss	33,867	16,922	16,945	11,650
Carried forward tax credits—credited to payable	—	—	—	(349)
Carried forward tax offset	—	185	—	—
Intangible assets acquired through business combinations	(928)	(1,224)	296	41
Tax benefit from share plans—income	17,818	10,921	6,896	8,442
Tax benefit from share plans—equity	55,549	37,339	(11,512)	—
Other, net	849	754	234	—
Deferred tax benefit			<u>\$ 14,774</u>	<u>\$ 19,540</u>
Deferred tax assets, net	<u>\$ 120,772</u>	<u>\$ 76,600</u>		
Reflected in the consolidated statements of financial position as follows:				
Deferred tax assets	\$ 127,411	\$ 81,519		
Deferred tax liabilities	(6,639)	(4,919)		
Deferred tax assets, net	<u>\$ 120,772</u>	<u>\$ 76,600</u>		
Amounts recognized directly in equity:				
Net deferred tax—credited directly to equity	\$ 29,584	\$ 12,960		
	<u>\$ 29,584</u>	<u>\$ 12,960</u>		
Items for which no deferred tax asset has recognized:				
Unused tax losses for which no deferred tax asset has been recognized	\$ 3,539	\$ 691		
Capital loss	1,292	1,292		
Research and development credits	2,556	1,833		
	<u>\$ 7,387</u>	<u>\$ 3,816</u>		
			2016	2015
			(in thousands)	
Reconciliation of deferred tax assets, net				
Balance as of July 1,			\$ 76,600	\$ 45,286
Deferred tax charge for the year			14,774	19,540
Credited to equity			29,584	12,960
Adjustment in respect of income tax payable			(186)	(1,177)
Carryforward tax offset			—	185
Impact from business combinations			—	(194)
Balance as of June 30,			<u>\$ 120,772</u>	<u>\$ 76,600</u>

The \$29.6 million and \$13.0 million credited to equity in fiscal 2016 and 2015, respectively, represents the deferred tax benefit of share-based payments in excess of the cumulative expense recognized to date of the share-based award. The total deferred tax benefit is determined using the intrinsic value of the share-based award as of each reporting date.

The Group has tax losses for carry forward available for offsetting against future taxable profits of \$5.2 million, which will begin to expire in the fiscal year ending June 30, 2034. Additionally, the Group has tax losses for carry forward available for offsetting against future taxable profits of \$1.6 million, which can be carried forward indefinitely.

The Group has carryforward research and development credits ("R&D credits") of \$31.2 million in Australia and \$4.0 million in the United States, which can be carried forward indefinitely. Of these credits, the Group has not recognized a deferred tax asset on its statement of financial position for the \$4.0 million of R&D credits in the United States. The Group also has carryforward R&D credits in the United States of \$3.8 million and \$0.9 million, which will begin to expire in the fiscal years ending June 30, 2036 and June 30, 2017, respectively. Of these credits, the Group has not recognized a deferred tax asset on its statement of financial position for the \$0.9 million of R&D credits that expire in June 30, 2017.

The Group has not recognized deferred tax assets of \$1.3 million for a capital loss carryforward, which can be carried forward indefinitely.

9. Trade Receivables

The Group's trade receivables consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Trade receivables	\$ 15,233	\$ 11,854
Provision for impairment of receivables	—	(107)
	<u>\$ 15,233</u>	<u>\$ 11,747</u>

As of June 30, 2016, two customers individually accounted for more than 10% of the total trade receivables balance. These customers, both of which are channel partners, each represented 11% and 10% of total trade receivables as of June 30, 2016. As of June 30, 2015, one customer individually accounted for more than 10% of the total trade receivables balance. This customer, a channel partner, represented 11% of total trade receivables as of June 30, 2015.

Impaired trade receivables

As of June 30, 2016 and June 30, 2015, the Group had a provision for impaired receivables of \$0 and \$107,000, respectively. The aging of these receivables is as follows:

	As of June 30,	
	2016	2015
	(in thousands)	
Three to six months	\$ —	\$ 105
Over six months	—	2
	<u>\$ —</u>	<u>\$ 107</u>

The movements in the provision for impairment of receivables were as follows:

	(in thousands)
As of July 1, 2014	\$ 4
Charge for the year	107
Unused amount reversed	(4)
As of June 30, 2015	\$ 107
Charge for the period	—
Unused amount reversed	(107)
As of June 30, 2016	\$ —

Past due but not impaired

As of June 30, 2016 and June 30, 2015, trade receivables that were past due but not impaired totaled \$3.5 million and \$2.3 million, respectively. These relate to a number of partners and customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	As of June 30,	
	2016	2015
	(in thousands)	
Up to three months	\$ 3,383	\$ 1,750
Three to six months	103	540
	\$ 3,486	\$ 2,290

Foreign exchange and interest rate risk

See Note 5, "Financial risk management," for information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade receivables.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant, as is the fair value of any collateral sold or repledged. Refer to Note 5, "Financial risk management," for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

10. Property and Equipment

Property and equipment, net consisted of the following:

	Equipment	Computer Hardware and Software	Furniture and Fittings (in thousands)	Leasehold Improvements	Total
As of June 30, 2015					
Opening cost balance	\$ 1,312	\$ 16,370	\$ 1,171	\$ 9,247	\$ 28,100
Additions	1,233	21,507	2,591	9,731	35,062
Disposals	(47)	(1,392)	(145)	(519)	(2,103)
Effect of change in exchange rates	(16)	(23)	(32)	(9)	(80)
Closing cost balance	<u>2,482</u>	<u>36,462</u>	<u>3,585</u>	<u>18,450</u>	<u>60,979</u>
Opening accumulated depreciation	(765)	(7,618)	(613)	(3,066)	(12,062)
Depreciation expense	(518)	(5,427)	(309)	(2,800)	(9,054)
Effect of change in exchange rates	14	14	21	4	53
Disposals	47	1,343	123	519	2,032
Closing accumulated depreciation	<u>(1,222)</u>	<u>(11,688)</u>	<u>(778)</u>	<u>(5,343)</u>	<u>(19,031)</u>
Net book amount	<u>1,260</u>	<u>24,774</u>	<u>2,807</u>	<u>13,107</u>	<u>41,948</u>
As of June 30, 2016					
Opening cost balance	2,482	36,462	3,585	18,450	60,979
Additions	1,215	21,695	1,895	6,667	31,472
Disposals	(293)	(6,012)	(59)	(11)	(6,375)
Effect of change in exchange rates	(4)	(4)	(12)	8	(12)
Closing cost balance	<u>3,400</u>	<u>52,141</u>	<u>5,409</u>	<u>25,114</u>	<u>86,064</u>
Opening accumulated depreciation	(1,222)	(11,688)	(778)	(5,343)	(19,031)
Depreciation expense	(762)	(9,537)	(720)	(3,416)	(14,435)
Effect of change in exchange rates	(1)	—	—	7	6
Disposals	258	5,835	54	11	6,158
Closing accumulated depreciation	<u>(1,727)</u>	<u>(15,390)</u>	<u>(1,444)</u>	<u>(8,741)</u>	<u>(27,302)</u>
Net book amount	<u>\$ 1,673</u>	<u>\$ 36,751</u>	<u>\$ 3,965</u>	<u>\$ 16,373</u>	<u>\$ 58,762</u>

11. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually during the fourth quarter.

Goodwill consisted of the following:

	Goodwill (in thousands)
Balance as of July 1, 2014	\$ 1,724
Additions	5,357
Effect of change in exchange rates	71
Balance as of June 30, 2015	<u>\$ 7,152</u>
Effect of change in exchange rates	(14)
Balance as of June 30, 2016	<u>\$ 7,138</u>

Impairment test for goodwill

The Group operates as a single CGU and all goodwill is allocated to this unit. The recoverable

amount of goodwill was assessed by comparing the market capitalization of the Group to its book value, among other qualitative factors, when reviewing for indicators of impairment.

The cash flow projections were approved by management and cover a three-year period.

The key assumptions used in the calculation include:

- Discount rate of 17%;
- Budgeted margins based on past performance and future expectations; and
- Terminal growth rate consistent with the long-term growth rate from the Consumer Price Index.

There was no impairment of goodwill during the fiscal years ended June 30, 2016 and 2015.

Intangible assets

Intangible assets consisted of the following:

	Patents, Trademarks and Other Rights	Software	Employee Contracts	Customer Relationships	In-Process R&D	Total
	(in thousands)					
As of June 30, 2015						
Opening cost balance	\$ 220	\$ 67,494	\$ 3,631	\$ 374	\$ —	\$ 71,719
Additions	—	5,102	—	110	3,220	8,432
Effect of change in exchange rates	—	140	—	—	—	140
Closing cost balance	220	72,736	3,631	484	3,220	80,291
Opening accumulated amortization	(73)	(48,657)	(3,631)	(374)	—	(52,735)
Amortization charge	(31)	(6,417)	—	(9)	—	(6,457)
Effect of change in exchange rates	—	—	—	—	—	—
Closing accumulated amortization	(104)	(55,074)	(3,631)	(383)	—	(59,192)
Net book amount	116	17,662	—	101	3,220	21,099
As of June 30, 2016						
Opening cost balance	220	72,736	3,631	484	3,220	80,291
Transfers	—	3,220	—	—	(3,220)	—
Effect of change in exchange rates	—	(30)	—	—	—	(30)
Closing cost balance	220	75,926	3,631	484	—	80,261
Opening accumulated amortization	(104)	(55,074)	(3,631)	(383)	—	(59,192)
Amortization charge	(31)	(7,405)	—	(55)	—	(7,491)
Effect of change in exchange rates	—	(1)	—	—	—	(1)
Closing accumulated amortization	(135)	(62,480)	(3,631)	(438)	—	(66,684)
Net book amount	\$ 85	\$ 13,446	\$ —	\$ 46	\$ —	\$ 13,577

As of June 30, 2016, no development costs have qualified for capitalization, and all development costs have been expensed as incurred. As of June 30, 2016, the remaining amortization period for software ranged from approximately 1 to 5 years.

12. Business Combinations

During the fiscal year ended June 30, 2015, the Group acquired three companies for an aggregate of \$10.6 million in cash, net of cash acquired, and \$1.9 million of deferred consideration related to indemnification hold-backs, and has included the financial results of these companies in its consolidated financial statements from the date of each respective acquisition. The Group accounted for these transactions as business combinations. In allocating the purchase consideration based on estimated fair values, the Group recorded \$7.5 million of acquired intangible assets with useful lives of two to five years, which included \$4.3 million of software and \$3.2 million of in-process research and development that met the definition of an intangible asset under IAS 38, *Intangible Assets*, that will be amortized upon technical completion, \$5.4 million of goodwill, \$0.8 million of net tangible assets, including cash acquired, \$1.3 million of deferred tax assets and \$1.5 million of deferred tax liabilities.

The Group did not have any business combinations during the fiscal year ended June 30, 2016.

13. Other Balance Sheet Accounts

Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Cash and bank deposits	\$ 119,953	\$ 172,062
Time deposits	—	15,032
Agency securities	8,998	—
Commercial paper	5,998	—
Money market funds	124,760	—
Total cash and cash equivalents	<u>\$ 259,709</u>	<u>\$ 187,094</u>

As of June 30, 2016, \$0.5 million of the Group's cash and bank deposits balance were used for commitments of standby letters of credit related to facility leases and were not available for the Group's use in its operations.

Prepays and other current assets

Prepays and other current assets consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Prepaid expenses	\$ 8,625	\$ 4,740
Accrued interest income on short-term investments	1,968	73
Other receivables	2,555	1,551
Other current assets	1,030	2,236
Total prepaid expenses and other current assets	<u>\$ 14,178</u>	<u>\$ 8,600</u>

Other receivables generally arise from transactions outside the normal operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally required.

Other non-current assets

Other non-current assets consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Security deposits	\$ 4,783	\$ 5,276
Other non-current assets	764	1,536
	<u>\$ 5,547</u>	<u>\$ 6,812</u>

As of June 30, 2016 and 2015, the Group had certificates of deposit and time deposits totaling \$4.2 million which were classified as long-term and were included in security deposits.

Trade and other payables

Trade and other payables consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Trade payables	\$ 9,561	\$ 10,598
Accrued expenses	21,358	14,915
Corporate bonus plan accrual	12,699	12,156
Retention bonus	2,129	2,243
Sales and indirect taxes	5,010	3,004
Operating lease payable	766	526
Deferred acquisition-related consideration	935	1,025
Other payables	5,428	8,169
	<u>\$ 57,886</u>	<u>\$ 52,636</u>

Current provisions

Current provisions consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Employee benefits	\$ 4,716	\$ 3,314

Current provisions for employee benefits include accrued annual leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and those where employees are entitled to pro rata payments.

Non-current provisions

Non-current provisions consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Employee benefits	\$ 929	\$ 617
Dilapidation provision	1,241	1,256
	<u>\$ 2,170</u>	<u>\$ 1,873</u>

The non-current provision for employee benefits includes long service leave as described above.

The dilapidation provision relates to certain lease arrangements for office space entered into by the Group. These lease arrangements require the Group to restore each premise to its original condition upon lease termination. Accordingly, the Group records a provision for the present value of the estimated future costs to retire long-lived assets at the expiration of these leases.

Other non-current liabilities

Other non-current liabilities consisted of the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Retention bonuses	\$ 881	\$ 1,043
Deferred rent	4,889	4,346
Other non-current liabilities	775	1,438
	<u>\$ 6,545</u>	<u>\$ 6,827</u>

14. Shareholders' Equity

Share capital

	As of June 30,		As of June 30,	
	2016	2015	2016	2015
	(number of shares)		(in thousands)	
Details				
Class A ordinary shares	75,505,973	3,251,160	\$ 7,550	\$ 325
Class B ordinary shares	140,696,234	140,756,842	14,070	14,076
Series A preference shares	—	12,387,798	—	1,239
Series B preference shares	—	15,046,180	—	1,504
Restricted shares	—	13,163,778	—	1,317
	<u>216,202,207</u>	<u>184,605,758</u>	<u>\$ 21,620</u>	<u>\$ 18,461</u>

Of the total share capital balance as of June 30, 2016, 35% was comprised of Class A ordinary shares and 65% was comprised of Class B ordinary shares.

Movements in Class A ordinary share capital

	Number of Shares	Amount (in thousands)
Details		
Balance as of July 1, 2014	3,251,160	\$ 325
Balance as of June 30, 2015	3,251,160	325
Issuance at IPO	22,000,000	\$ 2,200
Conversion of Series A preference shares upon IPO	12,387,798	\$ 1,239
Conversion of restricted shares upon IPO	16,942,870	\$ 1,694
Conversion of Class B ordinary shares	15,224,430	\$ 1,522
Exercise of share options	2,652,588	\$ 265
Issuance for settlement of RSUs	2,911,229	\$ 291
Vesting of share options that were early exercised	135,898	\$ 14
Balance as of June 30, 2016	75,505,973	\$ 7,550

Movements in Class B ordinary share capital

	Number of Shares	Amount (in thousands)
Details		
Balance as of July 1, 2014	140,756,842	\$ 14,076
Balance as of June 30, 2015	140,756,842	14,076
Conversion of Series B preference shares upon IPO	15,046,180	1,504
Exercise of share options	117,642	12
Conversion to Class A ordinary shares	(15,224,430)	(1,522)
Balance as of June 30, 2016	140,696,234	\$ 14,070

Movements in Series A preference share capital

	Number of Shares	Amount (in thousands)
Details		
Balance as of July 1, 2014	12,387,798	\$ 1,239
Balance as of June 30, 2015	12,387,798	1,239
Conversion to Class A ordinary shares	(12,387,798)	(1,239)
Balance as of June 30, 2016	—	\$ —

Movements in Series B preference share capital

	Number of Shares	Amount (in thousands)
Details		
Balance as of July 1, 2014	15,046,180	\$ 1,504
Balance as of June 30, 2015	15,046,180	1,504
Conversion to Class B ordinary shares	(15,046,180)	(1,504)
Balance as of June 30, 2016	—	\$ —

Movements in restricted share capital

	Number of Shares	Amount (in thousands)
Details		
Balance as of July 1, 2014	10,460,992	1,046
Exercise of share options, net of early exercise activity	2,094,544	210
Vesting of share options that were early exercised	608,242	61
Balance as of June 30, 2015	13,163,778	1,317
Exercise of share options, net of early exercise activity	3,565,382	356
Vesting of share options that were early exercised	213,710	21
Conversion to Class A ordinary shares	(16,942,870)	(1,694)
Balance as of June 30, 2016	—	\$ —

Ordinary shares

Nominal value

Ordinary shares have a nominal value of \$0.10.

Conversion

If the aggregate number of Class B ordinary shares comprises less than 10% of the total shares of the Company then in issue, each Class B ordinary share will automatically convert into one Class A ordinary share.

Upon consent of at least 66.66% of the Class B ordinary shares, each Class B ordinary share will convert into one Class A ordinary share. A Class B ordinary shareholder may elect at any time to convert any of its Class B ordinary shares into Class A ordinary shares on a one-for-one basis. Upon a transfer of Class B ordinary shares to a person or entity that is not a permitted Class B ordinary share transferee as defined in the Company's articles of association, each Class B ordinary share transferred converts into one Class A ordinary share.

Dividend rights

Any dividend declared by the company shall be paid on the Class A ordinary shares and the Class B ordinary shares *pari passu* as if they were all shares of the same class.

Voting rights

Each Class A ordinary share is entitled to one vote. Each Class B ordinary share is entitled to 10 votes.

Preference shares

Upon the closing of our IPO, all then-outstanding Series A preference shares automatically converted into an aggregate of 12.4 million Class A ordinary shares and all then-outstanding Series B preference shares automatically converted into an aggregate of 15.0 million Class B ordinary shares.

Restricted shares

Upon the closing of our IPO, all then-outstanding restricted shares automatically converted into an aggregate of 17.2 million Class A ordinary shares.

15. Reserves

Reserves comprise the following:

	As of June 30,	
	2016	2015
	(in thousands)	
Reserves		
Share premium	\$ 441,734	\$ 5,744
Other capital reserves	244,335	146,794
Foreign currency translation reserve	4,149	4,153
Investments at fair value through other comprehensive income reserve	550	—
	<u>\$ 690,768</u>	<u>\$ 156,691</u>

	Amount	
	(in thousands)	
Share premium		
Balance as of June 30, 2014	\$	2,677
Share options exercise		2,128
Early exercise vesting		939
Balance as of June 30, 2015		<u>5,744</u>
Share issuance at IPO		429,273
Share options exercise		6,098
Early exercise vesting		619
Balance as of June 30, 2016	<u>\$</u>	<u>441,734</u>

	Capital redemption reserve	Merger reserve	Share-based payments	Total
	(in thousands)			
Other capital reserves				
Balance as of June 30, 2014	\$ 98	\$ 34,943	\$ 57,259	\$ 92,300
Share-based payments	—	—	41,534	41,534
Tax benefit from share plans	—	—	12,960	12,960
Balance as of June 30, 2015	<u>98</u>	<u>34,943</u>	<u>111,753</u>	<u>146,794</u>
Share issuance for settlement of RSUs	—	—	(291)	(291)
Shares withheld related to net share settlement of RSUs	—	—	(5,395)	(5,395)
Share-based payments	—	—	75,480	75,480
Tax benefit from share plans	—	—	27,747	27,747
Balance as of June 30, 2016	<u>\$ 98</u>	<u>\$ 34,943</u>	<u>\$ 209,294</u>	<u>\$ 244,335</u>

	<u>Amount</u> <u>(in thousands)</u>
Foreign currency translation	
Balance as of June 30, 2014	\$ 4,035
Translation adjustment	118
Balance as of June 30, 2015	4,153
Translation adjustment	(4)
Balance as of June 30, 2016	<u>\$ 4,149</u>

	<u>Amount</u> <u>(in thousands)</u>
Investments at fair value through other comprehensive income reserve	
Balance as of June 30, 2014	\$ —
Balance as of June 30, 2015	—
Net change in unrealized gain (loss) on investments classified at fair value through other comprehensive income, net of tax	550
Balance as of June 30, 2016	<u>\$ 550</u>

Share premium

Share premium consists of additional consideration for shares above the nominal value of shares in issue.

Other capital reserves

Capital redemption reserve

Capital redemption reserve is a non-distributable reserve arising on redemption of redeemable shares.

Merger reserve

In conjunction with the Reorganization, the Group elected to take the merger relief exemptions within the United Kingdom's Companies Act 2006. The consolidated financial statements are therefore presented as if the Company had been the parent company of the Group throughout the periods presented. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statements of financial position, being the difference between the nominal value of shares issued by the Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account. The merger reserve in the financial statements of the Company is equal to the difference between the nominal value of the shares issued by the Company and the net assets of the Former Parent Company.

Share-based payments

Share-based payments represent the current period's expense related to the fair value of share options issued to employees. Tax benefits from share plans represent the deferred tax benefit of share-based payments in excess of the expense already recognized over the life of the share-based award. The total deferred tax benefit is determined using the intrinsic value of the share-based award as at the reporting date. Issuance of ordinary shares for settlement of RSUs represents the release of ordinary shares to our employees as RSUs vest. Shares withheld related to net share settlement of RSUs represents the portion of employees' RSUs that were withheld to meet their withholding tax obligations upon the IPO vesting event. This settlement option was only offered upon our IPO, and following the IPO, employees' RSUs are sold in order to cover their tax obligations.

Foreign currency translation

Exchange differences arising on translation of foreign subsidiaries are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated statements of operations when the net investment is disposed.

Investments at fair value through other comprehensive income

The change in fair value for the Group's financial instruments classified at fair value through other comprehensive income are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated statements of operations upon the sale of the investment or at maturity date.

16. Dividends

During the fiscal years ended June 30, 2016 and 2015, the Company did not pay any cash dividends.

17. Earnings Per Share

Basic and diluted net income per share attributable to ordinary shareholders is presented in conformity with the two-class method required for participating shares. Upon the closing of our IPO, all then-outstanding Series A preference shares automatically converted into 12.4 million Class A ordinary shares, all then-outstanding restricted shares automatically converted into 17.2 million Class A ordinary shares and all then-outstanding Series B preference shares automatically converted into an aggregate of 15.0 million Class B ordinary shares. The Group considered its then-outstanding Series A preference shares and Series B preference shares to be participating securities. The rights of the holders of Class A ordinary shares and Class B ordinary shares are identical, except with respect to voting, conversion and transfer rights.

Under the two-class method, net income attributable to ordinary shareholders is determined by allocating undistributed earnings, calculated as net income less current period dividends paid to preference shares, between ordinary shares and preference shares based on their respective dividend allocations. Basic earnings per share is computed by dividing the net income attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share is computed by giving effect to all potential weighted-average dilutive shares. The dilutive effect of outstanding awards is reflected in diluted earnings per share by application of the treasury stock method.

A reconciliation of the calculation of basic and diluted earnings per share is as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands, except per share data)	
Numerator:		
Net income	\$ 4,373	\$ 6,775
Less: Allocation of undistributed earnings to preference shares—basic	(274)	(1,084)
Undistributed net income attributable to ordinary shareholders—basic	4,099	5,691
Add: Reallocation of undistributed earnings to ordinary shares	14	9
Undistributed net income attributable to ordinary shareholders—diluted	<u>\$ 4,113</u>	<u>\$ 5,700</u>
Denominator:		
Weighted-average ordinary shares outstanding—basic	182,773	144,008
Effect of potentially dilutive shares:		
Share options and RSUs	10,708	1,492
Weighted-average ordinary shares outstanding—diluted	<u>193,481</u>	<u>145,500</u>
Net income per share attributable to ordinary shareholders:		
Basic net income per share	\$ 0.02	\$ 0.04
Diluted net income per share	<u>\$ 0.02</u>	<u>\$ 0.04</u>

18. Commitments

Operating lease commitments

The Group leases various offices in locations such as Amsterdam, the Netherlands; the San Francisco Bay Area and Austin, United States; Sydney, Australia; Manila, the Philippines; and Yokohama, Japan under non-cancellable operating leases expiring within one to six years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Group incurred rent expense on its operating leases of \$8.3 million and \$6.2 million during the fiscal years ended June 30, 2016 and 2015, respectively.

Additionally, the Group has contractual commitments for services with third-parties related to its data centers. These commitments are non-cancellable and expire within one to four years.

Commitments for minimum lease payments in relation to non-cancellable operating leases and purchase obligations in relation to our colocation data centers as of June 30, 2016 were as follows:

	Operating Leases	Other Contractual Commitments	Total
	(in thousands)		
Fiscal Period:			
Year ending 2017	\$ 12,284	\$ 6,816	\$ 19,100
Years ending 2018 - 2021	34,626	7,427	42,053
Thereafter	2,276	—	2,276
Total minimum lease payments	<u>\$ 49,186</u>	<u>\$ 14,243</u>	<u>\$ 63,429</u>

19. Related Party Transactions

Key management personnel compensation

All directors and executive management have authority and responsibility for planning, directing and controlling the activities of the Group, and are considered to be key management personnel.

Compensation for the Company's key management personnel is as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Executive management		
Short-term compensation and benefits	\$ 3,365	\$ 2,135
Post-employment benefits	96	88
Share-based payments	15,985	3,940
	<u>\$ 19,446</u>	<u>\$ 6,163</u>
Board of directors		
Cash remuneration	\$ 241	\$ —
Share-based payments	1,482	170
	<u>\$ 1,723</u>	<u>\$ 170</u>

Early exercises of share options by key management personnel

During the fiscal years ended June 30, 2016 and 2015, no board members and no executives early exercised share options. As of June 30, 2016 and 2015, outstanding shares included 156,251 and 505,859 shares, respectively, subject to repurchase as they were early exercised and unvested. The Company retains the right to repurchase, at the original exercise price, any unvested (but issued) shares during the repurchase period following employee termination. These amounts have been recorded on the consolidated statements of financial position as a liability as of June 30, 2016 and 2015. Amounts reclassified into contributed equity during the fiscal years ended June 30, 2016 and 2015 as a result of the vesting of the early exercised shares was \$0.7 million and \$1.0 million, respectively.

Loans to key management personnel

The Company did not enter into any loan agreements with board members of the Company or executives of the Group.

There were no other transactions with key management personnel during fiscal years ended June 30, 2016 and 2015.

20. Revenues by Geographic Region

The Group's revenues by geographic region are as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Americas	\$ 232,793	\$ 159,380
EMEA	178,087	127,704
Asia Pacific	46,178	32,437
	<u>\$ 457,058</u>	<u>\$ 319,521</u>

Revenues from the United States totaled approximately \$206 million and \$141 million for the fiscal years ended June 30, 2016 and 2015, respectively. Revenues from our country of domicile, the United Kingdom, totaled approximately \$34 million and \$27 million for the fiscal years ended June 30, 2016 and 2015, respectively.

21. Share-based Payments

The Group maintains four share-based employee compensation plans: the 2015 Share Incentive Plan ("2015 Plan"), the 2014 Restricted Share Unit Plan ("2014 Plan"), the Atlassian Corporation Plc 2013 U.S. Share Option Plan ("2013 U.S. Option Plan") and the Atlassian UK Employee Share Option Plan ("UK Option Plan", together with

the 2013 U.S. Option Plan, the "Option Plans"). In October 2015, the Board of Directors approved the 2015 Plan, and in November 2015, our shareholders adopted the 2015 Plan, effective on our IPO, which serves as the successor to the 2014 Plan and the Option Plans and provides for the issuance of incentive and nonstatutory share options, share appreciation rights, restricted share awards, RSUs, unrestricted share awards, cash-based awards, performance share awards, performance-based awards to covered employees, and dividend equivalent rights to qualified employees, directors and consultants. Under the 2015 Plan, a total of 20,700,000 Class A ordinary shares were initially reserved for the issuance of awards, subject to annual increases.

RSU grants generally vest 25% on the one year anniversary and 1/12th vest over the remaining three years, on a quarterly basis thereafter.

Prior to our IPO, RSUs issued under the 2014 Plan required the satisfaction of a time-based service condition as well as a liquidity condition, defined as a sale or listing of the Company. The liquidity condition was satisfied upon our IPO. Following our IPO, participants of the 2015 Plan and 2014 Plan must only continue to provide services to a Group entity over the time-based service period to be entitled to the Class A ordinary shares underlying the RSUs. Although no future awards will be granted under the 2014 Plan, it will continue to govern outstanding awards granted thereunder.

The Option Plans allowed for the issuance of options to purchase restricted shares. Effective upon our IPO, *all restricted shares automatically converted to Class A ordinary shares and under the Option Plans, the shares underlying the options converted to Class A ordinary shares.* Although no future awards will be granted under the Option Plans, they will continue to govern outstanding awards granted thereunder.

Under the Option Plans, share options have a contractual life of seven to ten years and typically follow a standard vesting schedule over a 4 year period: 25% vest after one year and 1/48th monthly vesting for the 36 months thereafter. Individuals must continue to provide services to a Group entity in order to vest. Upon termination, all unvested options are forfeited and vested options must generally be exercised within three months.

RSU and share option activity was as follows:

	Shares Available for Grant	Share Options		Restricted Share Units Outstanding
		Share Options Outstanding	Weighted Average Exercise Price	
Balance as of July 1, 2014	2,894,890	20,748,814	\$ 1.78	1,103,392
Increase in shares authorized:				
2014 Plan	7,500,000	—	—	—
RSUs granted	(9,201,359)	—	—	9,201,359
RSUs canceled	455,530	—	—	(455,530)
Share options granted	(500,000)	500,000	14.67	—
Share options exercised	—	(2,111,211)	1.11	—
Share options canceled	2,204,139	(2,204,139)	2.46	—
Balance as of June 30, 2015	3,353,200	16,933,464	2.11	9,849,221
Increase in shares authorized:				
2014 Plan	7,770,000	—	—	—
2015 Plan	20,700,000	—	—	—
RSUs granted	(7,262,585)	—	—	7,262,585
RSUs canceled	1,739,357	—	—	(1,739,357)
RSUs settled	—	—	—	(3,168,096)
Share options exercised	—	(6,217,970)	1.08	—
Share options canceled	1,403,669	(1,403,669)	7.07	—
2014 Plan shares terminated	(6,862,133)	—	—	—
Option Plans shares terminated	(3,312,292)	—	—	—
Balance as of June 30, 2016	<u>17,529,216</u>	<u>9,311,825</u>	\$ 2.04	<u>12,204,353</u>
Share options vested and exercisable as of June 30, 2015		10,714,451	\$ 1.24	
Share options vested and exercisable as of June 30, 2016		6,912,082	\$ 1.76	

The 2014 Plan and the Option Plans were terminated in connection with our IPO, and accordingly, no shares are available for issuance under these plans.

The weighted-average remaining contractual life for options outstanding as of June 30, 2016 and June 30, 2015 was 3.8 years and 4.5 years, respectively.

Options exercisable as of June 30, 2016 and June 30, 2015, had a weighted-average remaining contractual life of approximately 3.2 years and 3.4 years, respectively.

The following table summarizes information about share options outstanding as of June 30, 2016:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Years
\$0.40 - 0.60	2,189,995	\$ 0.52	2,102,670	\$ 0.52	1.67
\$1.43 - 1.59	573,485	1.55	568,380	1.55	2.80
\$1.92 - 2.16	2,006,437	2.06	1,856,267	2.06	3.39
\$2.40 - 2.63	2,007,185	2.41	1,474,924	2.41	3.84
\$2.92 - 3.18	2,534,723	3.14	909,841	3.11	5.45
	<u>9,311,825</u>	\$ 2.04	<u>6,912,082</u>	\$ 1.76	3.18

The following table summarizes information about restricted share options outstanding as of June 30, 2015:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Years
\$0.41 - \$0.62	6,254,512	\$ 0.48	6,030,495	\$ 0.48	2.36
\$1.43 - \$1.59	1,249,265	1.54	975,001	1.53	3.77
\$1.92 - \$2.16	2,475,439	2.06	1,530,714	2.05	4.39
\$2.40 - \$2.63	2,669,251	2.42	1,373,007	2.42	4.84
\$2.92 - \$3.18	3,784,997	3.14	805,234	3.10	6.31
\$14.67	500,000	14.67	—	—	—
	<u>16,933,464</u>	\$ 2.11	<u>10,714,451</u>	\$ 1.24	3.39

Class B ordinary share option activity was as follows:

	Shares Available for Grant	Outstanding Share Options	Weighted-Average Exercise Price
Balance as of June 30, 2014	—	1,552,500	\$ 0.68
Balance as of June 30, 2015	—	1,552,500	\$ 0.56
Exercised	—	(117,642)	\$ 0.24
Balance as of June 30, 2016	—	<u>1,434,858</u>	<u>\$ 0.56</u>

Class B ordinary share options exercisable as of June 30, 2016 and June 30, 2015 had a weighted-average remaining contractual life of approximately 1.9 years and 2.8 years, respectively. Class B ordinary share options are denominated in Australian dollars.

The following table summarizes information about the Class B ordinary share options outstanding as of June 30, 2016:

Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Years
\$0.24	184,858	\$ 0.24	184,858	\$ 0.24	1.36
0.61	1,250,000	0.61	1,250,000	0.61	1.92
	<u>1,434,858</u>	\$ 0.56	<u>1,434,858</u>	\$ 0.56	1.85

The following table summarizes information about the Class B ordinary share options outstanding as of June 30, 2015:

Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Years
\$0.24	302,500	\$ 0.24	302,500	\$ 0.24	2.36
0.63	1,250,000	0.63	1,250,000	0.63	2.92
	<u>1,552,500</u>	\$ 0.56	<u>1,552,500</u>	\$ 0.56	2.81

All share-based payments are measured based on the grant date fair value of the awards and recognized in the consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the four-year vesting period of the award).

Prior to the IPO, the Group enlisted the assistance of a third-party valuation firm in order to perform the valuation of RSUs using assumptions provided by management. As discussed above, prior to the effectiveness of the IPO, the Group's RSUs contained a non-time based vesting condition. Pursuant to IFRS 2, *Share-based payment*, the fair value of RSUs granted prior to the IPO were reduced to reflect the impact of this non-time based vesting condition.

The weighted-average grant date fair value of the RSUs issued during the fiscal years ended June 30, 2016 and 2015 was \$21.61 per share and \$13.85 per share, respectively.

There were no share options granted during the fiscal year ended June 30, 2016. During the fiscal year ended June 30, 2015, there were 500,000 share options granted. The fair value of the share option grants were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions and fair value per share:

	Fiscal Year Ended June 30,
	2015
Fair value of underlying shares	\$14.97
Exercise price	\$14.67
Expected volatility	41%
Expected term (in years)	4.0
Risk-free interest rate	1.3%
Dividend yield	—%
Fair value per share option	\$5.13

The exercise price of share options is established on the grant date and is determined by the Board of Directors. As the share options granted during the fiscal year ended June 30, 2015 were prior to our IPO, there was no active external or internal market for the shares of the Group at the date of the grant. In order to determine the fair value of the Group's restricted shares prior to the IPO, the Group enlisted the assistance of a third-party valuation firm. As a substitute, a peer group of companies was used to calculate volatility. The estimated term for share options was based on the vesting terms and contractual lives of the options as well as expectations around employee vesting behavior. The risk-free interest rate is based on the rate for a U.S. government security with the same estimated life at the time of the option grant.

As of June 30, 2016, the Group had an aggregate of \$122.6 million of future period share-based payment expense related to all equity awards outstanding, net of estimated forfeitures, to be amortized over a weighted-average period of 1.5 years.

22. Remuneration of auditors

The following fees were received or due and receivable by Ernst & Young for services provided by the auditor for the Group:

	2016	2015
	(in thousands)	
Audit of the consolidated financial statements	\$ 860	\$ 579
Audit related fees	1,722	—
Tax compliance	7	42
Tax advisory	92	494
Other non-audit services	279	235
	<u>\$ 2,960</u>	<u>\$ 1,350</u>

23. Directors' remuneration

During the fiscal year ended June 30, 2016, the Company provided cash compensation totaling \$0.2 million to its Directors for services provided to the Company. Prior to the IPO, the Company did not provide cash compensation to its Directors in respect to services provided to the Company. In fiscal 2016, the Directors were awarded RSUs totaling 127,330 with a grant date fair value of \$21.00 per share. In fiscal 2015, there were no Directors who received shares in respect of qualifying services and no Directors who exercised share options. Refer to Note 19, "Related party transactions," for additional detail of Directors' compensation.

Atlassian Corporation Plc
Company Statements of Financial Position
(U.S. \$ in thousands)

	Notes	As at June 30,	
		2016	2015
Fixed assets:			
Investment in subsidiary	3	\$ 140,534	\$ 66,550
Other non-current assets		15	—
Deferred offering costs		—	276
Total fixed assets		<u>\$ 140,549</u>	<u>\$ 66,826</u>
Current assets:			
Debtors: amounts falling due within one year			
Amount owed in group undertakings		\$ 985	\$ 2,545
Other receivables		1,324	—
Taxes receivable		5	10
Prepaid expenses		359	30
Short-term investments	4	359,070	—
Cash at bank and in hand		83,943	7,842
Total current assets		<u>\$ 445,686</u>	<u>\$ 10,427</u>
Amounts falling due within one year:			
Accounts payable		\$ —	\$ 91
Amount owed to group undertakings		3,965	454
Share option early exercise liability		454	1,108
Accrued expenses		475	441
Total amounts falling due within one year		<u>\$ 4,894</u>	<u>\$ 2,094</u>
Net current assets		<u>\$ 440,792</u>	<u>\$ 8,333</u>
Total assets less current liabilities		<u>\$ 581,341</u>	<u>\$ 75,159</u>
Equity			
Share capital	5	\$ 21,620	\$ 18,461
Share premium	5	441,734	5,744
Capital redemption reserve	5	98	98
Merger reserve	5	425	425
Available-for-sale reserve	5	399	—
Share-based payments reserve	5	118,584	48,793
Profit and loss account	5	(1,519)	1,638
Total		<u>\$ 581,341</u>	<u>\$ 75,159</u>

As permitted by section 408 of the Companies Act 2006, and in compliance with The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015, the Company has not presented its own profit and loss account.

On behalf of the Board of Directors



Scott Farquhar
Company Director

Atlassian Corporation Plc
Company Statements of Comprehensive Loss
(U.S. \$ in thousands)

	Notes	Fiscal Year Ended June 30, 2016	2015
Net loss		\$ (3,157)	\$ (1,310)
Other comprehensive loss:			
Net change in unrealized gain (loss) on investments classified at fair value through other comprehensive loss		399	—
Other comprehensive loss net of tax that will be reclassified to profit or loss in subsequent periods		(2,758)	(1,310)
Total comprehensive loss		<u>\$ (2,758)</u>	<u>\$ (1,310)</u>

Atlassian Corporation Plc
Company Statements of Changes in Equity
(U.S. \$ in thousands)

	Share capital	Share premium	Capital redemption reserve	Merger Reserve	Fair value through other comprehensive income reserve	Share based payments reserve	Retained Earnings	Total Equity
Balance as at July 1, 2014	\$ 18,190	\$ 2,677	\$ 98	\$ 425	\$ —	\$ 7,259	\$ 2,948	\$ 31,597
Comprehensive loss for the year:								
Loss for the year	—	—	—	—	—	—	(1,310)	(1,310)
Total comprehensive loss for the year	—	—	—	—	—	—	(1,310)	(1,310)
Exercise of share options, net of early exercise	210	2,128	—	—	—	—	—	2,338
Vesting of early exercised shares	61	939	—	—	—	—	—	1,000
Share-based payment	—	—	—	—	—	41,534	—	41,534
	271	3,067	—	—	—	41,534	—	44,872
Balance as at June 30, 2015	18,461	5,744	98	425	—	48,793	1,638	75,159
Comprehensive loss for the year:								
Loss for the year	—	—	—	—	—	—	(3,157)	(3,157)
Other comprehensive income	—	—	—	—	399	—	—	399
Total comprehensive loss for the year	—	—	—	—	399	—	(3,157)	(2,758)
Issuance of ordinary shares upon initial public offering, net of offering costs	2,200	429,273	—	—	—	—	—	431,473
Exercise of share options, net of early exercise	633	6,099	—	—	—	—	—	6,732
Vesting of early exercised shares	35	618	—	—	—	—	—	653
Issuance of ordinary shares for settlement of restricted share units (RSUs)	291	—	—	—	—	(291)	—	—
Shares withheld related to net share settlement of RSUs	—	—	—	—	—	(5,395)	—	(5,395)
Share-based payment	—	—	—	—	—	75,477	—	75,477
	3,159	435,990	—	—	—	69,791	—	508,940
Balance as at June 30, 2016	\$ 21,620	\$ 441,734	\$ 98	\$ 425	\$ 399	\$ 118,584	\$ (1,519)	\$581,341

Atlassian Corporation Plc
Notes to Company Financial Statements

1. Basis of preparation

The accompanying financial statements of Atlassian Corporation Plc (the "Company") has been prepared in accordance with and presented as required by the Companies Act 2006. For all periods up to and including the year ended June 30, 2015, the Company prepared its separate financial statements in accordance with UK GAAP (United Kingdom Generally Accepted Accounting Practice).

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council (FRC). Accordingly, in the fiscal year ended June 30, 2016, the Company has undergone transition from reporting under previous UK GAAP to Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework'. These financial statements have been prepared in accordance with FRS 101, incorporating the Amendments to FRS 101 issued by the FRC in July 2015.

There were no measurement differences on transition from UK GAAP to FRS 101. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS). The Company's opening FRS 101 statement of financial position reflected an investment in subsidiary which is a deemed cost that equals its previous UK GAAP amount, as allowed under the transition provisions of IFRS 1.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative financial information in respect of certain assets, presentation of cash flow statement, standards not yet effective, impairment of assets, related party transactions and the IFRS 1 requirement to present an opening statement of financial position at the date of transition.

Where required, equivalent disclosures have been given in the consolidated financial statements of Atlassian Corporation Plc.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Investments

Investments are held at cost less provision for impairment where a permanent diminution in value has been identified.

Fair value estimation

The fair value of financial assets and financial liabilities are estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices as of the statement of financial position date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing as of the statement of financial position date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Foreign currency

The Company presents the financial statements in U.S. dollars, which is the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are measured in terms of historical costs using the exchange rate at the date of the initial transactions.

Share-based payments

The expense for share-based payments is recognized in accordance with the accounting policy for the Consolidated financial statements of the Group and is recognized in the subsidiary companies employing the relevant employees. The Company recognizes the expense relating to the Executive Directors. The financial effect of equity awards by the Company to employees of subsidiary undertakings is recognised by the Company in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to IFRS 2 cost in subsidiary undertakings.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognized in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognized only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is recognized in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Dividends

Provision is made for any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

1.1 Significant accounting judgments and estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial results or the financial position reported in future periods.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments may impact expenses, equity and the carrying amounts of liabilities within the next financial reporting period.

2. Loss attributable to members of the parent company

The loss attributable to members of the Company is \$3.2 million and \$1.3 million for the fiscal years ended June 30, 2016 and 2015, respectively.

3. Employee and Director information

Employee costs are borne by Atlassian (Australia) Ltd. For details of Directors' remuneration, refer to disclosure in the Directors' remuneration footnote in the consolidated financial statements.

4. Investment in subsidiary

Carrying value	(U.S \$ in thousands)
At June 30, 2014	\$ 25,018
Additions - share based payment	41,534
At June 30, 2015	66,552
Additions - share based payment	73,982
At June 30, 2016	<u>\$ 140,534</u>

A full list of Group companies is included in the Group financial statements, note 4.

5. Short-term investments

As of June 30, 2016, the Company had \$359.1 million of investments with an original maturity date of less than 24 months, which were classified as short-term investments on the Group's statement of financial position. The Company's short-term investments were classified as debt instruments at fair value through other comprehensive income. A full description of Group financial risk management activities is included in the Group financial statements, note 5.

6. Share-based payments

Shares subject to repurchase

As determined by the Board of Directors, the Group allows certain individuals to early exercise share options. The Group retains the right to repurchase, at the original exercise price, any unvested (but issued) restricted shares during the repurchase period following employee termination. The consideration received for the early exercise of share options is recorded as a liability and reclassified into equity as the awards vest.

Outstanding restricted shares as at June 30, 2016 included 156,251 shares subject to repurchase as they were early exercised and unvested. Early exercised options during the fiscal year ended June 30, 2016 had a weighted-average exercise price of \$2.91 per share with a corresponding grant date fair value of \$0.5 million. Amounts reclassified into contributed equity during the fiscal year ended June 30, 2016 as a result of the vesting of the early exercised shares totalled \$0.7 million.

For details of share-based payments, see Note 21 of the consolidated financial statements.

7. Remuneration of auditors

The following fees were received or due and receivable by Ernst & Young for services provided by the auditor for the Company:

	2016	2015
	(in thousands)	
Audit of the parent financial statements	\$ 13	\$ 13

8. Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

IFRS 13, *Fair value measurement*, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2)
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The fair value of financial instruments traded in active markets is included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to measure the fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This fair value was based on significant inputs not observed in the market and, thus, represents all Level 3 inputs. The significant unobservable inputs include management's evaluation of the probabilities of certain outcomes as well as management's forecasts used as inputs to the discounted cash flow model.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and considers factors specific to the asset or liability.

The following table presents the Company's financial assets and liabilities measured and recognized at fair value as of June 30, 2016, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description				
Cash and cash equivalents:				
Money market funds	\$ 61,583	\$ —	\$ —	\$ 61,583
Agency securities	—	8,998	—	8,998
Commercial paper	—	5,998	—	5,998
Total cash and cash equivalents	<u>\$ 61,583</u>	<u>\$ 14,996</u>	<u>\$ —</u>	<u>\$ 76,579</u>
Short-term investments:				
U.S. treasury securities	—	102,922	—	\$ 102,922
Agency securities	—	16,143	—	16,143
Certificates of deposit and time deposits	—	26,301	—	26,301
Commercial paper	—	18,933	—	18,933
Corporate debt securities	—	188,872	—	188,872
Municipal securities	—	1,902	—	1,902
International government securities	—	3,997	—	3,997
Total short-term investments	<u>\$ —</u>	<u>\$ 359,070</u>	<u>\$ —</u>	<u>\$ 359,070</u>
Total assets	<u>\$ 61,583</u>	<u>\$ 374,066</u>	<u>\$ —</u>	<u>\$ 435,649</u>

As of June 30, 2016, the Company's short-term investments were classified as debt instruments at fair value through other comprehensive income. As of June 30, 2016, the Company's short-term investments all had an original maturity date of less than 24 months. The Company had no financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015.