Annual Report and Accounts

Atlassian Corporation Plc

Year Ended June 30, 2017

Registered No. 8776021

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Strategic Report

The Board of Directors (the “Board,” “directors” or “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, 2017. All amounts in this Strategic Report are in U.S. dollars unless noted otherwise.

Business Overview

Our mission is to unleash the potential of 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 exploration 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 gets the work done.

We also believe that the greatest lever teams have to advance humanity lies in the power of software innovation. 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.

Our company was founded in 2002 to help software teams work better together. But from the beginning, our products were also designed to help developers collaborate with non-developer teams involved in software innovation. As more non-developer teams have gained exposure to our products, and as we add to our portfolio through research and development and acquisitions, teams are adopting and extending our products to novel use cases, bringing our products to more users and business teams in their organizations. This trend has created an expansive market opportunity for us.

Today, our products include JIRA for team planning and project management, Confluence for team content creation and sharing, HipChat for team real-time messaging and communications, Trello for capturing and adding structure to fluid, fast-forming work for teams, Bitbucket for team code sharing and management, and JIRA Service Desk for team service and support applications. Together, our products form an integrated system for organizing, discussing and completing shared work, becoming deeply entrenched in how people collaborate and how organizations run. This allows us to operate at unusual scale for an enterprise software company, with more than 89,000 customers across virtually every industry sector in more than 185 countries as of June 30, 2017. Our customers range from small organizations that have adopted one of our products for a small group of users, to over 300 of the Fortune 500, many of which use a multitude of our products across thousands of users.

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 focus on enabling a self-service, low-friction distribution model that makes it easy for users to try, adopt and use our products. We are relentlessly focused on measuring and improving user satisfaction as we know that one happy user will beget another, thereby expanding the large and organic word-of-mouth community that helps drive our growth.

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 across all industries. 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 among the 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 organizations 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 advantages for our company.

We invest significantly in developing and refining versatile products that can used in myriad ways, helping teams achieve their full potential. Our products are easy to adopt and use, which allows them to be distributed organically and efficiently.

. Because our products are easy to purchase and are offered at affordable price points, they can be sold through a high-velocity, low-friction online distribution model. This model allows us to generate demand from word-of-mouth and viral expansion within organizations, rather than having to rely on a traditional sales infrastructure. 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, which further reinforces our strategy and unique model.

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 new way that is coordinated, efficient and innovative. Our products, which include JIRA, Confluence, HipChat, Trello, 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. We design products that help our customers to communicate more effectively, be more transparent and operate in a coordinated 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 purchasing process 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.

- **Versatile and Adaptable -** We design simple products that are useful in a broad range of workflows and projects. We believe that our products can improve any process involving teams, multiple workstreams and deadlines. For example, JIRA Software, which enables software teams to plan, build and ship code, is also used by thousands of our customers to manage workflows related to 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 easily access the related information and context.

- **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, 2017, features more than 3,000 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.

Our Distribution Model

Our high-velocity, low-friction online 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, transparent pricing 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.

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 marketing and sales. 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 ways to automate and streamline distribution and customer support functions to enhance our customer experience and improve our efficiency.

  In addition, 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 set up 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 stands 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 significantly from customer word-of-mouth driving traffic to our website. The vast majority of our transactions are conducted on our website, which drastically reduces our customer acquisition costs. We also benefit from distribution leverage via our network of Atlassian solution partners, who resell and customize our products. Once we have landed within a customer team, the networked nature and flexibility of our products tends to lead to adoption by other teams and departments, resulting in user growth, new use cases, and the adoption of our other products. To support this expansion and scaling within our 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. With more than 89,000 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 1,817 customers paying us in excess of $50,000 during fiscal 2017, many of whom started as significantly smaller customers, we have demonstrated our ability to grow within our existing customer base. 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:

The following are the key elements of our corporate 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. We believe that putting all our product pricing and documentation online 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 run our company using our own products, which promotes open communication and transparency throughout the organization.

- **Dedication to the Customer -** Customer service and support is at the core of our business. Our customer support teams strive to provide unparalleled service to our customers. We also encourage our service teams to build scalable, self-service solutions that customers will love, as we believe superior service drives greater customer happiness, which in turn breeds positive word-of-mouth.

- **Team-driven -** As our mission is to unleash the potential of every team, we value teamwork highly. We encourage our employees to be both team oriented and entrepreneurial in identifying problems and inventing solutions. Dedication to 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, in which we expand across our customers' organizations over time, requires a patient, long-term approach, and a dedication to continuous improvement. This is exemplified by our investment in research and development, which is significant relative to traditional software models and is designed to drive the 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 "ShipIt," 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. In fiscal years 2017 and 2016, our research and development expenses were 50% and 46% of our revenue respectively. In addition, since September 2006, we have acquired more than thirteen 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 generating positive free cash flow for each of the last 12 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 relying on a traditional salesforce, and thereby lowering the cost of customer acquisition significantly.

- **Continued Expansion -** Our success is dependent on our ability to expand the relationship with our existing base of customers through the addition of more users, teams and products.

- **Predictability of Sales -** As we are not dependent on a traditional salesforce and rely on a high-velocity, low-friction 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 degree of integration makes our products difficult to displace and provides us with steady and predictable revenue.

- **Positive Free Cash Flow -** By reducing customer acquisition costs 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 12 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;
- Trello for capturing and adding structure to fluid, fast-forming work for teams;
- 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 and most of our products can be deployed behind the firewall on the customers' own infrastructure.

JIRA. JIRA is a sophisticated and flexible workflow management system that helps teams plan, organize, track and manage their work and projects. JIRA's customizable dashboards and powerful reporting features keep teams aligned and on track. In October 2015, we launched JIRA Software, targeting software teams, and JIRA Core, targeting other business teams.

Confluence. Confluence is a social and flexible content collaboration platform used to create, share, organize and discuss projects. Through Confluence's rich and dynamic editor, our customers create and share their work - meeting notes, blogs, product requirements, file lists, company information, or project plans - with their team or external customers. Confluence's collaborative capabilities enable teams to stay up to date and on the same page.

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.

Trello. Trello is a collaboration and organization product that captures and adds structure to fluid, fast forming work for teams. A web-based project management application that can organize your tasks into lists and boards, Trello can tell users and their teams what is being worked on, by whom, and how far along the task or project is. At the same time, Trello is extremely simple and flexible, which allows it to serve a vast number of other collaboration and organizational needs.

Bitbucket. Bitbucket is a code management and collaboration product for teams using distributed version control systems. Bitbucket empowers teams to build, store, test, collaborate and deploy shared code.

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, ticket management, integrated knowledge, service level agreement support and real-time reporting.

Other Products

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

Financial Review

A substantial majority of our sales are automated through our website, including sales of our products through solution partners and resellers. Our solution partners and resellers primarily focus on customers in regions that require local language support. Sales through indirect channels comprised approximately 33% of total revenues for fiscal 2017. 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.

In February 2017, we acquired Trello, a leading provider of project management and organization software. The total purchase price was approximately $384.0 million, which consisted of approximately $363.8 million in cash and $20.2 million for the fair value of exchanged unvested equity awards held by Trello employees for unvested equity awards of the company. The acquisition of Trello expands our teamwork platform by adding a complementary collaboration service to our existing project management, content creation and communication products.

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.

As of June 30, 2017, we had 89,237 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 customer base. No single customer contributed more than 1% of our total revenues during the fiscal year ended June 30, 2017.

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 approximately $10 or more per month (excluding starter licenses). 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. Including organizations who have only adopted our free or starter products, the active use of our products extends well beyond our 89,237 customers.

The following table sets forth our number of customers:

	As of June 30,		
	2017	2016	2015
Customers	89,237*	60,950	48,622

* Includes an increase in customers of 12,789 in February 2017 as a result of our acquisition of Trello.

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,		
	2017	2016	2015
	(U.S. $ in thousands)		
Net cash provided by operating activities	$ 199,381	$ 129,542	$ 98,221
Less: Capital expenditures	(16,054)	(34,213)	(32,676)
Free cash flow	$ 183,327	$ 95,329	$ 65,545

Free cash flow increased by $87.9 million during the fiscal year ended June 30, 2017 as net cash provided by operating activities increased to $199.4 million during the fiscal year ended June 30, 2017 from $129.5 million during the fiscal year ended June 30, 2016. While net loss before income tax increased to $59.7 million during the fiscal year ended June 30, 2017 from $4.9 million for the fiscal year ended June 30, 2016, the increase in free cash flow was primarily attributable to an increase in adjustments for non-cash charges including an increase in share-based payment expense of $62.0 million and an increase of depreciation and amortization of $39.6 million, and a net increase of $19.3 million in our operating assets and liabilities.

We expect to continue to incur capital expenditures to support the growth in our business and operations, such as investments in new office facilities. We expect total capital expenditures to increase in absolute dollars in the fiscal year ending June 30, 2018 as compared with the fiscal year ended June 30, 2017. 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 $700 for the license plus $700 for the first year of maintenance. After the first year, the customer may renew the software maintenance for an additional 12 months for $700.

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 facilities and related overhead costs. 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.

Our cost of revenues also includes amortization of acquired intangible assets, such as the amortization of the cost associated with an acquired company's developed technology.

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. Gross margin can fluctuate from period to period as a result of changes in product and services mix.

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.

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 RSUs in 2014. Prior to our 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 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 GAAP.

During the fiscal years ended June 30, 2017, 2016, and 2015, we recognized share-based payment expense of $137.4 million, $75.5 million and $41.5 million, respectively. As of June 30, 2017, the aggregate share-based payment expense remaining to be amortized to cost of revenues and operating expenses, over a weighted-average period of 1.4 years, was $160.1 million. We expect this share-based payment expense balance to be amortized as follows: $104.6 million during fiscal 2018; $41.9 million during fiscal 2019; $11.8 million during fiscal 2020 and $1.8 million during fiscal 2021. The expected amortization reflects only outstanding share awards as of June 30, 2017.

Research and development

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

Marketing and sales

Marketing and sales expenses consist primarily of salaries and related expenses, including share-based payment expense, for our marketing and sales employees, marketing and sales programs and facilities and related overhead costs. 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 and teams focused on supporting our partners and value-added resellers, tracking channel sales activity, supporting and servicing our largest customers by helping optimize their experience across our product portfolio, helping customers expand their use of our products across their organizations and helping product evaluators learn how they can use our tools most effectively.

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 facilities and related overhead costs.

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 wholly-owned subsidiaries and report our taxable income in various jurisdictions.

Net loss

We incurred a net loss on an IFRS basis in fiscal 2017 as we continued 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.

Results of Operations

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
	(U.S. $ in thousands)		
Revenues			
Subscription	$ 242,128	$ 146,659	$ 85,891
Maintenance	265,521	218,848	160,373
Perpetual license	74,565	65,487	57,373
Other	37,722	26,064	15,884
Total revenues	619,936	457,058	319,521
Cost of revenues (1) (2)	119,161	75,783	52,932
Gross profit	500,775	381,275	266,589
Operating expenses			
Research and development (1)	310,168	208,306	140,853
Marketing and sales (1) (2)	134,908	93,391	67,989
General and administrative (1)	118,785	85,458	56,033
Total operating expenses	563,861	387,155	264,875
Operating income (loss)	(63,086)	(5,880)	1,714
Other non-operating income (expense), net	(1,342)	(1,072)	(2,615)
Finance income	4,851	2,116	226
Finance costs	(75)	(71)	(74)
Loss before income tax benefit	(59,652)	(4,907)	(749)
Income tax benefit	17,148	9,280	7,524
Net income (loss)	$ (42,504)	$ 4,373	$ 6,775

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

Cost of revenues	$ 6,856	$ 5,371	$ 2,862
Research and development	79,384	35,735	22,842
Marketing and sales	17,395	11,945	6,670
General and administrative	33,813	22,429	9,160

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

Cost of revenues	$ 14,587	$ 7,405	$ 6,417
Marketing and sales	15,269	86	40

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,		
	2017	2016	2015
Revenues			
Subscription	39 %	32%	27%
Maintenance	43	48	50
Perpetual license	12	14	18
Other	6	6	5
Total revenues	100	100	100
Cost of revenues	19	17	17
Gross profit	81	83	83
Operating expenses			
Research and development	50	45	44
Marketing and sales	22	20	21
General and administrative	20	19	17
Total operating expenses	92	84	82
Operating income (loss)	(11)	(1)	1
Other non-operating income (expense), net	—	—	(1)
Finance income	1	—	—
Finance costs	—	—	—
Income (loss) before income tax benefit (expense)	(10)	(1)	—
Income tax benefit (expense)	3	2	2
Net income (loss)	(7)%	1%	2%

Fiscal Year Ended June 30, 2017 and 2016

Revenues

	Fiscal Year Ended June 30,			
	2017	2016	$ Change	% Change
	(U.S. $ in thousands)			
Subscription	$ 242,128	$ 146,659	$ 95,469	65%
Maintenance	265,521	218,848	46,673	21
Perpetual license	74,565	65,487	9,078	14
Other	37,722	26,064	11,658	45
Total revenues	$ 619,936	$ 457,058	$ 162,878	36

Total revenues increased $162.9 million, or 36%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. 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, 2017, over 90% was attributable to sales to customer accounts existing on or before June 30, 2016. Our number of total customers increased to 89,237 at June 30, 2017 from 60,950 at June 30, 2016. This included an increase in customers of 12,789 as a result of our acquisition of Trello in February 2017.

Subscription revenues increased $95.5 million, or 65%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. The increase in subscription revenues was primarily attributable to additional subscriptions from our existing customer base. As customers increasingly adopt cloud-based, subscription services and term-based licenses of our on-premises products 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 $46.7 million, or 21%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. 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 $9.1 million, or 14%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. A substantial majority of the increase in perpetual license revenues was attributable to additional licenses to existing customers.

Other revenues increased $11.7 million, or 45%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. The increase in other revenues was primarily attributable to a $11.4 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,			
	2017	2016	$ Change	% Change
	(U.S. $ in thousands)			
Americas	$ 312,514	$ 232,793	$ 79,721	34%
Europe	242,496	178,087	64,409	36
Asia Pacific	64,926	46,178	18,748	41
	$ 619,936	$ 457,058	$ 162,878	36

Cost of Revenues

	Fiscal Year Ended June 30,			
	2017	2016	$ Change	% Change
	(U.S. $ in thousands)			
Cost of revenues	$ 119,161	$ 75,783	$ 43,378	57%
Gross profit	83%	83%		

Cost of revenues increased $43.4 million, or 57%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. The overall increase was primarily due to an increase in depreciation expense and other hosting costs associated with our data centers of $18.0 million, an increase in compensation expense for employees and contractors of $10.2 million, which included an increase of $1.5 million in share-based payment expense, and an increase in amortization of acquired intangible assets of $7.2 million, an increase in credit card processing fees of $2.7 million, an increase in facilities and related overhead costs of $2.5 million, and an increase in professional and outside services of $2.0 million. The increase in depreciation expense in fiscal 2017 was due a change in the useful life for our self-managed data center assets, as a result of our continued investment in cloud infrastructure.

We increased our headcount during the period to meet the higher demand for services from our customers. We expect to continue to invest in additional personnel as we scale. Over time, we expect the revenue from our cloud subscription business to grow as a percentage of total revenues. As a result, we intend to continue to invest in our cloud infrastructure, which we expect to lead to an increase in cost of revenues in absolute dollars and may lead to an increase in cost of revenues as a percentage of revenue during the fiscal year ending June 30, 2018. We also expect amortization of acquired intangible assets will increase in the fiscal year ending June 30, 2018 as a result of the impact from a full year of amortization expense from our intangible assets recognized from our acquisition of Trello in February 2017. Additionally, amortization of acquired intangible assets may increase if we acquire additional businesses and technologies.

Operating Expenses

Research and development

	Fiscal Year Ended June 30,			
	2017	2016	$ Change	% Change
	(U.S. $ in thousands)			
Research and development	$ 310,168	$ 208,306	$ 101,862	49%

Research and development expenses increased $101.9 million, or 49%, in the fiscal year ended June 30, 2017 compared to the fiscal year ended June 30, 2016. The overall increase was primarily a result of an increase in compensation expense for employees and contractors of $78.2 million, which included an increase of $43.6 million in share-based payment expenses, an increase of $7.7 million in internal hosting costs for development, an increase of $7.4 million in facilities and related overhead costs to support our employees, an increase in software expense of $4.3 million, and an increase of $3.6 million in professional outside services. 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,			
	2017	2016	$ Change	% Change
	(U.S. $ in thousands)			
Marketing and sales	$ 134,908	$ 93,391	$ 41,517	44%

Marketing and sales expenses increased $41.5 million, or 44%, for the fiscal year ended June 30, 2017, compared to the fiscal year ended June 30, 2016. Marketing and sales expenses increased primarily due to an increase of $20.2 million in employee-related costs, which included an increase of $5.4 million in share-based payment expenses, an increase of $15.1 million in amortization of acquired intangible assets, an increase of $3.4 million in professional and outside services, an increase of $2.7 million in facilities and related overhead costs, offset by a decrease of $1.4 million in advertising, marketing and event costs. 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 and to attract new 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, expand our relationship with existing customers, attract new customers and sponsor additional marketing events. The timing of certain marketing events, such as our bi-annual and largest event, Atlassian Summit, will affect our marketing costs in a particular quarter.

General and administrative

	Fiscal Year Ended June 30,			
	2017	2016	$ Change	% Change
	(U.S. $ in thousands)			
General and administrative	$ 118,785	$ 85,458	$ 33,327	39%

General and administrative expenses increased $33.3 million, or 39%, in the fiscal year ended June 30, 2017, compared to the fiscal year ended June 30, 2016. The increase was primarily due to an increase of $21.0 million in compensation expense for employees and contractors, which included an increase of $11.4 million in share-based payment expenses, an increase of $7.1 million in professional and outside services, an increase of $4.2 million in facilities and overhead. Our general and administrative headcount increased during the period as we added personnel to support our growth. We also incurred additional expense related to being 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 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 to support the growth of our business.

Income tax benefit

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	$ Change	% Change
	(U.S. $ in thousands)			
Income tax benefit	$ 17,148	$ 9,280	$ 7,868	85%
Effective tax rate	*	*		

* Not meaningful

We reported a tax benefit of $17.1 million on pretax loss of $59.7 million for the fiscal year ended June 30, 2017, as compared to a tax benefit of $9.3 million on pretax income of $4.9 million for the fiscal year ended June 30, 2016. Our effective tax rate substantially differed from the United Kingdom income tax rate of 19.8% primarily due to the recognition of significant permanent differences during the fiscal years ended June 30, 2017 and 2016. 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).

Principal 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 achieve 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. 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. Following such potential consolidations, companies 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 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 existing 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 2017 and 2016, our research and development expenses were 50% and 46% 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 185 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 marketing and sales 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 marketing and sales 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 solution partners 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 may 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 versions or starter licenses 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 or free 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 or free 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, including 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, failures of products, or other negative consequences in 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, vulnerabilities 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. 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 rely on 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 more traditional 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 positive free cash flow. If our lack of a direct, traditional 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;
- exceptional 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;
- seasonality in our operations.
- the impact of new accounting pronouncements and associated system implementations; and
- the timing of the grant or vesting of equity awards to employees, contractors, 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 solution partners, our business, results of operations and financial condition could be harmed.

We have established relationships with certain solution 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 solution partners that can drive substantial revenue and provide additional valued-added services to our customers. Our agreements with our existing solution partners are non-exclusive, meaning our solution 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 solution 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 solution partners, in a timely and cost-effective manner, or at all, or are unable to assist our current and future solution 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.

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, including our recent acquisition of Trello, and plan 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.

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 solution 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 solution 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.

Because our products rely on the movement of data across national boundaries, global privacy and data security concerns could result in additional costs and liabilities to us or inhibit sales of our products globally.

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 the collection, use, safeguarding, sharing and transfer of information worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future.

Globally, virtually every jurisdiction in which we operate has established its own data security and privacy frameworks with which we, or our customers, must comply, including for example 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, the Data Protection Directive established in the European Union, and the data protection legislation of individual EU member states subject to the Data Protection Directive. The Data Protection Directive will be replaced with the European General Data Protection Regulation in May 2018, which will impose additional obligations and risk upon our business. In addition, the number of enforcement actions and severity of consequences for non-compliance are also increasing.

In the past, we have relied on adherence to the Safe Harbor Privacy Principles and compliance with the U.S.-EU Safe Harbor Framework, which established the legal basis for data transfers from Europe. As a result of the October 6, 2015 European Union Court of Justice opinion in Case C-362/14 (Schrems v. Data Protection Commissioner), the U.S.-EU Safe Harbor Framework is no longer a valid legal basis for data transfers from Europe. In February 2016, Europe and the United States reached agreement on a successor to the U.S.-EU Safe Harbor Framework, the EU-U.S. Privacy Shield. As of August 1, 2016, interested companies have been permitted to register for the program. There continue to be concerns about whether the EU-U.S. Privacy Shield and other transfer mechanisms will face additional challenges. Until the remaining legal uncertainties regarding the future of the EU-U.S. Privacy Shield and other data transfer mechanisms are settled, we will continue to explore options to find an appropriate legal basis for data transfers from Europe, including without limitation adopting model contractual clauses with certain suppliers and customers, and are considering suppliers that house data in Europe, which may involve substantial expense and distraction from other aspects of our business. We may, however, be unsuccessful in establishing a legal basis for data transfer, and will be at risk of enforcement actions taken by an EU data protection authority until such point in time that we ensure a legal basis for European data transfers, which could damage our reputation, inhibit sales and harm our business. Despite actions we have taken or will be taking to address the changes brought on by the European Union Court of Justice opinion, we may be unsuccessful in establishing a conforming means of transferring data due to ongoing legislative activity that could vary the current data transfer landscape. As we expand into new markets and grow our customer base, we will need to comply with these and other new requirements. If we cannot comply with, or if we incur a violation of one or more of these requirements, some customers may be limited in their ability to purchase our products, particularly our cloud products. 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 and our business may be harmed. 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.

The interpretation and application of many privacy and data protection laws are, and will likely remain, uncertain and it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or product features. 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 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.

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 around the world. Operating globally requires significant resources and management attention and subjects 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 within other regions 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 which could arise in each country or region in which we operate or sell our products, or 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 associated with enforcing our legal 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, strategy, 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 hiring and retaining employees with appropriate qualifications. In particular, recruiting and hiring senior product engineering personnel 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.

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 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.

Beginning July 1, 2016, we initiated a foreign exchange hedging program to hedge a portion of certain exposures to fluctuations in non-U.S. dollar currency exchange rates. We use derivative instruments, such as foreign currency forward contracts, to hedge the exposures. 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 organizations and 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.

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 claims or 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 Atlassian, 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. In addition, in the ordinary course of our business we are subject to tax audits from various taxing authorities. If such a disagreement were to occur, and our position was not sustained, or if a tax audit resulted in an adverse finding, 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.

Certain government agencies in jurisdictions where we 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 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.

Other Matters

Directors, Senior Management and Employees

The Group'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. 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.

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 regularly administering global employee surveys. Every year 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, ''ShipIt,'' is a 24-hour event held every quarter where we encourage every employee to form into teams and develop new products or innovations. ''ShipIts'' 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 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 no approval peer recognition program.

As of June 30, 2017, 2016, 2015 and 2014 we had 2,193, 1,760, 1,259, and 769 employees, respectively.

The following table provides details of our full-time equivalent directors, senior managers and employees by gender as of June 30, 2017:

	Women	%	Men	%
Directors	2	25.0	6	75.0
Senior Management	29	21.6	105	78.4
Total Employees	597	27.2	1,596	72.8

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-premises 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 2,750 companies in 60 countries have taken the pledge.

Over the years, we have donated an aggregate of $9.8 million to charities and over 54,000 licenses worth more than $100 million to non-profit, academic and open source organizations. The Atlassian Foundation works on a range of 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 260,000 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 receives five days paid leave per year to work with a nonprofit of their choice.

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. For detailed information, please refer to Greenhouse Gas (GHG) Emissions in the Directors' Report.

Human Rights

The Group is committed to acting ethically and with integrity in all of its business relationships and maintaining and improving systems and processes to avoid complicity in human rights violations related to our own operations, our supply chain, and our products. A copy of the Group's Modern Slavery Act Transparency Statement, which sets out the steps the Group takes to avoid human rights violations and details of our Code of Business Conduct and Ethics, is available on the Company's website.

Approval

This Strategic Report was approved by the Board on September 8, 2017 and signed on its behalf by Scott Farquhar.

Scott Farquhar

Company Director

Directors’ Remuneration Report for the fiscal year ended June 30, 2017

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 Chair 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, 2017.

The Company’s Annual Report on Remuneration sets forth the remuneration paid to Directors in respect of the fiscal year ended June 30, 2017. 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 an advisory vote at the Company’s 2017 Annual General Meeting to be held on December 5, 2017.

Also in accordance with United Kingdom law, the Company is required to seek shareholder approval for a remuneration policy for its directors at least every three years. The Company obtained approval for its Directors’ Remuneration Policy for Employee and Non-Employee Directors (the “Remuneration Policy”) at the 2016 Annual General Meeting, and a copy of this policy is available on the Company's investor relations website at: https://investors.atlassian.com/corporate-governance/governance-documents/default.aspx.

Shona L. Brown

Chair of the Compensation and Leadership Development Committee

September 8, 2017

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, 2017 and 2016 are set out in the table below (Australian dollars (AUD), 000s):

	Salary		Benefits		Annual bonus		Long-term incentives		Retirement benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Michael Cannon-Brookes	$383	$383	-	-	-	-	-	-	$36	$36	$419	$419
Scott Farquhar	$383	$383	-	-	-	-	-	-	$36	$36	$419	$419

Details of amounts included in the single total figure for the fiscal years ended June 30, 2017 and 2016 (audited)

Benefits

Other than salary and retirement benefits, no other benefits were provided to either employee director during the fiscal years ended June 30, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016.

Retirement benefits

During the fiscal years ended June 30, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016 are set out in the table below (US dollars (USD), 000s):

	Base fees		Other fees		Equity awards (5)		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Shona L. Brown (1)	$58	$28	-	-	$225	$475	$283	$503
Douglas J. Burgum (2)	$50	$56	-	-	-	$216	$50	$272
Heather Mirjahangir Fernandez	$50	$28	-	-	$225	$475	$275	$503
Jay Parikh	$50	$28	-	-	$225	$216	$275	$244
Enrique Salem	$50	$28	-	-	$225	$216	$275	$244
Steven Sordello (3)	$70	$39	-	-	$225	$475	$295	$514
Richard P. Wong (4)	$60	$34	-	-	$225	$216	$285	$250

(1) Dr. Brown is chair of the Compensation and Leadership Development Committee.

(2) Mr. Burgum resigned as a non-employee director on December 7, 2016. The fees shown in the table above for the fiscal year ended June 30, 2017 represent the fees paid in the period from July 1, 2017 until the date of Mr. Burgum's resignation. Mr. Burgum did not receive any further payments after such date.

(3) Mr. Sordello is chair of the Audit Committee.

(4) Mr. Wong is chair of the Nominating and Corporate Governance Committee.

(5) Details of the equity awards granted to non-employee directors during the fiscal year ended June 30, 2017 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, 2017 (audited)

Equity awards

The following equity awards were granted to non-employee directors during the fiscal year ended June 30, 2017. The equity awards were granted as Annual Grants with a grant date fair market value of $225,000, in line with the Remuneration Policy.

	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 L. Brown	12/6/16	Annual Grant	RSU	8,796	$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next annual general meeting ("AGM")
Douglas J. Burgum (1)	-	-	-	-	-	-
Heather Mirjahangir Fernandez	12/6/16	Annual Grant	RSU	8,796	$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	12/6/16	Annual Grant	RSU	8,796	$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Enrique Salem	12/6/16	Annual Grant	RSU	8,796	$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM
Steven Sordello	12/6/16	Annual Grant	RSU	8,796	$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	12/6/16	Annual Grant	RSU	8,796	$225,000	Vests in full on the earlier of (i) the one-year anniversary of the grant date or (ii) the next AGM

(1) Mr. Burgum resigned as a non-employee director in December 2016 and did not receive any equity awards for his service as a non-employee director during the fiscal year ended June 30, 2017.

(2) The value of the awards was calculated based on an assumed price per share of $25.58 as of the date of the grant, based on the closing sales price of our Class A ordinary shares as reported on NASDAQ.

(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, 2017

Payments to past directors (audited)

Mr. Burgum ceased to be a non-employee director on December 7, 2016. In line with the Remuneration Policy, Mr. Burgum received fees until he ceased to be a non-employee director, and was not paid any further fees after such date. Mr. Burgum did not receive an annual grant of an equity award during the fiscal year ended June 30, 2017. On the date of his resignation, Mr. Burgum held a vested equity award of 12,007 shares, and, as this award was vested, the release of shares pursuant to this award was not affected by Mr. Burgum's resignation. In addition, Mr. Burgum did not receive any other remuneration in connection with him ceasing to be a non-employee director during the fiscal year ended June 30, 2017.

No other payments were made to any other former director during the fiscal year ended June 30, 2017.

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, 2017.

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 of June 30, 2017, are set out below (audited).

	Interests in shares held at June 30, 2017, excluding outstanding scheme interests	Total shares subject to outstanding scheme interests at June 30, 2017	Total of all share interests and outstanding scheme interests, at June 30, 2017
Michael Cannon-Brookes	66,890,721 (1)	-	66,890,721
Scott Farquhar	66,890,721 (2)	-	66,890,721
Shona L. Brown	17,738	17,492	35,230
Douglas J. Burgum	410,985 (3)	-	410,985
Heather Mirjahangir Fernandez	3,489	17,492	20,981
Jay Parikh	212,007	12,963	224,970
Enrique Salem	157,840	12,963	170,803
Steven Sordello	17,738	17,492	35,230
Richard P. Wong	172,217 (4)	8,796	181,013

(1) Consists of (i) 12,442,231 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) 12,442,231 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 410,985 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) 160,210 of these shares are unrelated to Mr. Wong's service as a non-employee director.

Further details of the scheme interests held during the fiscal year ended June 30, 2017 are shown in the following table (1) (audited):

					Changes during the year			
	Description	Type	Vesting schedule	At June 30, 2016	Granted	Lapsed	Shares released on vesting	At June 30, 2017
Shona L. Brown	Initial Grant	RSU	(3)	13,913	-	-	5,217	8,696
	Annual Grant	RSU	(4)	12,521	-	-	12,521	-
	Annual Grant	RSU	(5)	-	8,796	-	-	8,796
Douglas Burgum	Annual Grant	RSU	(4)	12,007	–	–	12,007	–
Heather Mirjahangir Fernandez	Initial Grant	RSU	(3)	13,913	-	-	5,217	8,696
	Annual Grant	RSU	(4)	12,521	-	-	12,521	-
	Annual Grant	RSU	(5)	-	8,796	-	-	8,796
Jay Parikh	(2)	Shares	(2)	54,167	-	-	50,000	4,167
	Annual Grant	RSU	(4)	12,007	-	-	12,007	-
	Annual Grant	RSU	(5)	-	8,796	-	-	8,796
Enrique Salem	(2)	Shares	(2)	54,167	-	-	50,000	4,167
	Annual Grant	RSU	(4)	12,007	-	-	12,007	-
	Annual Grant	RSU	(5)	-	8,796	-	-	8,796
Steven Sordello	Initial Grant	RSU	(3)	13,913	-	-	5,217	8,696
	Annual Grant	RSU	(4)	12,521	-	-	12,521	-
	Annual Grant	RSU	(5)	-	8,796	-	-	8,796
Richard P. Wong	Annual Grant	RSU	(4)	12,007	-	-	12,007	-
	Annual Grant	RSU	(5)	-	8,796	-	-	8,796

(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 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, 2016 and 2017. The shares vest in 48 equal monthly installments from the grant date (July 30, 2013).

(3) 25% of the RSUs vest 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).

(4) 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.

(5) The RSUs vest in full on the earlier of (i) the one-year anniversary of the grant date (12/6/16) or (ii) the next AGM.

Comparison to Company Performance

Performance 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.

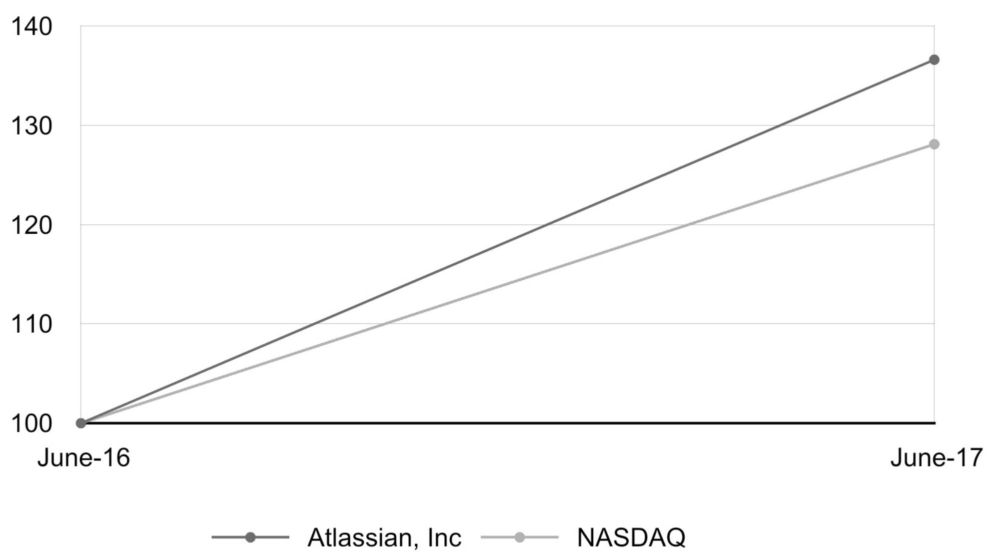
		2017	2016	2015	2014	2013
CEO single figure of remuneration (AUD, 000s)	Michael Cannon-Brookes	$419	$419	$375	$339	$312
	Scott Farquhar	$419	$419	$375	$342	$312
	Total	$838	$838	$750	$681	$624
Annual bonus as a % of maximum opportunity (%) (1)	Michael Cannon-Brookes	N/A	N/A	N/A	N/A	N/A
	Scott Farquhar	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.

Performance graph

The following graph charts the total cumulative shareholder return of the Company from June 30, 2016 to June 30, 2017 against the total shareholder return for the companies comprised in the NASDAQ. This index was chosen to illustrate the Company's performance in the general market.



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, 2017 and June 30, 2016 for the Co-CEOs as compared to employees generally.

	Salary	Benefits	Bonus
Co-CEOs	0.0%	N/A	N/A
Group employees	0.28%	7.29%	(1.30)%

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.

	2017	2016	% change
Employee remuneration (000's) (1)	$217,573	$161,835	34%
Distributions to shareholders (000's)	$0	$0	N/A

(1) As of June 30, 2017 and 2016, we had 2,193 and 1,760 employees, respectively.

Statement of implementation of Remuneration Policy for the year to June 30, 2018

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 2018.

While the 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, 2018 and neither will be granted any long-term incentive awards during the fiscal year ending June 30, 2018.

Non-Employee Directors

Non-employee director retainers and equity grants will be paid and awarded in accordance with the Remuneration Policy.

Consideration of Matters Relating to Directors' Remuneration

Compensation and Leadership Development Committee

The members of the Committee during the fiscal year ended June 30, 2017, and their attendance at meetings of the Committee, is set out below:

Member	Attendance
Douglas J. Burgum (1)	1/1
Jay Parikh	2/3
Shona L. Brown (Chair) (2)	3/3
Richard Wong (3)	2/2

(1) Mr. Burgum served as Chair of the Committee until his resignation in December 2016.

(2) Dr. Brown became Chair of the Committee in December 2016.

(3) Mr. Wong joined the Committee in December 2016.

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, 2017 were $43,902. 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 votes cast by shareholders at the 2016 Annual General Meeting on the Remuneration Policy and Annual Report on Remuneration are set forth below (shown to reflect ten votes for every Class B ordinary share and one vote for every Class A ordinary share). As of October 17, 2016, the voting record date, there were 82,167,285 Class

A ordinary shares and 138,011,962 Class B ordinary shares outstanding, all of which were entitled to vote. The shareholder votes submitted at the meeting, either directly, by mail or by proxy, were as follows:

	Votes cast in favor		Votes cast against		Votes withheld	
	Number of shares (millions)	% of votes cast	Number of shares (millions)	% of votes cast	Number of shares (millions)	% of votes cast
To approve the Directors' Remuneration Report other than the part containing the Directors' Remuneration Policy	1,420,482,625	99.13%	382,791	0.03%	12,018,677	0.84%
To approve the Directors' Remuneration Policy, as set forth in the Directors' Remuneration Report	1,388,610,759	96.91%	31,885,191	2.23%	12,388,143	0.86%

The Remuneration Report was approved by the Board on September 8, 2017 and signed on its behalf by Shona L. Brown.

Shona L. Brown

Chair of the Compensation and Leadership Development Committee

September 8, 2017

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, 2017. 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 in the financial statements are in U.S. dollars unless noted otherwise.

Corporate Structure

The Company is a public company limited by shares, incorporated and registered in England & Wales.

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, 2017, the Group's subsidiaries, all of which are wholly-owned, are as follows:

Name of Subsidiary and Registered Address	Country of Incorporation	Percentage Ownership
Atlassian (UK) Limited c/o Herbert Smith Freehills LLP Exchange House, Primrose Street London EC2A 2EG, UK	United Kingdom	100%
Atlassian (Australia) Limited c/o Herbert Smith Freehills LLP Exchange House, Primrose Street London EC2A 2EG, UK	United Kingdom	100%
Atlassian (Global) Limited c/o Herbert Smith Freehills LLP Exchange House, Primrose Street London EC2A 2EG	United Kingdom	100%
Atlassian (UK) Operations Limited c/o Herbert Smith Freehills LLP Exchange House, Primrose Street London EC2A 2EG	United Kingdom	100%
Atlassian, Inc. 1098 Harrison Street San Francisco California 94103	United States of America	100%
Atlassian LLC 1098 Harrison Street San Francisco California 94103	United States of America	100%
Atlassian Network Services, Inc. 1098 Harrison Street San Francisco California 94103	United States of America	100%
Dogwood Labs, Inc. 1098 Harrison Street San Francisco California 94103	United States of America	100%

Trello, Inc. 55 Broadway, 25th Floor New York, NY 10006	United States of America	100%
Atlassian Australia 1 Pty Ltd Level 6, 341 George St., Sydney, NSW, 2000 Australia	Australia	100%
Atlassian Australia 2 Pty Ltd Level 6, 341 George St. Sydney, NSW, 2000 Australia	Australia	100%
Atlassian Corporation Pty. Ltd. Level 6, 341 George St. Sydney, NSW, 2000 Australia	Australia	100%
Atlassian Pty Ltd Level 6, 341 George St. Sydney, NSW, 2000 Australia	Australia	100%
Atlassian Capital Pty. Ltd. Level 6, 341 George St. Sydney, NSW, 2000 Australia	Australia	100%
MITT Australia Pty Ltd Level 6, 341 George St. Sydney, NSW, 2000 Australia	Australia	100%
MITT Trust Level 6, 341 George St. Sydney, NSW, 2000 Australia	Australia	100%
Atlassian K.K. 4-24-1-1 Kaigandōri Naka-ku Yokohama, Kanagawa 231-0002 Japan	Japan	100%
Atlassian Germany GmbH c/o Baker & McKenzie Theatinerstrasse 23 80333 Munich Germany	Germany	100%
Atlassian B.V. Singel 236 1016 AB Amsterdam Netherlands	Netherlands	100%
Atlassian Philippines, Inc. 2nd Floor Building 3 Bonifacio High Street Central East Fort Bonifacio Global City Taguig, Metro Manila 1634 Philippines	Philippines	100%

Atlassian France 3 boulevard Sébastopol 75001 Paris France	France	100%
SIP Communicator Ltd. 17 Danail Popov Str. Entrance A, Apt 1 Pleven 5800 Bulgaria	Bulgaria	100%

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 loss for the fiscal year ended June 30, 2017 was $42.5 million.

Dividends

For the fiscal year ended June 30, 2017, 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 2017 and 2016, our research and development expenses were 50% and 46% 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

A full description of Group financial risk management activities is included in the financial statements. Note 5, "Financial risk management."

Cash Flow Risk

Since our inception, we have financed our operations primarily through cash flows generated by operations. At June 30, 2017, we had cash and cash equivalents totaling $244.4 million, short-term investments totaling $305.4 million and trade receivables totaling $26.8 million.

Our cash flows from operating activities, investing activities and financing activities for the fiscal years ended June 30, 2017, 2016 and 2015 were as follows:

	Fiscal Year Ended June 30,		
	2017	2016	2015
	(in thousands)		
Net cash provided by operating activities	$ 199,381	$ 129,542	$ 98,221
Net cash used in investing activities	(224,573)	(489,510)	(28,566)
Net cash provided by (used in) financing activities	9,438	432,784	2,338
Effect of exchange rate changes on cash and cash equivalents	465	(201)	(1,665)
Net increase in cash and cash equivalents	$ (15,289)	$ 72,615	$ 70,328

At June 30, 2017, 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. 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. We expect to continue to incur capital expenditures to support the growth in our business and operations, such as new office facilities. 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 is comprised of the following individuals:

Employee Directors	***Non-employee Directors***
Michael Cannon-Brookes	Shona L. Brown
Scott Farquhar	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, 2016 to June 30, 2017

Emissions from:	**Current Year (Tonnes of CO2-e)**	**Previous Year**	**% Change**
Combustion of fuel and operation of facilities	184	35	431%
Electricity, heat, steam and cooling purchased for own use	1,583	1,150	38%
Total	**1,767**	**1,185**	**49%**
The Company's chosen intensity measurement:			
Emissions reported above normalized per sq. m. (kg CO2-e/m2)	51.6	45.1	14%

The Company has reported on all known Scope 1 and 2 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.

The Company 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† was released on May 2, 2017.

† Based on data from the IEA CO2 Emissions from Fuel Combustion online data service Source: IEA ©OECD/IEA 2016 (http://www.iea.org/t&c/termsandconditions/) - CO2KWH ELE tab.

Political Contributions

No political donations were made during the fiscal year.

Purchase and charges of own shares

On December 14, 2016 the Company acquired 18,750 Class A ordinary shares (nominal value $0.10 each) from an employee of the Group who had ceased employment with the Group. This purchase was made pursuant to a contractual repurchase right which the Company had in connection with an early exercise of share options held by the relevant employee. The consideration paid to the departing employee was $59,625. The Company had previously received shareholder approval in connection with the repurchase.

The repurchased shares, which represented 0.008% of the Company's share capital as at December 14, 2016, were subsequently cancelled.

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 or she ought to have taken as a Director in order to make himself or herself 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, 2017 were authorized for issue by the Board on September 8, 2017. The Statements of Financial Position were signed on behalf of the Board 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 judgments 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 September 8, 2017 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 ATLASSIAN CORPORATION PLC

Opinion

In our opinion:

- Atlassian Corporation Plc's group financial statements and parent company financial statements (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 30 June 2017 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- 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.

We have audited the financial statements of Atlassian Corporation Plc which comprise:

Group	Parent company
Consolidated balance sheet as at 30 June 2017	Balance sheet as at 30 June 2017
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive loss for the year then ended	Statement of comprehensive loss for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement for the year then ended	
Related notes 1 to 22 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) 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".

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Overview of our audit approach

Key audit matters	• Revenue recognition in respect of unidentified side arrangements for significant manually initiated agreements and improper revenue recognition for new products • Recognition of deferred tax assets related to assessed tax losses incurred • Valuation of intangibles and goodwill associated with the acquisitions of Trello, Inc. and Dogwood Labs, Inc. made in the year
Audit scope	• We work as an integrated primary team with Ernst & Young US and performed an audit of the complete financial information of the consolidated group • We also performed an audit of the complete financial information of the standalone parent company
Materiality	• Overall group materiality was set at $4.5 million which represents 0.75% of revenue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition The Group has reported revenues of \$620 million (2016: \$457 million). The Group's revenue recognition policies are disclosed on page 63, and the significant judgments and estimates made in respect of recognising revenue on page 70. We have identified one specific risk of fraud and error in respect of improper revenue recognition given the nature of the Group's products and services as follows: • Unidentified side arrangements for significant manual paper revenue contracts resulting in overstatement of revenue We have identified one specific risk of error in respect of improper revenue recognition given the nature of the Group's products and services as follows: • Improper set-up of revenue recognition within the company's revenue recognition waterfall for new products, resulting in incorrect revenue recognized and deferred revenue balances	To address the areas of identified higher risk, we have completed additional procedures as follows: *Existence of side agreements* • In order to test for the existence of any side arrangements, we requested customers confirm the terms and conditions confirmations for all key paper manually initiated agreements, based on a testing threshold of 25% of our performance materiality and a sample of the remaining population to add an element of unpredictability to the procedures. • A key control in respect of unidentified side arrangements is that quarterly, sales certification confirmations are sent to customer-facing personnel. We obtained a report of all sales certification confirmations sent and followed up as to how any exceptions were addressed and resolved by management, and to confirm that they were appropriately signed. • We performed enquiries for a sample of customer-facing employees who are required to sign the quarterly confirmations to confirm their understanding of the confirmation process, and what they are attesting to when signing the confirmation. *New product revenues* • We obtained the company's analysis of identification of new product/service offerings and understood the deliverables of the new products. From this analysis we have assessed the appropriateness of the revenue recognition model and its compliance with the group's revenue recognition policy and accounting framework. • To confirm our understanding of the revenue recognition and test the set up in each new product in the system, we selected one contract for each new product and agreed the correct revenue recognition model had been determined and applied within the system. • We tested controls over the set-up of new products in the system and over the accurate processing of revenue transactions without exception.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year and deferred at 30 June 2017.

<table>
<tr>
<td>Recognition of deferred tax assets

Unreasonable assumptions could be used in developing the Group's forecast financial information which is relied upon to determine the recoverability of Australian deferred tax assets. Deferred tax assets of $144 million have been recognised, as disclosed in note 8 on page 83.</td>
<td>We evaluated the historical accuracy of forecasting taxable profits, with the involvement of Ernst & Young tax specialists, and the integrity of the forecast models and, as a result of these procedures, we formed our own view on the appropriateness of management's methodology and determination of the key assumptions.

Specifically:

- We conducted interviews with the Group's FP&A team to understand how the forecast information was developed and which the key assumptions are within the forecast.
- We challenged the key assumptions including forecast future revenues and expenses.
- We challenged the appropriateness of management's assumptions based on the known facts and circumstances, including the reliability of forecast models, used to determine the recoverability of the Australian deferred tax assets.
- We performed a sensitivity analysis of the specific key inputs of the Prospective Financial Information ("PFI")
- We audited the presentation within the statutory accounts to ensure the adequacy of the disclosures related to the recognition of deferred tax.</td>
<td>Based on the results of our work, we agree with management's conclusion that the deferred tax assets are recoverable and should be recognised as at 30 June 2017.</td>
</tr>
<tr>
<td>Valuation of acquired intangibles and goodwill

The Group made an acquisition during the year for total consideration of $384 million. Management completed a formal review of the acquired business and allocated the consideration across all material acquired assets and liabilities. The amounts recorded are disclosed in note 12 on pages 88 to 89. Group management has to make a number of assumptions when calculating the opening balance sheets for the acquired businesses. Inaccurate information could be used in developing the forecasts that underpin the valuation of intangibles resulting in inappropriate values for acquired intangibles and goodwill.</td>
<td>With the involvement of Ernst & Young business valuation specialists, we challenged management's assessment of the fair value of the assets & liabilities acquired, in particular the methodology applied in the valuation of acquired intangible assets and goodwill.

Specifically:

- Using industry standards and market data as benchmarks, we have challenged the key assumptions including discount rates, royalty rates, and obsolescence factors.
- We performed a sensitivity analysis around PFI used to determine the impact to the acquired intangibles and goodwill.
- We tested controls relating to the preparation of forecasts and performed corroborative inquiry with the Group's FP&A team to understand how the forecast was developed and audit the assumptions used.
- We evaluated the historical accuracy of management's forecasts.
- We audited the presentation within the statutory accounts to ensure the adequacy of the disclosures related to the valuation of acquired intangibles and goodwill.</td>
<td>Based on the results of our work, we agree with management's conclusion that the assumptions and methods used in the valuation of acquired intangible assets and goodwill are appropriate. We have not identified any contrary information which may indicate inappropriate values have been assigned to the assets or that indicators of impairment exist.</td>
</tr>
</table>

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements. Atlassian Corporation Plc operates through a single reporting unit and the vast majority (c99%) of the trade and operations of the group are contained within a single trading entity incorporated in Australia which is managed and operated out of San Francisco, United States. As such the group comprises a reporting unit and we audited the consolidated entity as a single operation.

Atlassian has centralised processes and controls over the key areas of our audit focus with responsibility lying with group management for all estimation processes and significant risk areas. We have tailored our audit response accordingly and thus for the majority of our focus areas, audit procedures were undertaken directly by the Group audit team.

Integrated team structure
The overall audit strategy is determined by the senior statutory auditor, David Hales. The senior statutory auditor is based in the UK but, since Group management and operations reside in the US, the Group audit team includes members from both the UK and US, supplemented with subject matter specialists as required. The senior statutory auditor visited the US during the current year's audit and members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process. Whilst in the US, he focused his time on the significant risks and judgmental areas of the audit.

He met with group financial management and attended the year end results presentations to the Audit Committee. During the current year's audit he reviewed key working papers and met, or held regular conference calls, with representatives of the US audit team to discuss the audit approach and issues arising from their work.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $4.5 million, which is 0.73% of group revenue, of $620 million (2016: $2.2 million, which represents 0.5% of group revenue, of $457 million). We believe that revenue provides us with a basis that is closely aligned with the users of the financial statements, given the business is growing very swiftly and is currently loss making. The lower basis used in the prior period was associated with the increased risk related to the initial public offering, however following the listing we have revised our risk assessment and recalibrated our materiality.

The materiality for the parent company financial statements was calculated at $5.6 million, determined with reference to a benchmark of parent company's assets, of $751 million of which it represents 0.75% (2016: $2.9 million which represents 0.5% of parent company assets, of $586 million). As the materiality calculated is higher than that of the group, judgment has been exercised to perform all audit work at the lower, group materiality amount.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2016: 75%) of our planning materiality, namely $2.3 million (2016: $1.7 million). We have set current year performance materiality at this percentage due to the risk associated with the rapid growth of the business, the introduction of new key accounting personnel, and the Company refining its approach to internal control in order to comply with US regulation. In order to exercise caution during a period of change we have reduced our performance materiality threshold to 50%.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.3 million (2016: $0.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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.

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

Ernst & Young LLP

David Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
September 11, 2017

ATLASSIAN CORPORATION PLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(U.S. $ and shares in thousands, except per share data)

	Notes	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Revenues			
Subscription		$ 242,128	$ 146,659
Maintenance		265,521	218,848
Perpetual license		74,565	65,487
Other		37,722	26,064
Total revenues	19	619,936	457,058
Cost of revenues		119,161	75,783
Gross profit		500,775	381,275
Operating expenses			
Research and development		310,168	208,306
Marketing and sales		134,908	93,391
General and administrative		118,785	85,458
Total operating expenses		563,861	387,155
Operating loss		(63,086)	(5,880)
Other non-operating income (expense), net	6	(1,342)	(1,072)
Finance income		4,851	2,116
Finance costs		(75)	(71)
Loss before income tax benefit		(59,652)	(4,907)
Income tax benefit	8	17,148	9,280
Net income (loss)		$ (42,504)	$ 4,373
Net income (loss) attributable to:			
Owners of Atlassian Corporation Plc		$ (42,504)	$ 4,373
Net income (loss) per share attributable to ordinary shareholders:			
Basic	16	$ (0.19)	$ 0.02
Diluted	16	$ (0.19)	$ 0.02
Weighted-average shares outstanding used to compute net income (loss) per share attributable to ordinary shareholders:			
Basic	16	222,224	182,773
Diluted	16	222,224	193,481

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

ATLASSIAN CORPORATION PLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. $ in thousands)

		Fiscal Year Ended June 30,	
	Notes	2017	2016
Net income (loss)		$ (42,504)	$ 4,373
Other comprehensive income:			
Foreign currency translation adjustment	15	140	(4)
Net change in unrealized gain (loss) on investments classified at fair value through other comprehensive income		(945)	687
Net gain on derivative investments		3,164	—
Income tax effect		(812)	(137)
Other comprehensive income net of tax that will be reclassified to profit or loss in subsequent periods		1,547	546
Total comprehensive income (loss), net of tax		$ (40,957)	$ 4,919
Total comprehensive income (loss) attributable to:			
Owners of Atlassian Corporation Plc		$ (40,957)	$ 4,919

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

ATLASSIAN CORPORATION PLC

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(U.S. $ in thousands)

	Notes	June 30, 2017		June 30, 2016	
Assets					
Current assets:					
Cash and cash equivalents	13	$	244,420	$	259,709
Short-term investments	5		305,499		483,405
Trade receivables	9		26,807		15,233
Current tax receivables			12,445		6,013
Prepaid expenses and other current assets	13		23,317		14,178
Total current assets			612,488		778,538
Non-current assets:					
Property and equipment, net	10		41,173		58,762
Deferred tax assets	8		188,239		127,411
Goodwill	11		311,900		7,138
Intangible assets, net	11		120,789		13,577
Other non-current assets	13		9,269		5,547
Total non-current assets			671,370		212,435
Total assets		$	1,283,858	$	990,973
Liabilities					
Current liabilities:					
Trade and other payables	13	$	73,192	$	57,886
Current tax liabilities			2,207		286
Provisions	13		6,162		4,716
Deferred revenue			245,306		173,612
Total current liabilities			326,867		236,500
Non-current liabilities:					
Deferred tax liabilities	8		43,950		6,639
Provisions	13		3,333		2,170
Deferred revenue			10,691		7,456
Other non-current liabilities	13		4,969		6,545
Total non-current liabilities			62,943		22,810
Total liabilities		$	389,810	$	259,310
Equity					
Share capital	14	$	22,726	$	21,620
Share premium	15		450,959		441,734
Other capital reserves	15		437,346		244,335
Other components of equity	15		6,246		4,699
Retained earnings (accumulated deficit)			(23,229)		19,275
Total equity		$	894,048	$	731,663
Total liabilities and equity		$	1,283,858	$	990,973

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, September 8, 2017
Company Director
Company Registration Number: 8776021

ATLASSIAN CORPORATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(U.S. $ in thousands)

					Other components of equity				
	Notes	Share capital	Share premium	Other capital reserves	Cash flow hedge reserve	Foreign currency translation reserve	Investments at fair value through other compre-hensive income reserve	Retained earnings (accumulated deficit)	Total equity
Balance as of July 1, 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
Issuance of ordinary shares upon 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
		3,159	435,990	97,541	—	—	—	—	536,690
Balance as of June 30, 2016		21,620	441,734	244,335	—	4,149	550	19,275	731,663
Net loss		—	—	—	—	—	—	(42,504)	(42,504)
Other comprehensive income (loss), net of tax		—	—	—	2,215	140	(808)	—	1,547
Total comprehensive income (loss)		—	—	—	2,215	140	(808)	(42,504)	(40,957)
	14, 15								
Issuance of ordinary shares upon exercise of share options	14, 15	640	8,858	—	—	—	—	—	9,498
Vesting of early exercised shares	14	15	367	—	—	—	—	—	382
Issuance of ordinary shares for settlement of RSUs		451	—	(451)	—	—	—	—	—
Share-based payment		—	—	137,458	—	—	—	—	137,458
Replacement equity awards related to business combination	8	—	—	20,193	—	—	—	—	20,193
Tax benefit from share plans		—	—	35,811	—	—	—	—	35,811
		1,106	9,225	193,011	—	—	—	—	203,342
Balance as of June 30, 2017		$22,726	$450,959	$437,346	$ 2,215	$ 4,289	$ (258)	$ (23,229)	$ 894,048

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)

	Notes	Fiscal Year Ended June 30, 2017	2016
Operating activities			
Loss before income tax		$ (59,652)	$ (4,907)
Adjustments to reconcile loss before income tax to net cash provided by operating activities:			
Depreciation and amortization	10, 11	61,546	21,926
Net (gain) loss on sale of investments and other assets		(397)	165
Net unrealized foreign currency loss		93	152
Share-based payment expense		137,448	75,480
Interest income		(4,851)	(2,116)
Changes in assets and liabilities:			
Trade receivables		(10,208)	(3,487)
Prepaid expenses and other assets		(5,647)	(4,203)
Trade payables, accrued expenses and other current liabilities, provisions and other non-current liabilities		10,947	11,622
Deferred revenue		72,604	44,503
Interest received		6,540	2,839
Income tax paid, net of refunds		(9,042)	(12,432)
Net cash provided by operating activities		199,381	129,542
Investing activities			
Business combinations, net of cash acquired		(381,090)	—
Purchases of property and equipment		(15,129)	(34,213)
Purchases of intangible assets		(925)	—
Proceeds from sale of other assets		342	—
Proceeds from maturities of investments		111,403	65,294
Proceeds from sales of investments		488,672	49,501
Purchases of investments		(423,540)	(569,067)
Increase in restricted cash		(3,371)	—
Payment of deferred consideration		(935)	(1,025)
Net cash used in investing activities		(224,573)	(489,510)
Financing activities			
Proceeds from issuance of ordinary shares upon initial public offering, net of offering costs		—	431,447
Proceeds from exercise of share options		9,438	6,732
Employee payroll taxes paid related to net share settlement of equity awards		—	(5,395)
Net cash provided by financing activities		9,438	432,784
Effect of exchange rate changes on cash and cash equivalents		465	(201)
Net increase (decrease) in cash and cash equivalents		(15,289)	72,615
Cash and cash equivalents at beginning of year		259,709	187,094
Cash and cash equivalents at end of year		$ 244,420	$ 259,709

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

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, Trello for capturing and adding structure to fluid, fast-forming work for teams, Bitbucket for team code sharing and management and JIRA Service Desk for team service and support applications.

The accompanying consolidated financial statements of the Company and its subsidiaries for the year ended June 30, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on September 8, 2017.

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 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 (U.S $ 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.

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 and other offering expenses. Upon the closing of our IPO, all then-outstanding Series A preference shares automatically converted into Class A ordinary shares, all then-outstanding restricted shares automatically converted into Class A ordinary shares and all then-outstanding Series B preference shares automatically converted into Class B ordinary shares.

Principles of consolidation

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

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 Standard ("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.

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), net 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., “solution partners”). 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 initially 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. Fair value changes that have been recognized in other comprehensive income are recycled to profit or loss upon sale of the investment.

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.

The Group assesses at the end of each reporting period whether there has been an increase in credit risk for a financial asset since initial recognition. When there has been a significant increase in credit risk, the Group will recognize a loss allowance based on the expected credit losses on a 12-month or lifetime basis. Expected credit losses are a probability-weighted estimate of the difference in the present value of contractual cash flows and the present value of cash flows that the Group expects to receive. The changes in the loss allowance balance are recognized as an impairment loss in the consolidated statements of operations. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recorded 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 any 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. 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 for the 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
Acquired developed technology	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.

Changes in accounting standards

In July 2014, the IASB issued IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The standard introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new guidance regarding the application of hedge accounting to better reflect an entity's risk management activities with regard to managing non-financial risks. The standard required effectiveness for the Company beginning in the fiscal year ending June 30, 2019, with early application permitted. The Group elected to early adopt IFRS 9 during the fiscal year ended June 30, 2017 and the impact on the Group's consolidated financial statements is not material.

New accounting standards not yet adopted

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. We plan to adopt the new standard as of July 1, 2018.

The standard may be applied retrospectively to each prior period presented (full retrospective method), or with the cumulative effect recognized in beginning retained earnings (accumulated deficit) as of the date of initial adoption (modified retrospective method).

As a result of adoption we expect the primary impact to be related to our term-based licenses of our on-premises products, as we anticipate a portion of revenue for these contracts will be recognized earlier. Currently, we recognize revenue for our term-based licenses ratably over the service period. We continue to evaluate and quantify the impact of adopting IFRS 15 on our consolidated financial statements. We have assigned internal resources, engaged third-party service providers and have a preliminary project plan in order to guide us in this implementation.

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 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.

Business Combinations

The Group uses its best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Group's estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the date of acquisition, the Group may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions are initially established in connection with a business combination as of the acquisition date. The Group continues to collect information and reevaluates these estimates and assumptions as deemed reasonable by management. The Group records any adjustments to these estimates and assumptions against goodwill provided they arise within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

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, 2017 and 2016.

Impairment of financial instruments

The Group assesses the credit risk for financial instruments. When there has been a significant increase in credit risk, the Group will recognize expected credit losses, which are a probability-weighted estimate of the difference between the present value of contractual cash flows and the present value of cash flows that the Group expects to receive. Significant judgment is involved in assessing the probability of cash flows to be received in future periods.

4. Group Information

As of June 30, 2017, 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
Dogwood Labs, Inc.	United States of America
Trello, 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, 2017:

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.

Beginning July 1, 2016, we entered into derivative transactions to manage certain foreign currency exchange risks that arise in the Group's ordinary business operations. We recognize all derivative instruments as either assets or liabilities on our consolidated statement of financial position and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting.

We enter into master netting agreements with select financial institutions to reduce our credit risk and contract with several counterparties to reduce our concentration risk with any single counterparty. We do not have significant exposure to counterparty credit risk at this time. We do not require nor are we required to post collateral of any kind related to our foreign currency derivatives.

Cash flow hedging

We enter into foreign exchange forward contracts with the objective to mitigate certain currency risks associated with cost of revenues and operating expenses denominated in Australian dollars. These foreign exchange forward contracts are designated as cash flow hedges.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We include the forward element of these hedging instruments in the hedge relationship and on a quarterly basis qualitatively assess whether the hedges are expected to provide offsetting changes against the hedged items. The effect of the cash flow hedges determined to be effective is recognized in other comprehensive income and impact profit or loss in the same period or periods as the hedged items are recognized in profit or loss. Amounts reclassified from cash flow hedge reserve to profit or loss are recorded to the same functional expense as hedged item or items. Gains or losses related to the ineffective portion of cash flow hedges, if any, are recognized immediately in the functional expense as the hedged item or items.

It is our policy to enter into cash flow hedges to hedge cost of revenues and operating expenses up to 18 months.

Balance sheet Hedging

We also enter into foreign exchange forward contracts to hedge a portion of certain foreign currency denominated as monetary assets and liabilities to reduce the risk that such foreign currency will be adversely affected by changes in exchange rates. These contracts hedge monetary assets and liabilities that are denominated in non-functional currencies and are carried at fair value with changes in the fair value recorded to other non-operating income (expense), net on our consolidated statement of operations. These contracts do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the monetary assets and liabilities being hedged.

Foreign currency sensitivity

As of June 30, 2017, the total fair value of all foreign exchange forward contracts was $3.3 million, which was comprised of the notional equivalent of $146.7 million in Australian dollars.

A sensitivity analysis performed on our hedging portfolio as of June 30, 2017 indicated that a hypothetical 10% strengthening of the U.S. dollar against other currencies applicable to our business would decrease the fair value of our foreign currency contracts by $11.3 million. A hypothetical 10% weakening of the U.S. dollar against other currencies would increase the fair value of our foreign currency contracts by $11.3 million.

We had not entered into any derivatives or hedging transactions as of June 30, 2016. As such, the sensitivity analysis performed at June 30, 2016 expressed the potential exposure to foreign currency exchange risk on our results of operations, before taxes. For the fiscal year ended June 30, 2016, the effect of a hypothetical 10% strengthening of the U.S. dollar against other currencies applicable to our business would have had a positive impact of $13.0 million on our result of operations, before taxes, while a weakening of the U.S. dollar against other currencies would have had a negative impact of $13.0 million on our result of operations, before taxes.

Interest rate risk

The Group had cash and cash equivalents totaling $244.4 million and short-term investments totaling $305.5 million as of June 30, 2017. 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 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, 2017 and 2016 could result in a $2.0 million and $3.6 million decrease in the market value of our investments, respectively. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur.

Credit risk

Group is exposed to credit risk arising from cash and cash equivalents, deposits with banks and financial institutions, investments, foreign exchange derivative contracts, as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is managed on a Group basis.

The Group has a minimum credit rating requirement for banks and financial institutions with which it transacts. The Group’s investments are governed by corporate investment policy with a minimum credit ratings and concentration limits for all securities.

The Group is exposed to credit risk in the event of non-performance by the counterparties to our foreign exchange derivative contracts at maturity. To reduce the credit risk, we continuously monitor credit quality of our counterparties to such derivatives. We believe the risk of non-performance under these contracts is remote.

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. Our credit policy typically requires payment within 30-45 days, and we establish credit limits for each customer based on our internal guidelines. No one customer accounted for more than 10% of total revenues during each of the fiscal years ended June 30, 2017 and 2016.

Liquidity risk

The following tables present the Group's financial 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 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, 2017 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 17, “Commitments.”

Contractual maturities of financial liabilities are as follows:

	Up to 12 Months	Greater than 12 Months	Total Contractual Cash Flows
	(U.S. $ in thousands)		
As of June 30, 2017			
Financial liabilities:			
Trade and other payables	$ 73,192	$ —	$ 73,192
Current tax liabilities	2,207	—	2,207
Other non-current liabilities	—	4,969	4,969
	$ 75,399	$ 4,969	$ 80,368
As of June 30, 2016			
Financial liabilities:			
Trade and other payables	$ 57,886	$ —	$ 57,886
Current tax liabilities	286	—	286
Other non-current liabilities	—	6,545	6,545
	$ 58,172	$ 6,545	$ 64,717

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, 2017, 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:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
  Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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.

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. There were no transfers between levels during fiscal year 2017 and 2016.

The following table presents the Group's financial assets and liabilities measured and recognized at fair value as of June 30, 2017, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description				
Assets				
Cash and cash equivalents:				
Money market funds	$ 78,564	$ —	$ —	$ 78,564
Commercial paper	—	2,749	—	2,749
Total cash and cash equivalents	78,564	2,749	—	81,313
Investments:				
U.S. treasury securities	—	61,676	—	61,676
Agency securities	—	16,654	—	16,654
Certificates of deposit and time deposits	—	44,101	—	44,101
Commercial paper	—	33,928	—	33,928
Corporate debt securities	—	148,546	—	148,546
Municipal securities	—	4,788	—	4,788
Total investments	—	309,693	—	309,693
Derivative instruments	—	3,252	—	3,252
Total assets	$ 78,564	$ 315,694	$ —	$ 394,258

As of June 30, 2017, the Group had $305.5 million of investments 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. As of June 30, 2017 and 2016, the Group's short-term investments were classified as debt instruments at fair value through other comprehensive income.

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
U.S. treasury securities	—	—	—	—
Agency securities	—	8,998	—	8,998
Commercial paper	—	5,998	—	5,998
Total cash and cash equivalents	124,760	14,996	—	139,756
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	—	487,588	—	487,588
Total assets	$ 124,760	$ 502,584	$ —	$ 627,344

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'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, 2017, the Group's investments consisted of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Investments				
U.S. treasury securities	$ 61,760	$ —	$ (84)	61,676
Agency securities	16,740	—	(86)	16,654
Certificates of deposit and time deposits	44,101	—	—	44,101
Commercial paper	33,928	—	—	33,928
Corporate debt securities	148,634	52	(140)	148,546
Municipal securities	4,789	—	(1)	4,788
Total investments	$ 309,952	$ 52	$ (311)	$ 309,693

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	$ 487,032	$ 741	$ (185)	$ 487,588

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,	
	2017	2016
	(in thousands)	
Recorded as follows:		
Due in one year or less	$ 223,562	$ 364,575
Due after one year	86,131	123,013
Total investments	$ 309,693	$ 487,588

Derivative Financial Instruments

The fair value of the derivative instruments were as follows:

	Statement of Financial Position Location	Fair Value As of June 30, 2017
		(U.S. $ in thousands)
Derivative assets		
Derivatives designated as hedging instruments:		
Foreign exchange forward contracts	Prepaid expenses and other current assets	$ 2,915
Foreign exchange forward contracts	Other non-current assets	249
Derivatives not designated as hedging instruments:		
Foreign exchange forward contracts	Prepaid expenses and other current assets	88
Total derivative assets		$ 3,252

The Group had no derivative assets or liabilities as of June 30, 2016.

The following table sets forth the notional amounts of our derivative instruments at June 30, 2017 (in thousands):

	Notional Amounts of Derivative Instruments					
	Notional Amount by Term to Maturity			Classification by Notional Amount		
	Under 12 months	Over 12 months	Total	Cash Flow Hedge	Non Hedge	Total
Australian dollar forward contracts	A$134,980	A$11,720	A$146,700	A$134,200	A$12,500	A$146,700

The effects of derivatives designated as hedging instruments on our consolidated financial statements were as follows (amounts presented are prior to any income tax effects):

	Foreign Exchange Forward Contracts	
	Fiscal Year Ended June 30,	
	2017	2016
	(U.S. $ in thousands)	
Gross unrealized gain recognized in other comprehensive income	$ 4,517	$ —
Net gain reclassified from cash flow hedge reserve into profit or loss - effective portion	$ 1,356	$ —
Loss recognized into profit or loss - ineffective portion	$ (3)	$ —

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

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

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Foreign currency exchange gain (loss), net	$ (93)	$ 376
Contributions to Atlassian Foundation	(1,620)	(1,463)
Other income	371	15
	$ (1,342)	$ (1,072)

7. Expenses

Loss before income tax benefit included the following expenses:

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Depreciation:		
Equipment	$ 1,022	$ 762
Computer hardware and software	23,729	9,537
Furniture and fittings	1,016	720
Leasehold improvements	5,923	3,416
Total depreciation	31,690	14,435
Amortization:		
Patents and trademarks	2,907	31
Customer relationships	12,361	55
Acquired developed technology	14,588	7,405
Total amortization	29,856	7,491
Total depreciation and amortization	$ 61,546	$ 21,926
Employee benefits expense:		
Salaries and wages	$ 201,953	$ 149,506
Variable compensation	19,260	14,260
Payroll taxes	20,792	14,250
Share-based payment expense	137,448	75,480
Defined contribution plan expense	13,041	10,105
Contractor expense	16,333	18,352
Other	34,605	31,946
Total employee benefits expense	$ 443,432	$ 313,899

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

	Fiscal Year Ended June 30,	
	2017	2016
Cost of revenues	228	174
Research and development	1,050	892
Marketing and sales	341	240
General and administration	347	279
	1,966	1,585

Share-based payment expense has been allocated as follows:

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Cost of revenues	$ 6,856	$ 5,371
Research and development	79,384	35,735
Marketing and sales	17,395	11,945
General and administration	33,813	22,429
	$ 137,448	$ 75,480

Amortization of intangible assets has been allocated as follows:

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Cost of revenues	$ 14,587	$ 7,405
Marketing and sales	15,269	86
	$ 29,856	$ 7,491

8. Income Tax

The major components of income tax benefit for the fiscal years ended June 30, 2017 and 2016 are as follows:

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Current income tax:		
Current income tax charge	$ (11,518)	$ (6,475)
Adjustments in respect of current income tax of previous years	(25)	989
Deferred tax:		
Benefit relating to origination and reversal of temporary differences	28,061	17,041
Adjustments in respect of temporary differences of previous years	630	(2,275)
Income tax benefit	$ 17,148	$ 9,280

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, 2017, 2016 and 2015, is as follows:

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Loss before tax benefit	$ (59,652)	$ (4,907)
At the United Kingdom's statutory income tax rate of 19.75%, 20.00%, and 20.75% in fiscal 2017, 2016 and 2015, respectively	$ 11,781	$ 983
Tax effect of amounts that are not taxable (deductible) in calculating taxable income:		
Research and development incentive	18,826	20,461
Share-based payment	(9,916)	(6,317)
Foreign tax credits not utilized	—	(4,011)
Amortization of intangible assets that do not give rise to deferred taxes	(673)	(907)
Non-deductible retention on acquisition	(150)	(405)
Non-deductible finance costs	—	—
Non-assessable non-operating items	—	7,995
Foreign tax rate adjustment	(1,990)	(7,341)
Adjustment to deferred tax balance	(192)	(1,536)
Other items, net	(513)	(631)
	17,173	8,291
Adjustments in respect to current income tax of previous years	(25)	989
Income tax benefit	$ 17,148	$ 9,280

	Consolidated Statements of Financial Position		Consolidated Statements of Operations	
	As of June 30,		Fiscal Year Ended June 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Depreciation for tax purposes	$ 1,122	$ (3,383)	$ 4,331	$ (1,822)
Provisions, accruals and prepayments	7,560	5,102	1,795	(890)
Deferred revenue	15,275	4,973	11,621	4,973
Unrealized foreign currency exchange gains	(184)	(184)	—	(139)
Carried forward tax losses (gains)	35,071	1,140	29,729	(141)
Carried forward tax credits—credited to profit and loss	46,412	33,867	9,709	16,945
Acquired intangible assets	(34,060)	5,247	9,091	1,610
Tax benefit from share plans—income	30,597	17,818	10,695	6,896
Tax benefit from share plans—equity	42,846	55,549	(48,012)	(11,513)
Other, net	(350)	643	(267)	(1,153)
Deferred tax benefit			$ 28,692	$ 14,766
Deferred tax assets, net	$ 144,289	$ 120,772		
Reflected in the consolidated statements of financial position as follows:				
Deferred tax assets	$ 188,239	$ 127,411		
Deferred tax liabilities	(43,950)	(6,639)		
Deferred tax assets, net	$ 144,289	$ 120,772		
Items for which no deferred tax asset has recognized:				
Unused tax losses	$ 2,022	$ 1,006		
Capital loss	1,391	388		
Research and development credits	3,587	2,556		
Unrealized loss on investments	51	—		
	$ 7,051	$ 3,950		

	2017	2016
	(in thousands)	
Reconciliation of deferred tax assets, net		
Balance as of July 1,		
Deferred tax charge for the year	$ 120,773	$ 76,600
Credited to equity	28,692	14,774
Adjustment in respect of income tax payable	34,517	29,584
Impact from business combinations	(7,282)	(186)
Balance as of June 30,	(32,411)	—
	$ 144,289	$ 120,772

The $34.5 million and $29.6 million credited to equity in fiscal 2017 and 2016, respectively, primarily 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 $7.3 million adjustment in respect of income taxes payable in fiscal 2017 represents the utilization of net operating loss deferred tax assets against taxable income of prior years, resulting in a refund due to the Group of prior year taxes paid.

The impact from business combinations of $32.4 million in fiscal 2017 represents the net deferred tax assets and liabilities recognized and charged to goodwill as a result of the acquisitions of Dogwood Labs, Inc. ("StatusPage") and Trello, Inc. ("Trello"). The Group acquired net operating loss carryforward deferred tax assets of approximately $0.5 million and $13.6 million from StatusPage and Trello, respectively. The Group also recognized deferred tax liabilities of approximately $3.1 million and $45.3 million related to acquired intangibles from StatusPage and Trello, respectively, the amortization of which will not be deductible from future taxable profits.

	2017	2016
	(in thousands)	
Amounts recognized directly in equity:		
Current tax—(debited) credited directly to equity	$ 401	$ (1,975)
Net deferred tax—credited directly to equity	$ 34,517	$ 29,584
	$ 34,918	$ 27,609

The Group has tax losses for carry forward available for offsetting against future federal taxable profits in the United States of $101.1 million, which will begin to expire in the fiscal year ending June 30, 2032, of which $1.9 million has not been recognized as a deferred tax asset in the statement of financial position because the Group expects them to expire unutilized. The Group has tax losses for carry forward available for offsetting against future state taxable profits in the United States of $31.5 million, which will begin to expire in the fiscal year ending June 30, 2023, $20.2 million of which has not been recognized as a deferred tax asset in the statement of financial position because the Group does not expect to generate sufficient taxable income in the respective states to utilize the carryforward. Additionally, the Group has tax losses for carry forward in other jurisdictions available for offsetting against future taxable profits of $1.6 million, which can be carried forward indefinitely, but for which a deferred tax asset has not been recognized because future taxable profits are not expected in the relevant jurisdictions.

The Group has carryforward research and development credits ("R&D credits") of $36.4 million in Australia which can be carried forward indefinitely, and $4.6 million in the United States. Of these credits, the Group has not recognized a deferred tax asset on its statement of financial position for the $4.6 million of R&D credits in the United States. The Group also has carryforward R&D credits for federal and state purposes in the United States of $9.1 million and $1.2 million, which will begin to expire in the fiscal years ending June 30, 2031 and June 30, 2036, respectively. The Group also has carryforward Enterprise Zone credits of $0.9 million for which it has not recognized a deferred tax asset on its statement of financial position as they are expected to expire unutilized.

The Group has not recognized deferred tax assets of $1.4 million for a capital loss carryforward, which can be carried forward indefinitely, because taxable profits of sufficient character are not expected to be generated in future periods.

9. Trade Receivables

The Group's trade receivables consisted of the following:

	As of June 30,	
	2017	2016
	(in thousands)	
Trade receivables	$ 26,923	$ 15,233
Provision for impairment of receivables	(116)	—
	$ 26,807	$ 15,233

As of June 30, 2017, 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, 2017. As of June 30, 2016, two customers individually accounted for more than 10% of the total trade receivables balance. These customers, both of which were channel partners, each represented 11% and 10% of total trade receivables as of June 30, 2016.

Impaired trade receivables

As of June 30, 2017 and June 30, 2016, the Group had a provision for impaired receivables of $116,000 and $0, respectively. The aging of these receivables is as follows:

	As of June 30,	
	2017	2016
	(in thousands)	
Three to six months	$ 15	$ —
Over six months	101	—
	$ 116	$ —

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

	(U.S. $ in thousands)
As of July 1, 2015	$ 107
Charge for the period	—
Unused amount reversed	(107)
As of June 30, 2016	—
Charge for the period	116
As of June 30, 2017	$ 116

Past due but not impaired

As of June 30, 2017 and June 30, 2016, trade receivables that were past due but not impaired totaled $5.9 million and $3.5 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,	
	2017	2016
	(in thousands)	
Up to three months	$ 5,658	$ 3,383
Greater than three months	276	103
	$ 5,934	$ 3,486

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	Leasehold Improvements	Total
			(in thousands)		
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	3,400	52,141	5,409	25,114	86,064
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	(1,727)	(15,390)	(1,444)	(8,741)	(27,302)
Net book amount	$ 1,673	$ 36,751	$ 3,965	$ 16,373	$ 58,762
As of June 30, 2017					
Opening cost balance	$ 3,400	$ 52,141	$ 5,409	$ 25,114	$ 86,064
Additions	1,138	2,106	1,693	9,168	14,105
Write-down	—	—	—	—	—
Disposals	(645)	(794)	(34)	(471)	(1,944)
Effect of change in exchange rates	2	(5)	15	29	41
Closing cost balance	3,895	53,448	7,083	33,840	98,266
Opening accumulated depreciation	(1,727)	(15,390)	(1,444)	(8,741)	(27,302)
Depreciation expense	(1,022)	(23,729)	(1,016)	(5,923)	(31,690)
Effect of change in exchange rates	(2)	1	(6)	6	(1)
Disposals	630	782	17	471	1,900
Closing accumulated depreciation	(2,121)	(38,336)	(2,449)	(14,187)	(57,093)
Net book amount	$ 1,774	$ 15,112	$ 4,634	$ 19,653	$ 41,173

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, 2015	$ 7,152
Effect of change in exchange rates	(14)
Balance as of June 30, 2016	7,138
Additions	304,712
Effect of change in exchange rates	50
Balance as of June 30, 2017	$ 311,900

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, 2017 and 2016.

Intangible assets

Intangible assets consisted of the following:

	Patents, Trademarks and Other Rights	Acquired developed technology	Employee Contracts	Customer Relationships	In-Process R&D	Total
			(in thousands)			
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, 2017						
Opening cost balance	$ 220	$ 75,926	$ 3,631	$ 484	$ —	$ 80,261
Additions	21,525	57,300	—	58,200	—	137,025
Effect of change in exchange rates	—	103	—	—	—	103
Closing cost balance	21,745	133,329	3,631	58,684	—	217,389
Opening accumulated amortization	(135)	(62,480)	(3,631)	(438)	—	(66,684)
Amortization charge	(2,907)	(14,588)	—	(12,361)	—	(29,856)
Effect of change in exchange rates	—	(60)	—	—	—	(60)
Closing accumulated amortization	(3,042)	(77,128)	(3,631)	(12,799)	—	(96,600)
Net book amount	$ 18,703	$ 56,201	$ —	$ 45,885	$ —	$ 120,789

As of June 30, 2017, no development costs have qualified for capitalization, and all development costs have been expensed as incurred. As of June 30, 2017, the remaining amortization period for acquired developed technology ranged from approximately 1 to 5 years.

12. Business Combinations

Trello

On February 3, 2017, the Group acquired all of the outstanding stock of Trello, Inc. (“Trello”), a leading provider of project management and organization software, for consideration consisting of cash and the fair value of equity awards assumed. The Group acquired Trello to expand Atlassian’s teamwork platform by adding a complementary collaboration service to Atlassian’s existing project management, content creation and communication products. The Group has included the financial results of Trello in its consolidated financial statements from the date of acquisition, which have not been material to date.

Total purchase price consideration for Trello was approximately $384.0 million, which consisted of approximately $363.8 million in cash and $20.2 million for the fair value of exchanged unvested equity awards held by Trello employees for unvested equity awards of the Company. The fair value of replacement share options issued by the Company was determined using the Black-Scholes option pricing model.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the date of acquisition:

	Fair Value (U.S. $ in thousands)
Cash and cash equivalents	$ 1,019
Trade receivables	1,035
Prepaid expenses and other current assets	765
Deferred tax assets	17,074
Intangible assets	127,400
Goodwill	289,171
Trade and other payables	(3,532)
Deferred revenue	(2,165)
Deferred tax liabilities	(46,760)
Net assets acquired	$ 384,007

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating Trello's technology with the Group's other offerings. The goodwill balance is not deductible for income tax purposes. The fair values assigned to tangible assets acquired, liabilities assumed and identifiable intangible assets were based on management's estimates and assumptions. The deferred tax liability established was primarily a result of the difference in the book basis and tax basis related to the identifiable intangible assets. The Group's purchase price allocation is preliminary and subject to revision as additional information about fair value of assets and liabilities becomes available. If additional information is obtained up to one year from the acquisition date regarding facts and circumstances that existed as of the acquisition date, the estimated fair values of assets acquired and liabilities assumed will be updated accordingly.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition.

	Fair Value (U.S. $ in thousands)	Useful Life (years)
Developed technology	$ 50,600	3
Customer relationships	56,900	2
Trade names	19,900	3
Total intangible assets subject to amortization	$ 127,400	

The amount recorded for developed technology represents the estimated fair value of Trello's project management and organization technology. The amount recorded for customer relationships represents the fair values of the underlying relationship with Trello customers.

Other fiscal 2017 business combinations

On July 12, 2016, the Group acquired StatusPage for $18.3 million in cash, net of cash acquired, and $3.3 million of deferred consideration. The Group has included the financial results of StatusPage in its consolidated financial statements from the date of acquisition, which have not been material to date. In allocating the purchase consideration based on estimated fair values, the Group recorded $8.7 million of acquired intangible assets with useful lives of two to five years and $15.5 million of goodwill. The goodwill balance is not deductible for income tax purposes.

Fiscal 2016

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,	
	2017	2016
	(in thousands)	
Cash and bank deposits	$ 163,107	$ 119,953
Agency securities	—	8,998
Commercial paper	2,749	5,998
Money market funds	78,564	124,760
Total cash and cash equivalents	$ 244,420	$ 259,709

Prepaids and other current assets

Prepaid expenses and other current assets consisted of the following:

	As of June 30,	
	2017	2016
	(in thousands)	
Prepaid expenses	$ 12,984	$ 8,625
Accrued interest income on short-term investments	4,209	1,968
Other receivables	1,736	2,555
Other current assets	4,388	1,030
Total prepaid expenses and other current assets	$ 23,317	$ 14,178

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,	
	2017	2016
	(in thousands)	
Security deposits	$ 4,803	$ 4,783
Other non-current assets	4,466	764
	$ 9,269	$ 5,547

As of June 30, 2017 and 2016, 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. Included in the Group's other non-current assets balance as of June 30, 2017 was $3.3 million of restricted cash used for commitments of standby letters of credit related to facility leases and were not available for the Group's use in its operations.

Accrued expenses and other current payables

Accrued expenses and other current payables consisted of the following:

	As of June 30,	
	2017	2016
	(in thousands)	
Trade payables	$ 12,464	$ 9,561
Accrued expenses	24,761	21,358
Accrued compensation and employee benefits	16,687	12,699
Retention bonus	1,906	2,129
Sales and indirect taxes	6,114	5,010
Operating lease payable	688	766
Deferred acquisition-related consideration	3,300	935
Other payables	7,272	5,428
	$ 73,192	$ 57,886

Current provisions

Current provisions consisted of the following:

	As of June 30,	
	2017	2016
	(in thousands)	
Employee benefits	$ 6,162	$ 4,716

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,	
	2017	2016
	(in thousands)	
Employee benefits	$ 1,415	$ 929
Dilapidation provision	1,918	1,241
	$ 3,333	$ 2,170

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 of the premises 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, 2017	As of June 30, 2016
	(in thousands)	
Retention bonuses	$ —	$ 881
Deferred rent	4,660	4,889
Other non-current liabilities	309	775
	$ 4,969	$ 6,545

14. Shareholders' Equity

Share capital

	As of June 30, 2017	As of June 30, 2016	As of June 30, 2017	As of June 30, 2016
	(number of shares)		(in thousands)	
Details				
Class A ordinary shares	91,979,704	75,505,973	$ 9,198	$ 7,550
Class B ordinary shares	135,283,942	140,696,234	13,528	14,070
	227,263,646	216,202,207	$ 22,726	$ 21,620

Movements in Class A ordinary share capital

	Number of Shares	Amount
		(U.S. $ in thousands)
Details		
Balance as of July 1, 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
Conversion of Class B ordinary shares	6,326,879	633
Exercise of share options	5,487,334	549
Issuance for settlement of RSUs	4,510,995	451
Vesting of share options that were early exercised	148,523	15
Balance as of June 30, 2017	91,979,704	$ 9,198

Movements in Class B ordinary share capital

Details	Number of Shares	Amount (U.S. $ in thousands)
Balance as of July 1, 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
Exercise of share options	914,587	91
Conversion to Class A ordinary shares	(6,326,879)	(633)
Balance as of June 30, 2017	135,283,942	$ 13,528

Movements in Series A preference share capital

Details	Number of Shares	Amount (U.S. $ in thousands)
Balance as of July 1, 2015	12,387,798	$ 1,239
Conversion to Class A ordinary shares	(12,387,798)	(1,239)
Balance as of June 30, 2016	—	—
Balance as of June 30, 2017	—	$ —

Movements in Series B preference share capital

Details	Number of Shares	Amount (U.S. $ in thousands)
Balance as of July 1, 2015	15,046,180	$ 1,504
Conversion to Class B ordinary shares	(15,046,180)	(1,504)
Balance as of June 30, 2016	—	—
Balance as of June 30, 2017	—	$ —

Movements in restricted share capital

	Number of Shares	Amount
		(U.S. $ in thousands)
Details		
Balance as of July 1, 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	—	—
Balance as of June 30, 2017	—	$ —

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, 2017	As of June 30, 2016
	(U.S. $ in thousands)	
Reserves		
Share premium	$450,959,00	$ 441,734
Other capital reserves	437,346	244,335
Cash flow hedge reserve	2,215	—
Foreign currency translation reserve	4,289	4,149
Investments at fair value through other comprehensive income reserve	(258)	550
	$ 894,551	$ 690,768

	Amount
	(in thousands)
Share premium	
Balance as of July 1, 2015	$ 5,744
Share issuance at IPO	429,273
Share options exercise	6,099
Early exercise vesting	618
Balance as of June 30, 2016	441,734
Share options exercise	8,858
Early exercise vesting	367
Balance as of June 30, 2017	$ 450,959

	Capital redemption reserve	Merger reserve	Share-based payments	Amount
	(in thousands)			(in thousands)
Other capital reserves				
Balance as of July 1, 2015	$ 98	$ 34,943	$ 111,753	$ 146,794
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	98	34,943	209,294	244,335
Share issuance for settlement of RSUs	—	—	(451)	(451)
Replacement equity awards related to business combination	—	—	20,193	20,193
Share-based payments	—	—	137,458	137,458
Tax benefit from share plans	—	—	35,811	35,811
Balance as of June 30, 2017	$ 98	$ 34,943	$ 402,305	$ 437,346

Cash Flow Hedge Reserve	Amount (U.S. $ in thousands)
Balance as of July 1, 2015	$ —
Balance as of June 30, 2016	—
Net gain on derivative instruments	2,215
Balance as of June 30, 2017	$ 2,215

Foreign currency translation reserve	Amount (U.S. $ in thousands)
Balance as of July 1, 2015	$ 4,153
Translation adjustment	(4)
Balance as of June 30, 2016	4,149
Translation adjustment	140
Balance as of June 30, 2017	$ 4,289

Investments at fair value through other comprehensive income reserve	Amount (U.S. $ in thousands)
Balance as of July 1, 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	550
Net change in unrealized gain (loss) on investments classified at fair value through other comprehensive income, net of tax	(808)
Balance as of June 30, 2017	$ (258)

Share premium

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

Other capital reserves

Capital redemption and merger reserves

The capital redemption reserve is a non-distributable reserve arising on the redemption of redeemable shares and the merger reserve represents the difference between the nominal value of the shares issued by the Company in a prior reorganization and the share capital and share premium account prior to reorganization. The Group elected to take the merger relief exemptions within the United Kingdom’s Companies Act 2006.

Share-based payments reserve

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.

Cash flow hedge reserve

The change in fair value for the Group’s derivatives designated as hedging instruments are recognized in other comprehensive income and accumulated in a separate reserve within equity. The effect of the cash flow hedges determined to be effective is reclassified to the consolidated statements of operations in the same period as the hedged transactions. Gains or losses related to ineffective portion of cash flow hedges, if any, are recognized immediately to the consolidated statements of operations.

Foreign currency translation reserve

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. Earnings Per Share

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.

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.

Prior to the IPO in fiscal year 2016, basic and diluted net income per share attributable to ordinary shareholders was presented in conformity with the two-class method required for participating 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.

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

	Fiscal Year Ended June 30,	
	2017	2016
	(U.S. $ in thousands, except per share data)	
Numerator:		
Net income (loss)	$ (42,504)	$ 4,373
Less: Allocation of earnings to preference shares—basic	—	(274)
Net income (loss) attributable to ordinary shareholders—basic	(42,504)	4,099
Add: Reallocation of earnings to ordinary shares	—	14
Net income (loss) attributable to ordinary shareholders—diluted	$ (42,504)	$ 4,113
Denominator:		
Weighted-average ordinary shares outstanding—basic	222,224	182,773
Effect of potentially dilutive shares:		
Share options and RSUs	—	10,708
Weighted-average ordinary shares outstanding—diluted	222,224	193,481
Net income (loss) per share attributable to ordinary shareholders:		
Basic net income (loss) per share	$ (0.19)	$ 0.02
Diluted net income (loss) per share	(0.19)	0.02

For fiscal year ended June 30, 2017, 13.8 million potentially anti-dilutive shares were excluded from the computation of net loss per share.

17. Commitments

Operating lease commitments

The Group leases various offices in locations such as Amsterdam, the Netherlands; the San Francisco Bay Area, and Austin, Texas, United States; Sydney, Australia; Manila, the Philippines; and Yokohama, Japan under non-cancellable operating leases expiring within one to five 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 $12.2 million and $8.3 million during the fiscal years ended June 30, 2017 and 2016, 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, 2017 were as follows:

	Operating Leases	Other Contractual Commitments	Total
		(in thousands)	
Fiscal Period:			
Year ending 2018	$ 14,309	$ 6,956	$ 21,265
Years ending 2019 - 2022	41,560	1,154	42,714
Total minimum lease payments	$ 55,869	$ 8,110	$ 63,979

18. 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,	
	2017	2016
	(in thousands)	
Executive management		
Short -term compensation and benefits	$ 2,860	$ 3,365
Post - employment benefits	100	96
Share -based payments	26,030	15,985
	$ 28,990	$ 19,446
Board of directors		
Cash remuneration	$ 388	$ 241
Share-based payments	1,825	1,482
	$ 2,213	$ 1,723

19. Geographic information

The Group’s revenues by geographic region based on end users who purchased our products or services are as follows:

	Fiscal Year Ended June 30,	
	2017	2016
	(in thousands)	
Americas	$ 312,514	$ 232,793
EMEA	242,496	178,087
Asia Pacific	64,926	46,178
	$ 619,936	$ 457,058

Revenues from the United States totaled approximately $276 million and $206 million for the fiscal years ended June 30, 2017 and 2016, respectively. Revenues from our country of domicile, the United Kingdom, totaled approximately $46 million and $34 million for the fiscal years ended June 30, 2017 and 2016, respectively.

	Fiscal Year Ended June 30,	
	2017	2016
Non-current operating assets		
United States	449,504	48,345
Australia	20,988	22,893
	470,492	71,238

Non-current operating assets for this purpose consist of property, plant and equipment, goodwill, intangible assets and other non-current assets.

20. 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 (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 20.7 million 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 Class A ordinary share option activity was as follows:

	Shares Available for Grant	Share Options		RSUs Outstanding
		Share Options Outstanding	Weighted Average Exercise Price	
Balance as of July 1, 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	17,529,216	9,311,825	2.04	12,204,353
Increase in shares authorized:				
2015 Plan	10,817,923	—	—	—
RSUs granted	(5,938,291)	—	—	5,938,291
RSUs canceled	1,214,176	—	—	(1,214,176)
RSUs settled	—	—	—	(4,510,995)
Replacement share options granted	(980,573)	980,573	0.72	—
Share options exercised	—	(5,487,334)	1.64	—
Share options canceled	162,403	(162,403)	2.70	—
Repurchase of early exercised options	18,750	—	—	—
Balance as of June 30, 2017	21,597,913	4,642,661	$ 2.21	12,417,473
Share options vested and exercisable as of June 30, 2016		6,912,082	$ 1.76	
Share options vested and exercisable as of June 30, 2017		3,074,737	$ 2.31	

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, 2017 and June 30, 2016 was 4.7 years and 3.8 years, respectively.

Options exercisable as of June 30, 2017 and June 30, 2016, had a weighted-average remaining contractual life of approximately 3.5 years and 3.2 years, respectively.

The following table summarizes information about share options outstanding as of June 30, 2017:

	Options Outstanding		Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Years
$0.42 - 0.66	947,459	$ 0.61	354,112	$ 0.60	3.07
$1.14 - 1.59	405,667	1.36	260,611	1.47	2.72
$1.92 - 2.16	340,783	2.05	340,783	2.05	2.38
$2.40 - 2.92	1,310,942	2.46	1,302,133	2.45	2.86
$3.18	1,637,810	3.18	817,098	3.18	5.41
	4,642,661	$ 2.21	3,074,737	$ 2.31	3.50

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

	Options Outstanding		Options Exercisable		
Range of Exercise Prices	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
	9,311,825	$ 2.04	6,912,082	$ 1.76	3.18

Class B ordinary share option activity was as follows:

	Shares Available for Grant	Outstanding Share Options	Weighted-Average Exercise Price
Balance as of July 1, 2015	—	1,552,500	$ 0.56
Exercised	—	(117,642)	0.24
Balance as of June 30, 2016	—	1,434,858	0.56
Exercised	—	(914,587)	0.55
Balance as of June 30, 2017	—	520,271	$ 0.63

Class B ordinary share options exercisable as of June 30, 2017 and June 30, 2016 had a weighted-average remaining contractual life of approximately 0.9 years and 1.9 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, 2017:

	Options Outstanding		Options Exercisable		
Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Years
$0.63	520,271	$ 0.63	520,271	$ 0.63	0.92

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

	Options Outstanding		Options Exercisable		
Exercise Prices	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
	1,434,858	$ 0.56	1,434,858	$ 0.56	1.85

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, 2017 and 2016 was $29.16 per share and $21.61 per share, respectively.

The Company granted 980,573 replacement share options exercisable for Class A ordinary shares with a weighted average exercise price of $0.72 per share in connection with the Group's acquisition of Trello, which were the only options granted during the fiscal year ended June 30, 2017. There were no share options granted during the fiscal year ended June 30, 2016.

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, 2017
Fair value of underlying shares	$28.16
Exercise price	$0.59 - 1.14
Expected volatility	41%
Expected term (in years)	4.5 - 6.0
Risk-free interest rate	1.9%
Dividend yield	—%
Weighted-average fair value per share option	$27.51

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 was prior to the Company's 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. Following the Company's IPO, we the Company refers to the closing stock price on the grant date to determine the fair value of Class A ordinary shares underlying share options. Prior to the Company's IPO, as a substitute, a peer group of companies was used to calculate volatility. Following the Company's IPO, we the Company estimates expected future volatility based on the historical volatility of the Company's stock price. 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, 2017, the Group had an aggregate of $160.1 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 1.4 years.

Early exercises of share options

As of June 30, 2017 and 2016, outstanding shares included 1,214,689 and 156,251 shares, respectively, that are 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, 2017 and 2016. Amounts reclassified into contributed equity during the fiscal years ended June 30, 2017 and 2016 as a result of the vesting of the early exercised shares was $0.4 million and $0.7 million, respectively.

21. Remuneration of auditors

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

	2017	2016
	(in thousands)	
Audit of the consolidated financial statements	$ 1,849	$ 860
Audit related fees	329	1,722
Tax compliance	12	7
Tax advisory	144	92
Other non-audit services	2	279
	$ 2,336	$ 2,960

22. Directors' remuneration

During the fiscal years ended June 30, 2017 and 2016, the Company provided cash compensation to its Directors for services provided to the Company totaling $0.4 million and $0.2 million, respectively. During the fiscal years ended June 30, 2017 and 2016, the Directors were awarded RSUs totaling 52,776 with a grant date fair value of $25.58 per share and RSUs totaling 127,330 with a grant date fair value of $21.00 per share, respectively. Refer to Note 18, "Related party transactions," for additional detail of Directors' compensation.

Atlassian Corporation Plc

Company Statements of Financial Position

(U.S. $ in thousands)

		As at June 30,	
	Notes	**2017**	**2016**
Fixed assets:			
Investment in subsidiary	4	$ 406,516	$ 140,534
Other non-current assets		5	15
Total fixed assets		$ 406,521	$ 140,549
Current assets:			
Debtors: amounts falling due within one year Amount owed in group undertakings		$ 449	$ 985
Other receivables		1,155	1,324
Taxes receivable		34	5
Prepaid expenses		57	359
Short-term investments	5	305,499	359,070
Cash at bank and in hand		37,122	83,943
Total current assets		$ 344,316	$ 445,686
Amounts falling due within one year:			
Amount owed to group undertakings		$ 4,115	$ 3,965
Share option early exercise liability		182	454
Accrued expenses		553	475
Total amounts falling due within one year		$ 4,850	$ 4,894
Net current assets		$ 339,466	$ 440,792
Total assets less current liabilities		$ 745,987	$ 581,341
Equity			
Share capital		$ 22,726	$ 21,620
Share premium		450,959	441,734
Capital redemption reserve		98	98
Merger reserve		425	425
Available-for-sale reserve		(258)	399
Share-based payments reserve		275,771	118,584
Retained earnings (accumulated deficit)		(3,734)	(1,519)
Total		$ 745,987	$ 581,341

The loss attributable to members of the Company is $2.2 million and $3.2 million for the fiscal years ended June 30, 2017 and 2016, respectively.

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, September 8, 2017
Company Director

Atlassian Corporation Plc

Company Statements of Comprehensive Loss

(U.S. $ in thousands)

	Notes	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Net loss		$ (2,215)	$ (3,157)
Other comprehensive loss:			
Net change in unrealized gain (loss) on investments classified at fair value through other comprehensive loss		(657)	399
Other comprehensive loss net of tax that will be reclassified to profit or loss in subsequent periods		(2,872)	(2,758)
Total comprehensive loss		$ (2,872)	$ (2,758)

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, 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**
Comprehensive loss for the year:								
Loss for the year	—	—	—	—	—	—	(2,215)	(2,215)
Other comprehensive income	—	—	—	—	(657)		—	(657)
Total comprehensive loss for the year	—	—	—	—	(657)	—	(2,215)	(2,872)
Exercise of share options, net of early exercise	640	8,858	—	—	—	—	—	9,498
Vesting of early exercised shares	15	367	—	—	—	—	—	382
Issuance of ordinary shares for settlement of RSUs	451	—	—	—	—	(451)	—	—
Share-based payment	—	—	—	—	—	137,445	—	137,445
Equity awards	—	—	—	—	—	20,193	—	20,193
	1,106	9,225	—	—	—	157,187	—	167,518
Balance as at June 30, 2017	**$ 22,726**	**$ 450,959**	**$ 98**	**$ 425**	**$ (258)**	**$ 275,771**	**$ (3,734)**	**$ 745,987**

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.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council (FRC). Accordingly, the Company presents the accompanying financial statements under Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework'. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS).

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, and related party transactions.

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 recognized 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 $2.2 million and $3.2 million for the fiscal years ended June 30, 2017 and 2016, 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 July 1, 2015	$	66,552
Additions - share based payment		73,982
At June 30, 2016		140,534
Additions - share based payment		135,790
Additions - investment in subsidiary		130,193
At June 30, 2017	$	406,517

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

5. Short-term investments

As of June 30, 2017 and 2016, the Company had investments which were classified as short-term investments on the Group's statement of financial position of $305.5 million and $359.1 million, respectively. 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) 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 shares as at June 30, 2017 included 1,214,689 shares subject to repurchase as they were early exercised and unvested. Amounts reclassified into contributed equity during the fiscal year ended June 30, 2017 as a result of the vesting of the early exercised shares totaled $0.4 million.

For details of share-based payments, see Note 20 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:

	2017		2016	
	(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, 2017, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description				
Assets				
Money market funds	$ 21,481	$ —	$ —	$ 21,481
Commercial paper	—	2,749	—	2,749
Total cash and cash equivalents	21,481	2,749	—	24,230
Short-term investments:				
U.S. treasury securities	—	61,676	—	$ 61,676
Agency securities	—	16,654	—	16,654
Certificates of deposit and time deposits	—	39,907	—	39,907
Commercial paper	—	33,928	—	33,928
Corporate debt securities	—	148,546	—	148,546
Municipal securities	—	4,788	—	4,788
Total short-term investments	—	305,499	—	305,499
Total assets	$ 21,481	$ 308,248	$ —	$ 329,729

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	$ 61,583	$ 14,996	$ —	$ 76,579
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	$ —	$ 359,070	$ —	$ 359,070
Total assets	$ 61,583	$ 374,066	$ —	$ 435,649

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