SEARCH...

PROSPECTUS

Initial Public Offering of Ordinary Shares
Appen Limited ABN 60 138 878 298

Lead Manager and Underwriter

BELL POTTER

IMPORTANT INFORMATION

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares ("Shares") in Appen Limited (ABN 60 138 878 298) ("Appen" or "Company"). This Prospectus is issued by the Company and Appen (SaleCo) Pty Limited (ACN 602 703 604) ("SaleCo").

LODGEMENT AND LISTING

This Prospectus is dated 1 December 2014 ("Prospectus Date") and a copy was lodged with the Australian Securities and Investments Commission ("ASIC") on that date.

The Company will apply to ASX Limited ("ASX") within seven days after the Prospectus Date for admission of the Company to the official list of ASX and for quotation of its Shares on ASX. None of ASIC, ASX or their officers take any responsibility for the content of this Prospectus or for the merits of the investment to which this Prospectus relates.

EXPIRY DATE

No Shares will be issued or sold on the basis of this Prospectus after its expiry date, being the date 13 months after the Prospectus Date.

NOT INVESTMENT ADVICE

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation and particular needs (including financial and tax issues) of any prospective investor. Cooling-off rights do not apply to an investment in Shares offered under the Prospectus. This means that, in most circumstances, you cannot withdraw your application once it has been accepted.

It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. In particular, in considering the prospects of Appen, you should consider the best estimate assumptions underlying the Forecast Financial Information (as defined in Section 5 and the sensitivities associated with that information also set out in Section 5), together with the risk factors that could affect Appen's business, financial condition and results of operations. Some of the key risk factors that should be considered by prospective investors are set out in Section 4. You should carefully consider these risks in light of your investment objectives, financial situation and particular needs (including financial and tax issues). There may be risk factors in addition to these that should be considered in light of your personal circumstances. If you have any queries in connection with this Prospectus or in relation to an investment in the Company you should seek advice from your stockbroker, solicitor, accountant, financial advisor, or other independent professional advisor before deciding whether to invest in the Shares.

DISCLOSING ENTITY

Once admitted to the Official List, the Company will be a disclosing entity for the purposes of the Corporations Act and as such will be subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Refer to Section 7 for further information.

EXPOSURE PERIOD

The Corporations Act prohibits the Company and SaleCo from processing Applications under this Prospectus ("Applications") in the seven day period after lodgement of this Prospectus with ASIC ("Exposure Period"). This Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

During the Exposure Period, this Prospectus will be made available to Australian residents, without the Application Forms, at the Company's website, **www.appen.com/IPO**.

DISCLAIMER AND FORWARD-LOOKING STATEMENTS

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the directors of the Company ("Directors"), the directors of SaleCo or any other person involved in the preparation of the Prospectus or the making of the Offer. You should rely only on information contained in this Prospectus. Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

This Prospectus contains forward-looking statements which are statements that may be identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that involve risks and uncertainties. Certain statements, beliefs and opinions contained in this Prospectus, particularly those regarding the possible or assumed future financial or other performance of Appen, industry growth or other trend projections are or may be forward-looking statements. In addition, consistent with customary market practice in securities offerings in Australia, Forecast Financial Information has been prepared and included in this Prospectus in Section 5. These statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 5).

The Forecast Financial Information and the forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, Section 5 and other information in this Prospectus. The Directors, the directors of SaleCo and the Lead Manager cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, other than to the extent required by law.

This Prospectus, including the industry overview in Section 2, uses market data, industry forecasts and projections. The Company has obtained significant portions of this information from market research and commentary prepared by third parties. There is no assurance that any of the forecasts or forward information contained in the reports, surveys and research of such third parties that are referred to in this Prospectus will be achieved. The Company has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the key risk factors in Section 4.

STATEMENTS OF PAST PERFORMANCE

This Prospectus includes information regarding the past performance of Appen. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

FINANCIAL INFORMATION PRESENTATION

All references to FY12, FY13, FY14 and FY15 appearing in this Prospectus are to the financial years ended or ending (as relevant) 31 December of the applicable year, unless otherwise indicated. All references to 1HFY14 and 1HFY15 appearing in this Prospectus are to the six month periods ended or ending (as relevant) on 30 June within the applicable financial year, unless otherwise indicated (e.g. 1HFY15 relates to the six month period to 30 June 2015).

All financial amounts contained in this Prospectus are expressed in Australian currency unless otherwise stated. Any discrepancies between totals and sums and components in tables, figures and diagrams contained in this Prospectus are due to rounding.

Section 5 sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of that Financial Information is set out in Section 5. The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Boards (IASB).

The Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors. The Financial Forecast Information presented in this Prospectus is audited. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Historical Financial Information (as defined in Section 5).

The Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Financial Information in this Prospectus should be read in conjunction with, and is qualified by reference to, the information contained in Section 5.

Unless otherwise stated or implied, all pro forma data in this Prospectus gives effect to the pro forma adjustments referred to in Section 5.

Readers should be aware that certain financial data included in this Prospectus is 'non-IFRS financial information' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. The Company believes this non-IFRS financial information provides useful information to users in measuring the financial performance and condition of Appen. The non-IFRS financial information does not have standardised meanings prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternate to other financial information determined in accordance with Australian Accounting Standards. Readers are cautioned, therefore, not to place undue reliance on any non-IFRS financial information or ratios included in this Prospectus.

Financial data is as at 30 June 2014, unless otherwise stated or implied.

INVESTIGATING ACCOUNTANT'S REPORT ON THE FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDE

The provider of the Investigating Accountant's Report on the Financial Information has provided Australian Retail Investors with a financial services guide in relation to its independent review under the Corporations Act. The Investigating Accountant's Report and accompanying financial services guide are provided in Section 8.

FOREIGN JURISDICTIONS

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register the Shares or otherwise permit an offering of Shares in any jurisdiction outside of Australia. The taxation treatment of Australian securities may not be the same as those for securities in foreign jurisdictions. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The distribution of this Prospectus outside Australia may be restricted by law. If you come into possession of this Prospectus, you should observe any such restrictions and seek your own advice on such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. This Prospectus may not be released or distributed in the United States.

The Shares described in this Prospectus have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or the securities law of any state of United States, and may not be offered or sold directly or indirectly, in the United States, other than under an applicable exemption under federal or state law.

PROSPECTUS AVAILABILITY

A hard copy of the Prospectus is available free of charge during the Offer Period to any person in Australia by calling the Appen Offer Information Line on 1800 500 095 (within Australia) or +61 1800 500 095 (outside Australia) from 8.30am until 5.30pm Sydney, Australia time Monday to Friday during the Offer Period.

This Prospectus is also available to Australian resident investors in electronic form at the Offer website, **www.appen.com/IPO**. The Offer constituted by this Prospectus in electronic form is available only to Australian residents accessing the website within Australia. Hard copy and electronic versions of this Prospectus are generally not available to persons in other jurisdictions.

APPLICATIONS

Applications for Shares may only be made during the Offer Period on the Application Form included in, or accompanying, this Prospectus in its hard copy form, or in its electronic form which must be downloaded in its entirety from **www.appen.com/IPO**, together with an electronic copy of this Prospectus ("Application Form"). By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is included in, or accompanied by, this Prospectus in its paper copy form or the complete and unaltered electronic version of this Prospectus. Refer to Section 7 for further information.

As set out in Section 7, it is expected that the Shares will be quoted on ASX initially on a normal settlement basis. To the extent permitted by law, each of the Company, SaleCo, the Share Registry, and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Appen Offer Information Line, by a Broker or otherwise.

PRIVACY

By completing an Application Form, you are providing personal information to the Company, SaleCo and the Share Registry, which is contracted by the Company to manage Applications. The Company, SaleCo and the Share Registry on their behalf, collect, hold and use that personal information to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. If you do not provide the information requested in the Application Form, the Company, SaleCo and the Share Registry may not be able to process or accept your Application.

Once you become a Shareholder, the Corporations Act and Australian taxation legislation require information about you (including your name, address and details of the Shares you hold) to be included in the Share register. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public. The information must continue to be included in the Share register if you cease to be a Shareholder.

The Company, SaleCo and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth):

- the Share Registry for ongoing administration of the Share register;
- the Lead Manager in order to assess your Application;
- printers and other companies for the purpose of preparation and distribution of documents and for handling mail;
- market research companies for the purpose of analysing the Shareholder base; and
- legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

The Company's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

You may request access to your personal information held by or on behalf of the Company and SaleCo. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information or obtain further information about the Company's and SaleCo's privacy practices by contacting the Share Registry. The Company will aim to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Company or the Share Registry if any of the details you have provided change.

PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are or, on Completion of the Offer will be, owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

COMPANY WEBSITE

Any references to documents included on the Company's website at **www.appen.com/IPO** are provided for convenience only, and none of the documents or other information available on the Company's website, or any other website referred to in the sources contained in this Prospectus, is incorporated in this Prospectus by reference.

DEFINED TERMS AND ABBREVIATIONS

Defined terms and abbreviations used in this Prospectus, unless specified otherwise, have the meaning given in the Glossary in Section 11. Unless otherwise stated or implied, references to times in this Prospectus are to the time in Sydney, Australia.

Unless otherwise stated or implied, references to dates or years are calendar year references.

QUESTIONS

If you have any questions about this Prospectus or how to apply for Shares, you should seek advice from your stockbroker, solicitor, accountant, financial advisor or other independent professional advisor. Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of each Application Form. Alternatively, please contact the Appen Offer Information Line on 1800 500 095 (toll free within Australia) or +61 1800 500 095 (outside Australia) between 8:30am and 5:30pm Sydney, Australia time, Monday to Friday (Business Days only).

This document is important and should be read in its entirety.

CONTENTS

KEY OFFER INFORMATION

KEY DATES

Broker Firm Offer open	9:00am (Sydney time) Wednesday 10 December 2014
Broker Firm Offer close (Closing Date)	5:00pm Tuesday 16 December 2014
Settlement of the Offer	Wednesday 17 December 2014
Issue and allotment of Shares (Completion of the Offer)	Monday 22 December 2014
Expected despatch of holding statements	Tuesday 23 December 2014
Expected commencement of trading on ASX	Wednesday 7 January 2015

NOTES
This timetable is indicative only. Unless otherwise indicated, all times are Sydney, Australia time. The Company and the Lead Manager reserve the right to vary the dates and times of the Offer, including to extend the Offer, close the Offer early or to accept late Applications, either generally or in particular cases without notification. Investors are encouraged to submit their Applications as soon as possible. Broker Firm Applicants will need to consult with their Broker regarding when to settle their Application.

KEY OFFER STATISTICS & INVESTMENT METRICS

Total number of Shares available under the Offer	30.0 million
Number of Shares to be held by Major Shareholders after the Offer †	61.7 million
Number of Shares to be held by Management Shareholders after the Offer †	2.3 million
Number of Shares to be held by Other Existing Shareholders after the Offer †	0.7 million
Total number of Shares on issue at Completion of the Offer †	94.6 million
Offer Price	$0.50 per Share
Gross proceeds of the Offer	$15.0 million
Gross proceeds of the Offer payable to the Existing Owners and optionholders	$10.6 million
Indicative market capitalisation [1]	$47.3 million
Enterprise value [2]	$44.9 million
Enterprise Value / pro forma FY15 forecast EBITDA [3]	6.6x
Offer Price / pro forma consolidated FY15 forecast NPAT per Share [3,4]	11.8x

NOTES
The above tables are intended as a summary only. More detailed financial information, including assumptions in respect of the Forecast Financial Information is set out in section 5.

1 Equal to the total number of Shares on issue on completion of the Offer multiplied by the Offer Price (subject to rounding).

2 Equal to the indicative market capitalisation less pro forma net cash which is anticipated to be $2.4 million (as at Completion of the Offer).

3 The Forecast Financial Information is based on assumptions and accounting policies set out in section 5 and is subject to the key risks as set out in section 4.

4 This ratio is commonly referred to as a price to earnings, or PE, ratio.

† Does not take into account any bonus shares that may be issued to employees as a result of completion of the offer. See Section 6.3.4.2 for further information.

CHAIRMAN'S LETTER

Dear Investor,

On behalf of my fellow Directors, it is my pleasure to invite you to become a shareholder of Appen.

Appen is an Australian based company that provides high quality language technology data and services in more than 140 languages and dialects to leading technology companies and government agencies in the United States and other markets. Components of language technology can be found everywhere in modern society: smartphones, computer game consoles, on-board command and control in cars, search engines, social media, content analytics software, big data, e-commerce platforms and government security and intelligence.

Appen has built a reputation as a leading language technology provider since its establishment in 1996. The Company has an experienced global team of 150 staff who are based mainly in North America and Australia. A key feature of Appen is its ability to leverage a proprietary data base of a further 150,000 computer-literate native speakers and in-country cultural experts that Appen has accredited to meet high quality control standards. This team services a diverse client base of government agencies and leading global technology companies such as Microsoft®.

Appen has two business divisions: Content Relevance and Speech and Data Collection, both of which provide data and solutions to help our customers develop new products and product functionality. Content Relevance provides data annotation for improving search products including web, e-commerce and social engagement technologies. Speech and Data Collection provides training data for products including speech recognisers, machine translation and speech synthesisers for use in internet-connected devices, in-car automotive and consumer electronics.

Appen's strategy is to take advantage of, and grow with, the recent acceleration of devices and technology that interact with humans on human terms and advances in mobile communications and social media that are driving unified communication in any language and across languages. Appen intends to grow both organically and by acquisition to expand its web search expertise geographically and to expand regionally and vertically in e-commerce, apps-related searches and social media while continuing to benefit from the increase in speech interfaces for mobile, in-car devices and game and TV consoles.

Through this Prospectus Appen and SaleCo are inviting investors to acquire 30,000,000 Shares at an Offer Price of $0.50 per Share. The Offer comprises a sale of Existing Shares by SaleCo and an issue of New Shares by Appen for a total Offer Size of $15.0 million. The Listing will provide Appen with additional financial flexibility to pursue growth opportunities and improve access to capital markets, an improved capacity to attract and retain quality staff and the opportunity for the Existing Owners to partially monetise their investment. The Offer is fully underwritten by the Lead Manager.

It is important to note that an investment in Appen also carries risks. Some of the key risks specific to an investment in Appen include risks associated with concentration of customers, revenue model, loss of, or inability to, recruit suitable personnel, technology failure, protection of intellectual property rights and movements in foreign exchange rates. Appen is also subject to certain general business risks that are common to all operating companies. For more information about the key risks associated with an investment in Appen, see Section 4 of the Prospectus. You should also note that there can be no guarantee that Appen will achieve its stated objectives or that any forward looking statements or forecasts contained in the Prospectus will be realised or will otherwise eventuate.

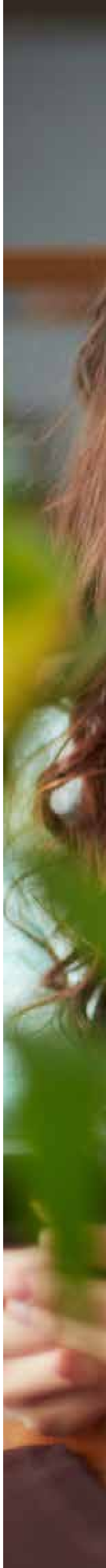
Detailed information about the Offer and the financial and operating performance of the Company is set out in this Prospectus. I encourage you to read it carefully and in its entirety before making your investment decision.

To apply for Shares, you will need to fill out the relevant paper Application Form attached to this Prospectus, or complete the electronic Application Form available at **www.appen.com/IPO**. If you have any questions about how to apply for Shares, please call the Appen Offer Information Line on 1800 500 095 (toll free within Australia) or +61 1800 500 095 (outside Australia) from 8.30am until 5.30pm (Sydney, Australia time) Monday to Friday during the Offer Period. The Offer is expected to close at 5.00pm (Sydney, Australia time) on 16 December 2014.

On behalf of the Board and senior management team at Appen, I look forward to welcoming you as a Shareholder.

Yours sincerely,

Chris Vonwiller
Chairman



APPEN'S DATA SOLUTIONS ARE USED IN MOBILE DEVICES

APPEN'S DATA SOLUTIONS ARE USED IN GAME CONSOLES

SECTION 1

INVESTMENT OVERVIEW

INVESTMENT OVERVIEW

1.1 BUSINESS OVERVIEW AND BUSINESS MODEL

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Appen?	Appen is a language technology and data solutions provider that has a services capability in more than 140 languages and dialects. Appen offers large scale training data, linguistic models and consulting services to assist leading technology companies and government agencies in the development of internet and mobile connected products including: • search relevance optimisation; • speech recognition or speech synthesisers; and • security and intelligence.	Section 3
What is the industry in which Appen operates?	Appen primarily operates in the language technology market. Components of language technology can increasingly be found in modern society including smartphones, social media content analytics software, e-commerce platforms, automobiles and government security and intelligence. Demand for language technology is growing with the development of mobile communications (phones, tablets, laptops), consumer electronics (game and TV consoles), cloud services, search technology and social media that enable communication and intelligent information retrieval across platforms and languages.	Section 2
What services does Appen provide?	Appen's main services involve providing data solutions and services for global technology companies and government agencies. Appen offers these services through two operating divisions known as: • Content Relevance; and • Speech and Data Collection.	Section 3.4
What is Content Relevance?	Content Relevance is data annotation for improving relevance and accuracy of search results for search engines which include web, e-commerce and social engagement technologies.	Section 3.4.2
How does Content Relevance generate revenue?	Within the Content Relevance division, Appen generates revenues from leading technology companies under a number of purchase orders generally awarded within the framework of a longer term Master Services Agreement. The key revenue drivers include: • the launch of new features and functionality to improve search, e-commerce and social media platforms; • the constant requirement of search engines for new data in order to keep pace with constantly changing web content and traffic patterns; • launch of new markets for global expansion plans; and • improvements in e-commerce search functionality.	Sections 3.4.2 and 5.

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Speech and Data Collection?	Speech and Data Collection provides training data for computer algorithms to develop products including speech recognisers, machine translation and speech synthesisers for use in internet-connected devices, in-car automotive and consumer electronics.	Section 3.4.3
How does Speech and Data generate revenue?	Within the Speech and Data Collection division, Appen generates the majority of revenues on a contracted basis from leading technology companies and government agencies by providing products and services for development and tuning of systems for speech recognition, speech synthesis and voice search. Key revenue drivers include: • the launch in new markets of new products such as smartphones, call-centre technologies, voice activated navigation systems and computer game technology (such as Xbox®); • speech-to-speech translation systems (such as Skype Translate™); and • government systems for big data analysis or surveillance, intelligence and counter-terrorism.	Section 2
Who are Appen's clients?	Appen has long-term partnerships with leading research and development teams at several of the leading global blue-chip technology companies including Microsoft®. Appen also conducts work for government agencies in several countries.	Section 3.5
Who are Appen's competitors?	Appen's competitors include companies with regional expertise, university consortia, regional crowd solutions and global companies with expertise in localisation and translation.	Section 2.9
What is Appen's competitive position?	Appen is able to provide solutions of the highest quality standards to ensure a quick and efficient route to relevant, engaging products in new markets/languages. Appen has the ability to provide services in over 140 languages and dialects. Appen also has a global employee base of approximately 150 which leverages a further 150,000 individual computer literate native speakers and in-country cultural experts accredited to Appen's software tools and quality control standards. With Appen's heritage in research, it maintains the highest quality standards and has deep expertise in complex languages and the research challenges of data quality metrics.	Section 3.3

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Appen's growth strategy	Appen is well positioned to take advantage of, and grow with, the current acceleration of devices and technology that interact with humans on human terms. Appen has a range of specific growth initiatives which include: • geographic expansion: Appen has identified opportunities to continue to assist global clients into international markets; • vertical expansion: Appen's capabilities are extending beyond traditional search engine clients and targeting broader social media, apps-related search (maps, music) and e-commerce opportunities consistent with the overall growth of the technology industry; • government agencies: Appen has deep expertise in language technology solutions to support security and defence requirements; and • potential acquisition opportunities: Appen will consider strategic acquisitions and growth opportunities.	Section 3.6

1.2 INVESTMENT HIGHLIGHTS

Global client base with large geographical reach	Appen's clients are primarily headquartered in the US, Europe and Asia with the clients' technologies deployed in up to 100 global markets. Appen's clients are typically global operators supporting many global markets. Appen has capabilities to support clients in Australia, North America, Europe, Asia, and South America.	Section 3.3
Attractive financial profile	Key financial attributes of the Company include the following: Track record of revenue and earnings growth: • a history of underlying revenue and earnings growth; and • a proven track record of successfully integrating acquisitions demonstrated by the recent acquisitions of Butler Hill in 2011 and Wikman Remer in 2012. Strong margins and cash flow: • strong earnings margins due to technology and operating systems which allow large volumes of data to be processed efficiently; • highly variable labour costs which provides the Company flexibility to manage these costs in-line with customer demand; • low overheads with a limited number of offices and employees; and • low capital expenditure requirements.	Section 5

TOPIC	SUMMARY	FOR MORE INFORMATION
Scalable Operating Model	Appen's operating model is scalable due to the platform technology on which the data is collected and analysed, and the 150,000 independent contractors that can be scaled up or down according to work flows. This scalability enables significant increases in revenue to be achieved with proportionally lower increases in costs.	Sections 3.3 and 5
Experienced Board, management and personnel	The Company has assembled: • an experienced Board with relevant industry experience as well as a diverse skill set and proven track record of building businesses and a desire to promote strong corporate governance; • a multidisciplinary team of management and employees with high technical expertise; • a skilled global employee base of approximately 150 which leverages a further 150,000 computer-literate native speakers and in-country cultural experts; and • a team recognised through numerous industry awards including past winner of the Inaugural Prime Minister's Exporter of the Year Award.	Section 6.1

1.3 SUMMARY OF KEY RISKS

Concentration of customer base	Appen's customer base consists of, amongst others, a number of large global multi-national technology companies. The projects awarded by these companies, or the ongoing services which Appen may provide to these companies, can generate large amounts of revenue from that one client. This revenue model leads to a high concentration of revenues with one or more customers. 82% of forecast pro forma FY14 revenue will come from Appen's top 5 customers, and accordingly, the financial performance of Appen is susceptible to the loss of one or more of these clients if that were to occur. Appen's US business has worked with its leading customer, Microsoft®, for over 20 years, however any loss of the Microsoft® contract or other key customer contacts will have a negative effect on the financial performance of the Company.	Section 4.1.1
Revenue model risk	A substantial part of Appen's revenue is generated from individual case by case projects rather than long-term contracts. Appen cannot be assured that a customer will re-engage Appen on future projects or services once the project is completed or that the customer will not unilaterally reduce the scope of, or terminate, existing projects on short-term notice (generally 30 days). The absence of long-term revenue makes it difficult to predict the future revenues of Appen and investors should consider this factor in the context of the financial information included in this Prospectus.	Section 4.1.2

TOPIC	SUMMARY	FOR MORE INFORMATION
Management personnel	Appen depends on the talent and experience of its management personnel. The loss of any key personnel, or a significant number of personnel generally, may have an adverse effect on the Company. It may be difficult to replace those personnel, or to do so in a timely manner or at comparable expense. The loss of key senior executives could cause material disruption to Appen's activities in the short to medium term.	Section 4.1.3
Recruitment and crowdsourcing	Appen's operating model also requires an ability to mobilise a large number of independent contractors on a project by project basis to fulfil customer needs and requirements. If Appen fails to find or manage independent contractors of a suitable quality and/or suitable number, this may lead to project delays or lower revenues or profits being generated in relation to the project.	Section 4.1.4
Acquisition and investments by Appen may not be successful	As part of its growth strategy, Appen may acquire businesses from time to time. While Appen will take every effort to ensure that any acquisition is successfully integrated and benefits realised, there can be no assurance that Appen will be successful in realising the anticipated benefits and synergies of any businesses that it acquires. The ability to realise these benefits will depend in part on whether Appen can efficiently integrate acquired businesses with its existing operations. The challenges of integrating and operating acquired businesses may be greater if Appen acquires businesses that provide services outside Appen's current geographic offering, particularly if it is unable to retain the acquired company's management. In addition, there is a risk that Appen will overestimate the value of acquired businesses and therefore overpay. These factors may adversely impact Appen's financial performance.	Section 4.1.5
Competition	If the actions of current or potential competitors of the Company become more effective, or the Company may be unable to compete successfully, such actions may negatively affect the Company's future profitability, planned growth and market share.	Section 4.1.6
Technology failure	Appen relies on a variety of IT systems in order to manage and deliver services and communicate with its customers. Any failure of Appen's IT systems could cause disruption to its ability to offer services, which may have an adverse effect on its revenue and profitability.	Section 4.1.7

TOPIC	SUMMARY	FOR MORE INFORMATION
Development and commercialisation of Intellectual Property	Appen relies on its ability to develop and commercialise its language related data and services. A failure to develop and commercialise its intellectual property successfully would lead to a loss of opportunities and adversely impact on the operating results and financial position of Appen. Furthermore, any third party developing superior technology, or with greater commercial appeal in the fields in which Appen operates, may harm the future prospects of the Company.	Section 4.1.8
Trade secrets	In addition to its licensing activities, Appen also relies on protecting its trade secrets. The protective measures Appen employs may not always be sufficient to protect its trade secrets. If the Company's trade secrets become public, this could erode its competitive advantage. The Company also cannot be certain that others will not independently develop similar technologies on their own, or gain access to trade secrets, or have disclosed to them such technology, or that Appen will otherwise be able to meaningfully protect its trade secrets and unpatented know-how and keep them secret. This could allow competitors to commercialise products and services competitive with Appen's products and services. Although Appen implements reasonable endeavours to protect its intellectual property, these measures may not always be sufficient.	Section 4.1.11
Brand and reputation risk	The reputation and brand of Appen and its individual products are important in attracting customers. Any reputation damage or negative publicity around Appen or its products could adversely impact on Appen's customer relationships, general business and ultimately its financial performance.	Section 4.1.12
Foreign exchange risk	Appen's financial reports are prepared in Australian dollars. However, a substantial proportion of Appen's sales revenue, expenditures and cash flows are generated in, and assets and liabilities are denominated in US dollars. Any adverse movements of the US dollar against the Australian dollar as well as other adverse exchange rate fluctuations or volatility, particularly during the period between when an invoice is issued and when payment is made could have an adverse effect on Appen's future financial performance and position. To mitigate this risk, Appen's policy is to hedge at least 80% of its US denominated revenues generated by its Speech and Data Collection division.	Section 4.1.14

TOPIC	SUMMARY	FOR MORE INFORMATION
Other key risks	A number of other key risks are included in Section 4 and investors are recommended to review all of those key risks carefully before making an investment decision.	Section 4

1.4 SUMMARY OF KEY FINANCIAL INFORMATION

What is the key financial information and key financial ratios?	See table below.	Section 5

	PRO FORMA HISTORICAL RESULTS		PRO FORMA FORECAST RESULTS		STATUTORY FORECAST RESULTS	
A$ million	FY12	FY13	FY14	FY15	FY14	FY15
Revenues	33.3	60.5	49.1	53.6	49.1	53.6
EBITDA	3.7	6.5	5.3	6.8	3.1	6.6
EBIT	2.8	5.6	4.2	5.7	2.1	5.4
NPAT	2.0	4.0	3.0	4.0	0.8	3.8
Earnings per Share (cents)	-	-	-	4.2	-	4.0

Key Financial Ratios

Enterprise Value[1] / pro forma FY15 forecast EBITDA[2] = 6.6x

Offer Price / pro forma consolidated FY15 forecast NPAT[2,3] per Share = 11.8x

NOTES

[1] Equal to the indicative market capitalisation less pro forma net cash which is anticipated to be $2.4 million (as at Completion of the Offer) set out in section 5.4.1.

[2] The Forecast Financial Information is based on assumptions and accounting policies set out in section 5 and is subject to the key risks as set out in Section 4.

[3] This ratio is commonly referred to as a price to earnings, or PE, ratio.

1.5 DIRECTORS

TOPIC	SUMMARY	FOR MORE INFORMATION
Who are the Directors and key executives of Appen?	Directors: • Chris Vonwiller (Non-Executive Chairman) • Lisa Braden-Harder (Managing Director) • William Pulver (Non-Executive Director) • Robin Low (Independent Non-Executive Director) • Jeremy Samuel (Non-Executive Director) Key executives: • Mark Byrne (Chief Financial Officer and Company Secretary) • Tom White (Senior Vice President, Strategy, Sales and Marketing) • Tammy Garves (Senior Vice President, Content Relevance) • Phil Hall (Senior Vice President, Speech and Data Collection)	Sections 6.1 and 6.2

1.6 SIGNIFICANT INTERESTS OF KEY PEOPLE AND RELATED PARTY TRANSACTIONS

Who are the Major Shareholders and what will be their interest in Appen at the Completion of the Offer?	The existing major shareholders in Appen are Anacacia, entities related to the directors Chris Vonwiller and William Pulver, and Lisa Braden-Harder, the current Managing Director of Appen. The interests of these Major Shareholders on Completion of the Offer are set out below:	Section 6.3.2.4

EXISTING SHAREHOLDERS	NUMBER OF SHAREHOLDERS	SHARES IN APPEN ON COMPLETION OF THE OFFER (MILLION)	SHARES IN APPEN SUBJECT TO ESCROW ARRANGEMENTS (MILLION)
Anacacia	1	33.8	33.8
Chris Vonwiller[1]	1	17.2	17.2
William Pulver[1]	1	8.8	8.8
Lisa Braden-Harder[2]	1	1.8	1.8
Management Shareholders	6	2.3	2.3
Other Existing Shareholders	8	0.7	0.0
Total	18	64.6	63.9

NOTES

[1] Chris Vonwiller holds Shares through a related entity. William Pulver holds Shares through two related entities. Total may differ due to rounding.

[2] In connection with the Offer, Lisa Braden-Harder will receive approximately $5.2 million for the cancellation of Options that were originally issued as part of the settlement of the contingent consideration liability for the acquisition of Butler Hill in FY11.

<table>
<tr><th>TOPIC</th><th colspan="2">SUMMARY</th><th>FOR MORE INFORMATION</th></tr>
<tr><td rowspan="4">Will any Shares be subject to restrictions on disposal following Completion of the Offer?</td><td colspan="2">All of the Shares held by the Major Shareholders will be subject to voluntary arrangements restricting the disposal of those Shares for the period from Listing to the day following the release of Appen's financial results for the year ended 31 December 2015. Major Shareholders will be permitted to an early release of a portion of their escrowed shares in the following circumstances:</td><td rowspan="4">Section 7.6</td></tr>
<tr><td>Securities to be released from escrow</td><td>Escrow release conditions</td></tr>
<tr><td>25% of Shares held at Completion of the Offer</td><td>• Financial results for FY2014 released; and
• Volume-weighted average price in any 10 consecutive trading days following release of those financial results exceeds the Offer Price by more than 20%.</td></tr>
<tr><td>25% of Shares held at Completion of the Offer</td><td>• Financial results for 1HFY2015 released; and
• Volume-weighted average price in any 10 consecutive trading days following release of those financial results exceeds the Offer Price by more than 20%.</td></tr>
<tr><td></td><td colspan="2">In addition to the Major Shareholders, a further 2,252,835 Shares held by Management Shareholders will also be subject to voluntary escrow arrangements on the same terms as outlined above.
After the release of the FY2015 financial results, all remaining Shares held by the Major Shareholders and Management Shareholders will cease to be subject to escrow restrictions.</td><td></td></tr>
</table>

TOPIC	SUMMARY	FOR MORE INFORMATION
What significant benefits and interests are payable to Directors and other persons connected with Appen or the Offer and what significant interests do they hold?	At the Prospectus Date, Chris Vonwiller (Non-Executive Chairman), Lisa Braden-Harder (Managing Director) and William Pulver (Non-executive Director) each hold Shares directly or indirectly. On Completion of the Offer, the minimum number of Shares that each of the Directors will control is as follows: • Chris Vonwiller, 17,210,082 Shares; • Lisa Braden-Harder, 1,844,672 Shares; • William Pulver, 8,843,055 Shares; and • Robin Low, 100,000 Shares. Jeremy Samuel is the Managing Director of Anacacia. Following the Offer, Anacacia will retain 33,784,985 Shares. As at the Prospectus Date, Jeremy Samuel does not individually control Anacacia's shareholding in Appen and consequently he does not have a relevant interest in those Shares under the Corporations Act. The Existing Owners will sell a portion of their Shares into the Offer and will be paid the Offer Price for those Shares under their arrangements with SaleCo. Advisers and other service providers are entitled to fees for services.	Section 6.3

1.7 KEY TERMS AND CONDITIONS OF THE OFFER

Who is the issuer of this Prospectus?	Appen Limited ACN 138 878 298, a public company registered in Australia, and Appen (SaleCo) Pty Ltd ACN 602 703 604, a proprietary company registered in Australia.	Section 3
What is the Offer?	The Offer is the initial public offering of 30.0 million Shares that will in part be new Shares issued by Appen and will in part be Existing Shares sold by SaleCo, each at an Offer Price of $0.50 per Share.	Section 7

TOPIC	SUMMARY	FOR MORE INFORMATION
What is the purpose of the Offer?	The funds raised under the Offer will be used: • by SaleCo to pay the Existing Owners the proceeds due to them for the sale of their Shares; and • by Appen for future technology investment and growth initiatives, payment of the contingent consideration liability, ongoing working capital, the costs of the Offer and the proceeds due to option holders for the buy-back of their options in accordance with the terms of those options.	Section 7.3
What is SaleCo and what is its involvement in the Offer?	SaleCo is a special-purpose entity established to sell Shares acquired from Existing Owners. The Existing Shares which SaleCo acquires from the Existing Owners will be transferred to successful Applicants at the Offer Price.	Section 9.4
Will the Shares be listed?	Appen will apply to ASX for admission to the official list of ASX and quotation of Shares on ASX under the code APX within seven days of the Prospectus Date. Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such an application is made, the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	Section 7.13
How is the Offer structured?	The Offer comprises: • the Broker Firm Offer; and • the Institutional Offer, which consists of an invitation to acquire Shares made to Institutional Investors.	Section 7.2
How can I apply?	Broker Firm Applicants may apply for Shares by completing an Application Form and lodging it with the Broker who invited them to participate in the Offer. There is no General Offer available. The Opening Date for the Offer is 10 December 2014 and the Closing Date for the Offer is 5.00pm (Sydney, Australia time) on 16 December 2014, or such later date as the Directors, in their absolute discretion, may determine. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	Section 7.9

TOPIC	SUMMARY	FOR MORE INFORMATION
When will I receive confirmation that my application has been successful?	It is expected that initial holding statements will be dispatched by standard post on or about 23 December 2014.	Section 7.9.4
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Lead Manager on the terms and conditions of the Underwriting Agreement.	Section 9.5.1
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Lead Manager in consultation with the Company. The allocation of Shares among applications in the Institutional Offer was determined by the Lead Manager and Appen. In relation to the Broker Firm Offer, Brokers will decide how they allocate firm stock among their eligible retail clients.	Section 7.9.3
Is there any brokerage, commission or stamp duty payable by applicants?	No brokerage, commission or stamp duty is payable by applicants on the acquisition of Shares under the Offer.	Section 7.8
What is Appen's dividend policy?	The Directors intend to target a dividend pay-out ratio between 30% to 50% of NPAT subject to the future business conditions and the future cash flow requirements of Appen. It is the current intention of the Directors to pay interim dividends in respect of half years ending 30 June and final dividends in respect of full years ending 31 December each year and to pay fully franked dividends to the extent possible from 1HFY15 onwards.	Section 5.10
Where can I find more information about this Prospectus or the Offer?	For more information, please call the Appen Offer Information Line on 1800 500 095 (toll free within Australia) or +61 1800 500 095 (outside Australia) from 8.30am until 5.30pm (Sydney, Australia time) Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Appen is a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.	Section 7.8

TOPIC	SUMMARY	FOR MORE INFORMATION
Can the Offer be withdrawn?	Appen and SaleCo reserve the right not to proceed with the Offer at any time before the issue or transfer of Shares to successful applicants. The Offer is conditional on ASX agreeing to admit the Company to the official list of ASX and quotation of the Shares on ASX. If the Offer does not proceed, Application Monies will be fully refunded. No interest will be paid on any Application Monies refunded as a result of not proceeding with the Offer.	Section 7.11

APPEN'S CLIENTS OPERATE IN INDUSTRIES INCLUDING ECOMMERCE

APPEN'S DATA SOLUTIONS ARE USED FOR COMMUNICATION APPLICATIONS SUCH AS SKYPE™

SECTION 2

INDUSTRY OVERVIEW

INDUSTRY OVERVIEW

2.1 GLOBALISATION

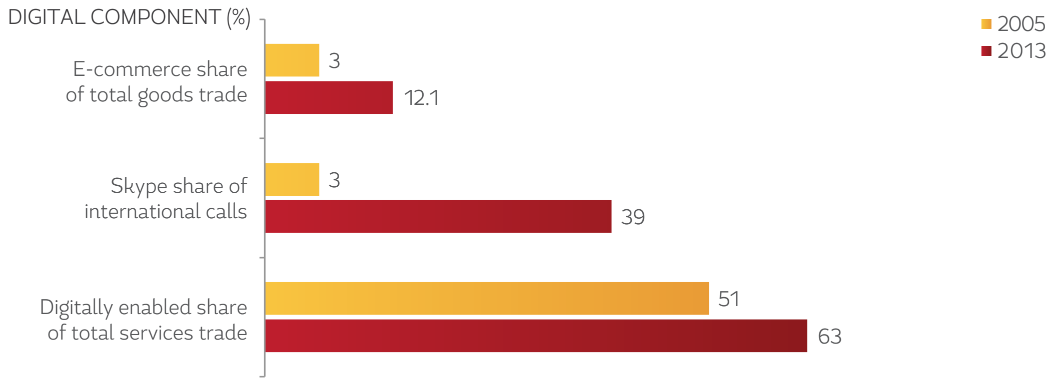
The globalisation trend that is integrating the world's people, companies, and governments is a major driver for language services. Organisations that aspire to service global markets will adapt their products and services to international cultures, languages, currencies, and legal systems. The language services industry can support these companies by providing data and services that enable cross language communication, security and intelligent information retrieval and machine translation.

A central driving force of globalisation in recent years has been the widespread and increased use of digital technologies. Specifically, instantaneous cross-border exchange of products such as books, music, and designs has helped break down barriers to trade and accelerated international flows. The results of this new 'digitised' economy can be seen in Figure 2.0 below, comparing the growth in these broad consumption categories from 2005 to 2013.

Digitisation and the creation of online platforms is also allowing cross-border exchange of information amongst not only large businesses, but SMEs and individuals. A relevant case study for online platforms penetrating the market deep and wide is Skype™. Skype™ has revolutionised global communication as its usage has doubled every two years over the past decade, and by 2013 Skype™ calling represented 39% of traditional international phone calls.

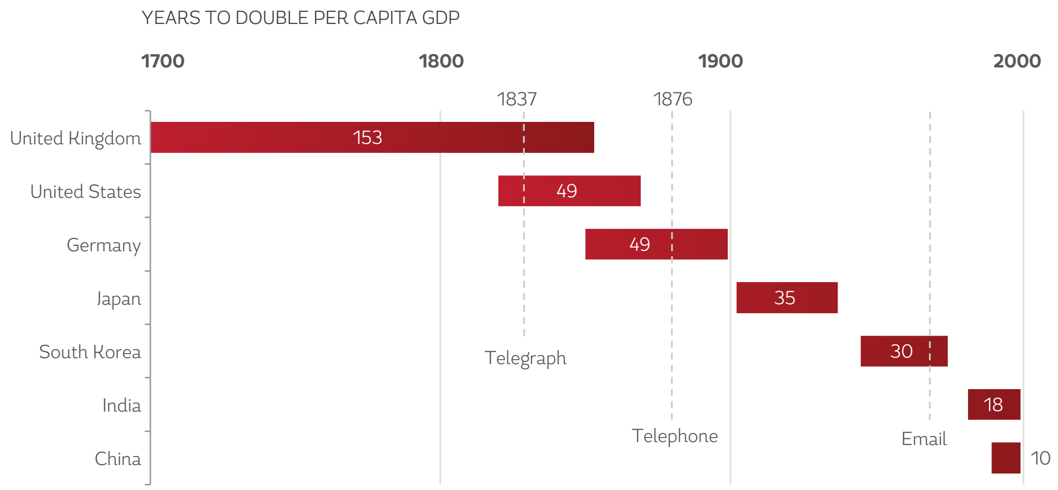
Technical innovation has also accelerated another driving force of globalisation, the rise of emerging economies, and the subsequent growth of the world's middle class. Figure 2.1 highlights the acceleration of income growth over the last three centuries across both developed and emerging economies. By looking back in history at today's most developed economies, and comparing them to today's emerging economies, technology has exponentially shortened the doubling period of GDP per capita. For example, it took over 150 years for the UK to double GDP per capita during the industrial revolution compared to the 10 years it took China to double its GDP per capita from 1993 to 2003.

FIGURE 2.0: Digital component growth, 2005-2013



Source: iResearch; Telegeography; OECD; US Bureau of Economic Analysis; McKinsey Global Institute analysis.

FIGURE 2.1: Acceleration of income growth in developed and developing economies



Source: Angus Maddison, The world economy: Historical statistics, OECD, 2003; Resource Revolution: Meeting the world's energy, materials, food, and water needs, McKinsey Global Institute, 2011; McKinsey Global Institute analysis

Experts state that one of the next big technology and future prosperity drivers will be the continued connection of the globe to the internet, as approximately 70% of the world's population are yet to come online. [7] This includes typically non-English speaking countries, highlighting the integral need for language service providers, like Appen, to work with content managers to unify content through language and increase communication flows.

2.2 INTERNET AND MOBILE USAGE

Internet and mobile usage are specific drivers of Appen's business divisions, and understanding its impact on the global economy is key to understanding Appen's future prospects.

[2.2.1] INTERNET

Approximately 40% of the world population has an internet connection today compared to 1995 when it was less than 1%. However, what is important to Appen's business will be the composition of the global internet usage going forward. At present, nearly 75% (2.1 billion people) of all internet users are represented by just 20 countries, the remaining 25% (0.7 billion people) is represented by some 178 countries. [8] New internet users will predominately be from non-English speaking regions, increasing the requirement for multilingual content. Figure 2.2 highlights the interplay between internet usage and internet content. Although Asian language speakers dominate internet usage, the language of internet content is still heavily biased towards English.

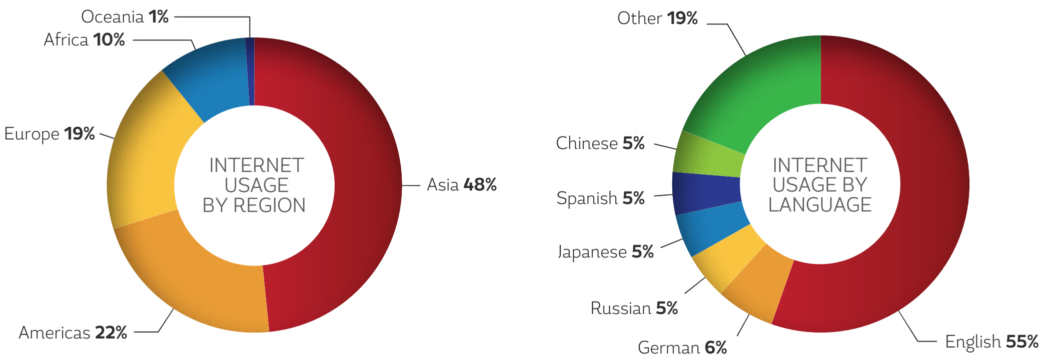
[7] **Source:** Matt Barrie, Freelancer Limited.

[8] **Source:** Internetlivestats.com, sources delivered by Worldometers' RTS algorithm which collects data from; the International Telecommunication Union (ITU), The World in 2014: ICT Facts and Figures, Measuring the Information Society, Internet Users Data – World Bank Group, The World Factbook – CIA, United Nations Population Division – U.N. Department of Economic and Social Affairs.

Internet giants such as Google®, Yahoo®, Baidu™, and Bing® have begun offering content in a greater number of languages to cater for this new phase of growth. The aim of these internet giants is to boost usage rates amongst web users who are more comfortable with local languages.

In 2014, China and India are experiencing the largest growth in internet users, bringing approximately 54 million new users to the internet. The need for internet content to be prepared in local languages is apparent in Figure 2.3 which highlights the lack of content representation for emerging economies, some of which represent the greater proportion of internet usage. China and India are the most pronounced examples: China has approximately 642 million internet users, India approximately 243 million, with each only having 4.6% and 0.1% respectively of total internet content written in their local languages. [10] This trend identifies the growing need for local content as large numbers of people from the developing world come online. Appen believes this increasing trend will drive the need for greater search capability.

FIGURE 2.2: Internet content language vs. regional usage

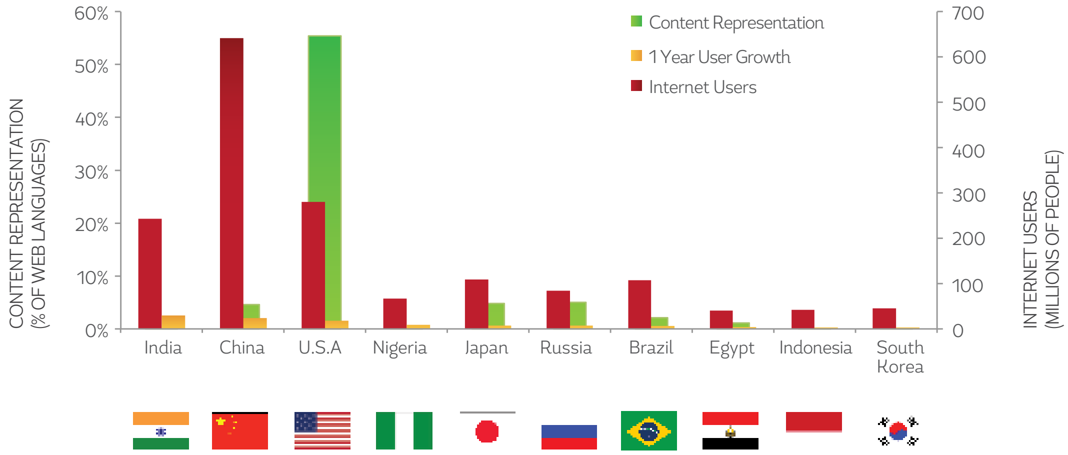


Source: Internetlivestats.com, Language Connect

[9] **Source:** Delivered by Worldometers' RTS algorithm which collects data from; the International Telecommunication Union (ITU), The World in 2014: ICT Facts and Figures, Measuring the Information Society, Internet Users Data – World Bank Group, The World Factbook – CIA, United Nations Population Division – U.N. Department of Economic and Social Affairs.

[10] **Source:** Internetlivestats.com sources delivered by Worldometers' RTS algorithm which collects data from; the International Telecommunication Union (ITU), The World in 2014: ICT Facts and Figures, Measuring the Information Society, Internet Users Data – World Bank Group, The World Factbook – CIA, United Nations Population Division – U.N. Department of Economic and Social Affairs.

FIGURE 2.3: Internet users vs content representation in local language



Source: Internetlivestats.com, Language Connect [11]

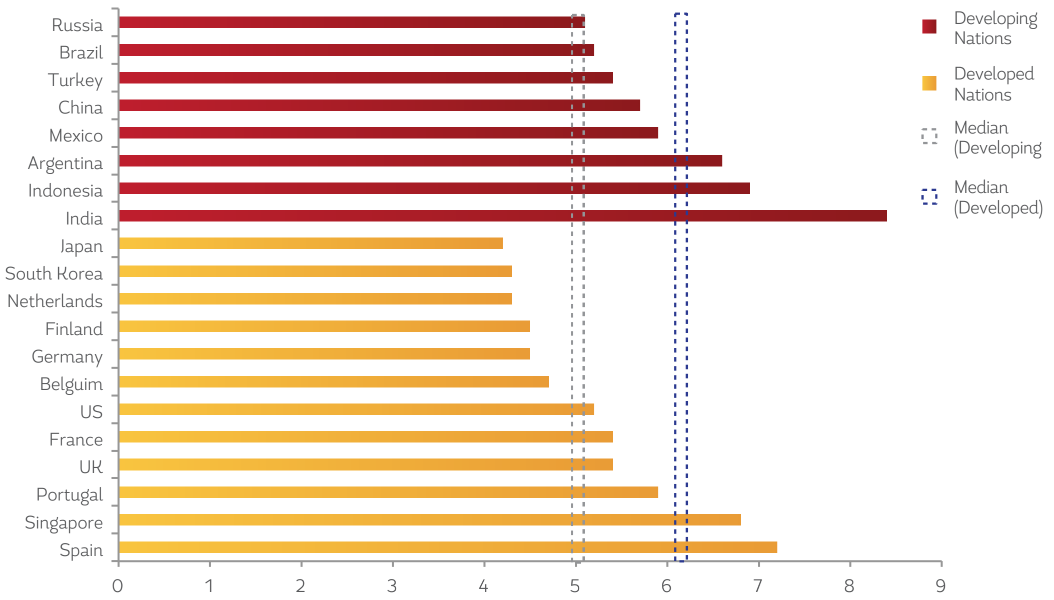
[2.2.2] MOBILE

The mobile market, while being a major driver of the broader internet, is also where the convergence of language technology is most visible. Mobile interfaces are becoming increasingly sophisticated, combining speech recognition technology with intelligent search and navigation systems. Search software and speech recognition systems rely heavily on machine learning data, both during and post development. Everything from the Apple iPhone's Siri system, to global search engines like Google®, Yahoo®, Baidu™, and Bing® requires language data annotated by humans to create more engaging and market relevant products and search results. Understanding this market and its size is another indication of Appen's future potential. The prevalence of mobile device usage has changed significantly in recent years, with some countries having on average as many as eight devices per user. For many developed nations, the combination of improving mobile internet connectivity and busy lifestyles is driving this trend, but for the developing nations that lack infrastructure, mobile device use is essential for connecting telecommunications and the internet. Figure 2.4 illustrates the trend that developing nations have a higher median device per user rate, 5.80 devices against 4.95 in the developed world. [12]

[11] **Source:** Delivered by Worldometers' RTS algorithm which collects data from; the International Telecommunication Union (ITU), The World in 2014: ICT Facts and Figures, Measuring the Information Society, Internet Users Data – World Bank Group, The World Factbook – CIA, United Nations Population Division – U.N. Department of Economic and Social Affairs.

[12] **Source:** Deloitte Global Mobile Consumer Survey, Developed markets, May-July 2013.

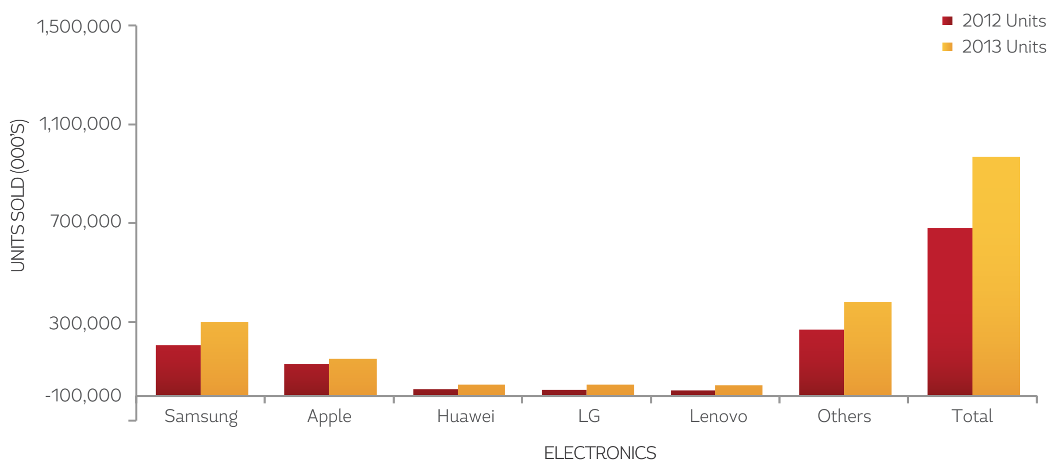
FIGURE 2.4: Developed vs developing economies mobile device usage



Source: Deloitte Global Mobile Consumer Survey, Developed markets, May-July 2013

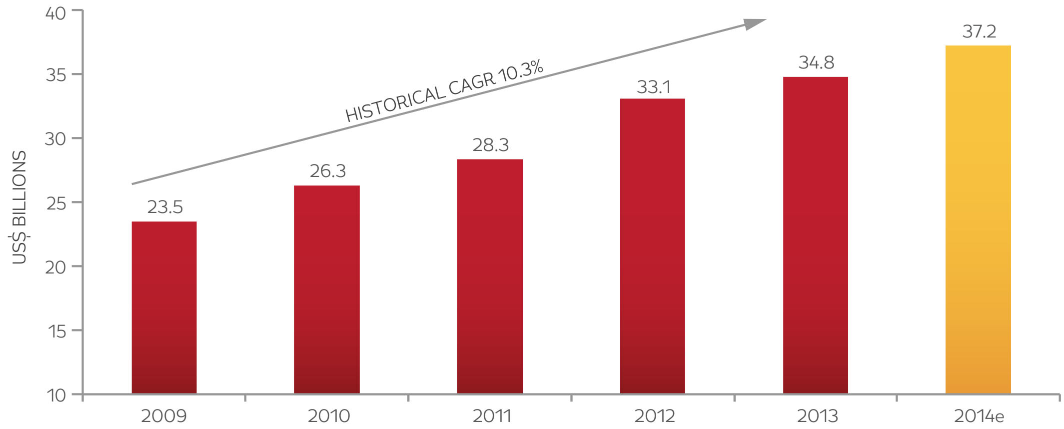
Appen believes the increase in device usage now means that mobile device sales are one of the largest consumer electronics market globally. As illustrated in Figure 2.5 below, world-wide smartphone sales alone reached approximately 970 million units in 2013, up approximately 43% from 680 million in 2012. [13]

FIGURE 2.5: Worldwide Smartphone Sales to End Users by Vendor



[13] **Source:** Gartner, February 2014.

FIGURE 2.6: Language Services – market growth



Source: Common Sense Advisory, 'The Language Services Market 2014'

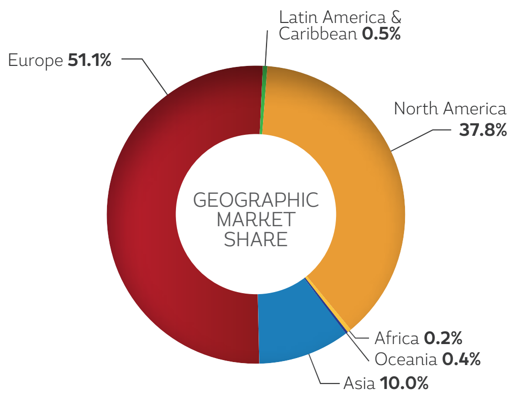
2.3 LANGUAGE SERVICES

Appen resides within the broader language services industry. Studies have identified 18 language related services that comprise the total market, making it difficult to define as a whole. Broadly speaking, the services that make up this industry are focused on improving the accessibility of products and services through language.

Figure 2.6 above highlights the growth of the broader language services industry. Over a five year period to 2013, language services experienced a CAGR of 10.3%. The broader language services market is expected to grow by 6.9% in 2014 to a market with expected revenues of $37.2 billion. [14] Appen aims to take advantage of, and to grow with, the broader language services industry.

Figure 2.7 below highlights that by geography, Europe is the largest consumer of language services accounting for over 50% of total revenues, followed by North America with 38%.[15] The European Union allows seamless free trade between its 28 member countries each with their own unique languages and dialects. The need for language services in the European Union to facilitate e-commerce, translation, and content localisation is particularly high compared with other regions.

FIGURE 2.7: Language Services – geographic market share



Source: Common Sense Advisory, 'The Language Services Market 2014'

[14] **Source:** Common Sense Advisory, 'The Language Services Market 2014'.

[15] **Source:** Common Sense Advisory, 'The Language Services Market 2014'.

2.4 THE IMPORTANCE OF LANGUAGE SERVICE PROVIDERS

With over 7,000 different languages spoken globally, and the rapid rise of international trade flows, the language services industry is more important than ever before. [16] Language services go largely unnoticed due to their utilitarian nature. An article in Forbes magazine, which refers to 'the biggest industry you've never heard of' highlights the misconception that the language services industry is niche. [17] Language services can be found in most industries; language interpreters are in government offices, defence organisations, hospitals, courtrooms, and schools.

2.5 LANGUAGE TECHNOLOGY

Language technologies are information technologies that are specialised for dealing with human language. Examples of language technology components can be found everywhere in modern life; in smartphones, in game consoles, on-board command and control in cars, search engines, social media and e-commerce platforms. Global consumption of products and services is driving the need for language integration, with more and more products needing linguistic integration. Appen's understanding is that existing markets are growing, and as convergence continues, more products will require the data and services of language service providers like Appen. Appen provides language technology and data solutions via its two divisions: Content Relevance, and Speech and Data Collection.

2.6 CONTENT RELEVANCE

Content relevance includes services such as Search & Navigation, e-commerce, Social Media, and Cognitive Computing.

[2.6.1] SEARCH & NAVIGATION

Search & Navigation systems provide easy, intuitive access to unstructured data. They include internet search engines, e-commerce platforms, and social media platforms.

The increase in digital content is the largest driver of Search & Navigation; trends such as mobile device usage, cloud computing, and increases in internet connections amongst emerging economies have seen data grow from 2.8ZB (zeta bytes) in 2012 to an expected 8.5ZB by 2015. [18]

Appen's Content Relevance business provides one of the Search & Navigation industry's most comprehensive service offerings, with capabilities in over 140 languages and dialects. Market leaders dominating this Search & Navigation space are household names like Microsoft®, Google®, Yahoo® and Baidu™, some of whom are Appen clients. Industry sizing in dollar terms is difficult to estimate, however by combining the relevant revenues of the most widely used search engines, Appen is able to conservatively estimate revenues at approximately US$64 billion. [19]

Through large scale automation and human annotation, language technology providers and search engine providers are able to improve connection, communication and commerce amongst regions, and in the language people speak in these regions. The market size and composition going forward present an attractive opportunity for companies like Appen to extend search and speech technology to global markets.

[2.6.2] E-COMMERCE

Digital platforms for e-commerce are transforming trade flows of goods and services around the globe. By minimising search costs and harmonising prices, e-commerce has improved the producer's ability to market products and services to consumers from different

[16] **Source:** BBC Languages.

[17] **Source:** Forbes, 'Lydia Callis and the Biggest Industry You've Never Heard Of'.

[18] **Source:** LT-INNOVATE, Status and Potential of the European Language Technology Markets.

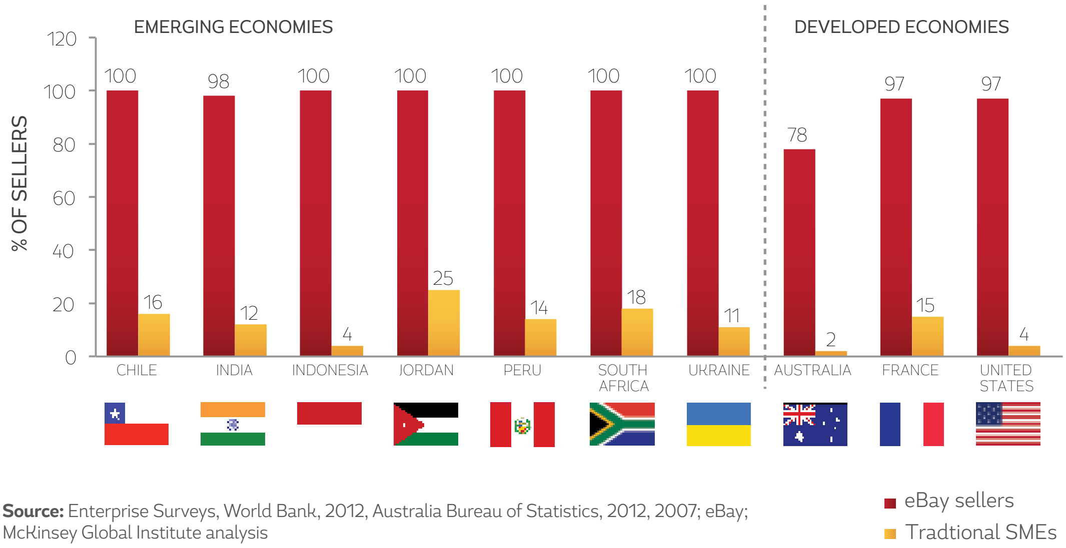
[19] **Source:** 2013 Annual Report, internet and advertising revenue: Microsoft®, Google®, Yahoo®, Baidu™, Interactive Corp.

geographies, different linguistics regions, and different cultural backgrounds. This trend can be observed below by comparing SMEs selling offline and online via platforms such as eBay, and how the two mediums of exchange affect the export of products. Figure 2.8 below indicates that e-commerce has become the preferred mode for SMEs that export products and this trend is pronounced amongst emerging economies. Appen believes SMEs that export products from emerging economies typically lack the ability to develop and maintain their own digital selling platforms and hence why global selling giants such as eBay™, Amazon™ and Alibaba™ have become integral in accelerating their access to the global economy.

Where search engines operate on the broader internet, e-commerce sites rely on search queries to help customers navigate their digital store fronts. Connecting with the customer's needs by returning the most relevant results is critical to the merchant's success. Failing this will likely result in customers leaving the merchant's site for a competitor's site. Appen's Content Relevance business has commenced working closely with these businesses to improve machine learning and conversion to sale rates.

The size of the e-commerce market represents Appen's largest target market amongst its business divisions, with sales reaching almost US$1.25 trillion in 2013. Sale figures for 2013 mark an increase of 18.3% on the US$1.01 trillion in revenues in 2012. [20] This growth has primarily come from the rapidly expanding online and mobile user bases in emerging markets, increases in mobile commerce sales, advanced shipping and payment options, and the push into new international markets by major brands. Figure 2.9 below illustrates the changing composition of e-commerce sales globally. Projected full year sales figures anticipate the Asia Pacific region to overtake North America in 2014, and by 2017 to account for 44% of total sales. [21]

FIGURE 2.8: Share of eBay commercial sellers and offline SMEs that export

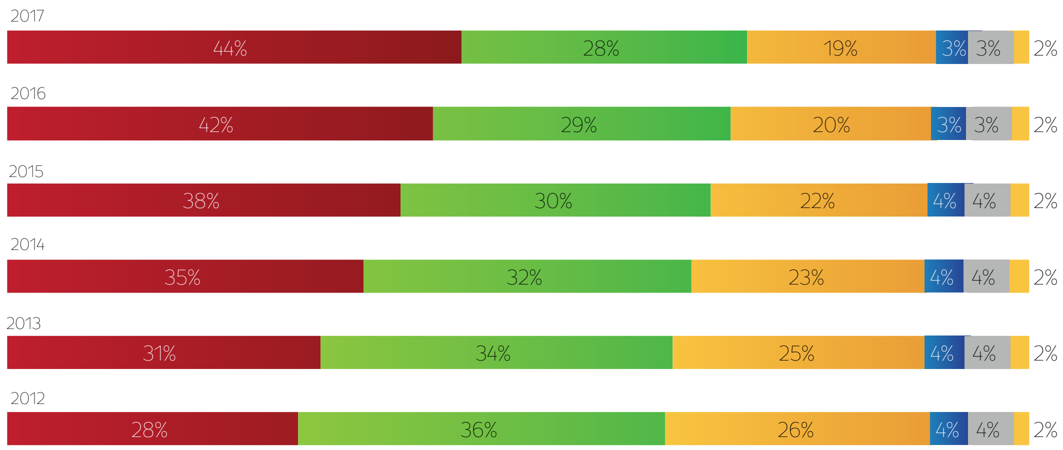


Source: Enterprise Surveys, World Bank, 2012, Australia Bureau of Statistics, 2012, 2007; eBay; McKinsey Global Institute analysis

[20] **Source:** 'Global B2C Ecommerce Sales to Hit $1.5 Trillion This Year Driven by Growth in Emerging Markets', eMarketer, 3 February 2014.

[21] **Source:** 'Global B2C Ecommerce Sales to Hit $1.5 Trillion This Year Driven by Growth in Emerging Markets', eMarketer 3 February 2014.

FIGURE 2.9: E-commerce worldwide sales by region, 2012 to 2017



Source: eMarketer, 3 February 2014.

[2.6.3] SOCIAL MEDIA

Social media can be defined as the interaction of people creating or exchanging information and ideas via virtual communities and networks. [22] Social media technologies cover a wide variety of forms, from internet forums, weblogs, social blogs, microblogging (Twitter™), wikis, social networks (Facebook™), pictures, video, and any technology medium that allows the exchange and/or creation of information and ideas.

Social media is another key growth area for Appen's Content Relevance, as search expertise is easily transferable to this field. The objective is the same for social media as it is for search engines and e-commerce platforms: to engage customers by returning or displaying the best and most relevant results. For example music, websites, apps, product descriptions or product reviews and social media posts.

The market for social media has experienced explosive growth in recent years, yielding customer rich conversations and data, useful beyond just advertising objectives. Market sizing is based on advertising revenues and according to the latest forecasts, US social media advertising revenues are expected to grow from US$4.4 billion in 2013 to US$7.3 billion by 2015. [23]

The latest public surveys show that the largest players in social media are household names such as Facebook, Twitter, and LinkedIn. In understanding scale and how social media has affected internet usage, the latest Alexa survey showed just the top three social media sites Facebook™, Twitter™, and LinkedIn™ had a combined total of approximately 1.5 billion unique monthly visitors to their sites. [24]

2.7 SPEECH AND DATA COLLECTION

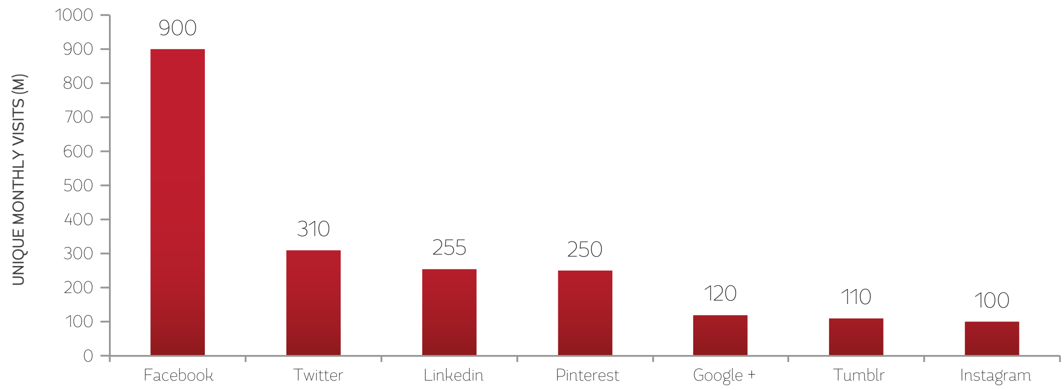
Quality speech data is one of the key components in reducing product development time in speech recognition technologies. Speech recognition enhances a user's ability to create, access and manage information and

[22] **Source:** http://webcomm.tufts.edu/social-media-overview13/.

[23] **Source:** BIA Kelsey.

[24] **Source:** Alexa, 2014, http://www.ebizmba.com/articles/most-popular-websites.

FIGURE 2.10 Largest social media providers, 2014



Source: Alexa.

use self-service applications. The value Appen provides to its clients lies in containing costs without sacrificing customer experience. By increasing automation and reducing wait times and call duration, customer transactions can be concluded more quickly, efficiently and effectively. These systems work at the level of human-to-computer interfaces, providing multimodal, multi-language and natural language interaction.

Appen provides computer-based speech and language resources, and advanced linguistic support in over 140 languages and dialects to commercial and government clients globally, covering applications such as:

- automated call-centres;
- next-generation voice-activated command & control for in-car systems and gaming (eg Xbox®);
- mobile phones (eg Nokia™, Motorola™, Blackberry™, Google-Android™, Apple iPhone™);
- surveillance and intelligence analysis systems for defence, intelligence and law enforcement agencies; and
- advanced linguistic support for word processing proofing tools (Microsoft® Office), search engines, machine translation and information extraction systems.

Appen's market strength derives from its advanced technology in collecting and annotating linguistic data, combined with its ability to provide high quality data within timeframes of its clients to launch new products. Appen is one of the market leaders in its Speech and Data Collection business, working closely with leading technology companies. For example, the computer game console market alone, comprised predominantly of Sony's PlayStation™ division and Microsoft® Xbox® , produced combined sales of US$12.58 billion in 2013. [25]

[25] **Source:** U.S. Government Budget, fiscal year 2014.

2.8 GOVERNMENT

Appen works with government clients in several countries to support their specialised data analysis programs. Government requirements typically involve search capability for large quantities of speech, text, image and video content. Government clients also require state-of-the-art software tools to prioritise materials and extract content, particularly in response to security and counter-terrorism challenges.

This work typically involves multi-year development programs of work, in close partnership with both government and commercial organisations. Appen's contributions lie particularly in its ability to handle less well-known, non-commercial minority languages and dialects, often with linguistically diverse characteristics and differing written scripts. A related strength is Appen's ability to provide data to support development of tools for new languages in compressed timescales whilst maintaining the necessary high quality.

Appen believes there is a large opportunity to service government agencies and their national objectives. For example this year's U.S. federal budget alone has allocated US$48.2 billion in discretionary base funding to the 'National Intelligence Program" [26], of which Appen has estimated spending on linguistics between the various security agencies to be in excess of US$350 million per annum.

2.9 COMPETITIVE LANDSCAPE

The language services industry is highly fragmented with over 18,000 language service providers, the majority (60.5%) have between two and five employees. [27] The independent contractor operating structure of these businesses is believed to be the cause of fragmentation. Most firms, including Appen, rely on large networks of independent contractors to support operations; the freelancers are subcontractors allowing for lower fixed costs when work-loads are low. These lower fixed costs effectively lower the attrition rate in the industry, allowing more to participate.

Appen's competitors include companies with regional expertise, university consortia, regional crowd solutions and global companies with expertise in localisation and translation.

A review of the top 100 language service providers in 2014 shows rising revenues, acquisition activity, and increased venture capital and private equity investment over the previous corresponding period.

[26] **Source:** U.S. Government Budget, fiscal year 2014.

[27] **Source:** Common Sense Advisory, 'The Language Services Market 2014'.

APPEN'S DATA SOLUTIONS FACILITATE SPEECH AND DATA PROVISION FOR INTERNET-CONNECTED DEVICES

APPEN'S DATA SOLUTIONS ARE USED IN MOBILE DEVICES

SECTION 3
COMPANY OVERVIEW

COMPANY OVERVIEW

Appen is a globally focused company that provides high quality language technology data and services in more than 140 languages and dialects to leading technology companies and government agencies.

3.1 INTRODUCTION TO APPEN

Appen's data is used in products and applications such as smartphones, computer game consoles, on-board command and control in cars, search engines, social media, content analytics software, e-commerce platforms and government security and intelligence.

Appen was founded in Australia in 1996 to develop linguistic technologies to help launch products in markets around the world. In 2011, Appen merged with US-based Butler Hill Group to expand its business scope to include language consulting, and search and text related services. The combined Appen Butler Hill was rebranded as Appen in 2013. With its head office in Sydney, Appen employs approximately 150 people globally. However with large volumes of linguistic work around the world, Appen is additionally able to provide flexible part-time contract positions for around 150,000 people from a global crowd that Appen has accredited to meet Appen's high quality control standards.

Appen is divided into two distinct business divisions: Content Relevance and Speech and Data Collection.

CONTENT RELEVANCE

Appen is at the forefront of online discovery and search relevance by providing smart data to connect its clients' customers to relevant websites, documents, ads, videos, maps, images, products and social media friends, likes and posts. This includes:

- web search relevance and query classification;
- e-commerce evaluation;
- content and sentiment analysis; and
- crowdsourcing.

Revenue from Content Relevance is generated from a number of purchase orders awarded within a longer term Master Services Agreement.

SPEECH AND DATA COLLECTION

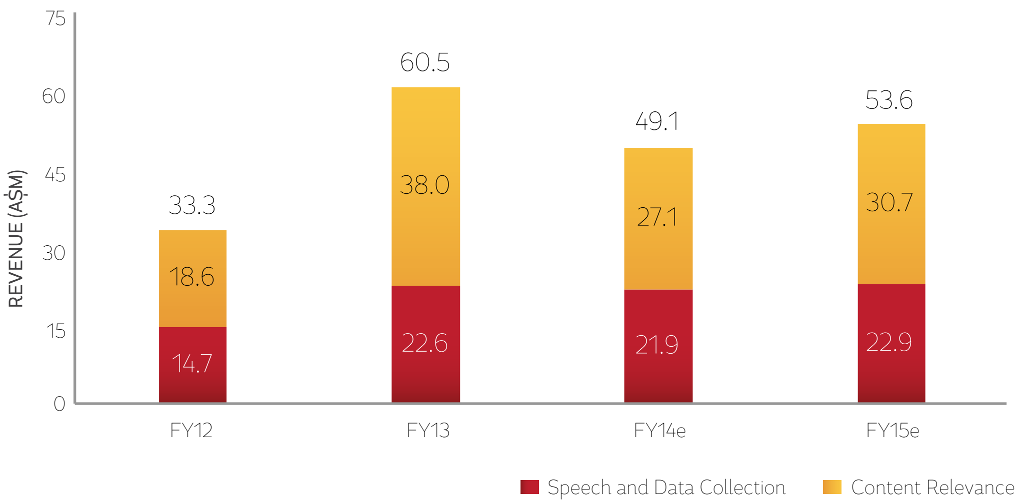
Data generated from Appen's language technology services help power the algorithms for the leading speech-recognition, translation and synthesis technologies in mobile phones, computer games and TV consoles, and in-car GPS and entertainment systems.

Revenue from Speech and Data Collection is generated mainly on project delivery of customised data solutions which includes Appen developed embedded licenses and licensable products.

Over 89% of Appen's forecast FY14 revenue is sourced from the United States. There is a high concentration of client revenue with 82% of forecast FY14 revenue gained from Appen's top 5 clients. However Appen has a high retention rate with these top 5 clients, as they have been clients of Appen for more than 3 years. The work provided to these global information technology clients is not just in one sector of the client company, but often includes different services to multiple business units within these large multi-nationals. Appen believes that achieving its growth strategy in the short to medium term will reduce this concentration of revenues as the Company obtains new markets and clients.

Appen is well positioned to grow with the current acceleration of devices and technology that interact with humans on human terms. Moreover, advances in mobile communications, cloud services models and social media are driving unified communication in any language and across languages.

FIGURE 3.1: Revenue by Division



Appen has a range of specific growth initiatives which include:

- geographic expansion: Appen sees opportunities to continue to assist global clients into international markets;
- vertical expansion: Appen's capabilities are extending beyond traditional search engine clients and targeting broader social media, apps-related search (maps, music) and e-commerce opportunities consistent with the overall growth of the technology industry;
- government agencies: Appen has deep expertise in language technology solutions to support expanding security and defence requirements; and
- potential acquisition opportunities: Appen will consider strategic acquisitions and growth opportunities.

3.2 HISTORY

Appen was founded in Sydney in 1996 by linguist Dr Julie Vonwiller and she was later joined by her engineer husband, Chris Vonwiller. Motivated by their passion for language and technology, the Vonwillers saw an opportunity to develop linguistic technologies to support product innovation in new markets around the world.

In 2011, Appen merged with the Butler Hill Group, which was based in Ridgefield, Connecticut and Seattle, Washington and founded by Lisa Braden-Harder in 1993. Lisa was a member of the pioneering team in grammar checking technology at the IBM T.J. Watson Research Center before starting a linguistic consulting practice. After the merger, the combined business became Appen Butler Hill and expanded its business scope to include language resources, search and text.

As the social web became an increasingly bigger part of people's lives, Appen looked to grow its combined services and capacity in global crowd-sourcing and social media technology to empower people to connect and share across the internet. In 2012, Appen acquired Wikman Remer, a firm based in San Rafael, California, which developed tools and platforms for employee engagement, online moderation and curation.

Appen Butler Hill was rebranded as Appen in 2013.

Some of the key awards of Appen's history include:

- inaugural winner in 2008 of the Prime Minister's Exporter of the Year Award and Australian Export Category Winner, Information and Communication Technology Award;

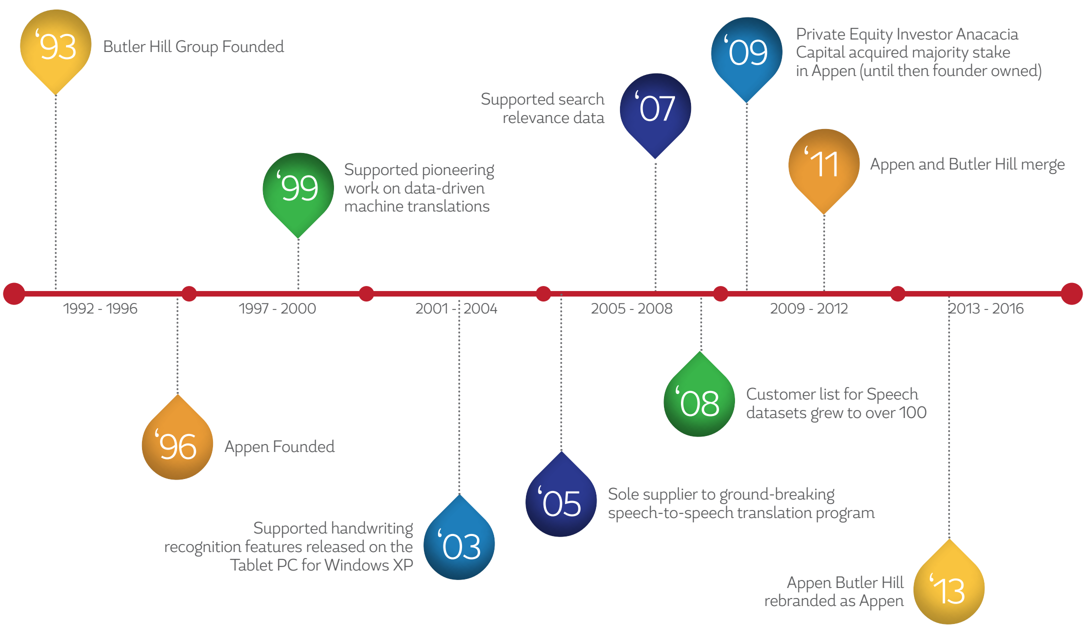
- three-time winner in the Deloitte Technology Fast 50 Australia Awards and also named number 6 in the Deloitte Leadership Awards for companies having revenues in excess of $50 million in 2013;
- named in Forbes Magazine as one of the "Top 100 Companies Offering Flexible Jobs in 2014";
- finalist in the 2014 BRW momentum awards (best mid-market business $50-100m category); and
- finalist in the 2014 Australian Growth Technology Company Awards.

3.3 GEOGRAPHIC REACH

Appen has coverage in over 100 markets and over 140 languages and dialects. The Company currently has operations in three key regions, North America, Australia and Asia and employs approximately 150 staff globally who are based mainly in North America and Australia. Appen has support facilities in the United Kingdom, Europe, Middle East, Indian subcontinent and the Philippines.

A key feature of the Appen business model is its ability to leverage a proprietary data base of 150,000 independent contractors from a global crowd. Appen provides accreditation to these people who must be native speakers, live in-country and be computer literate and able to ensure quality assurance.

FIGURE 3.2: Company Timeline



3.4 BUSINESS OPERATIONS

[3.4.1] SUMMARY OF OPERATIONS

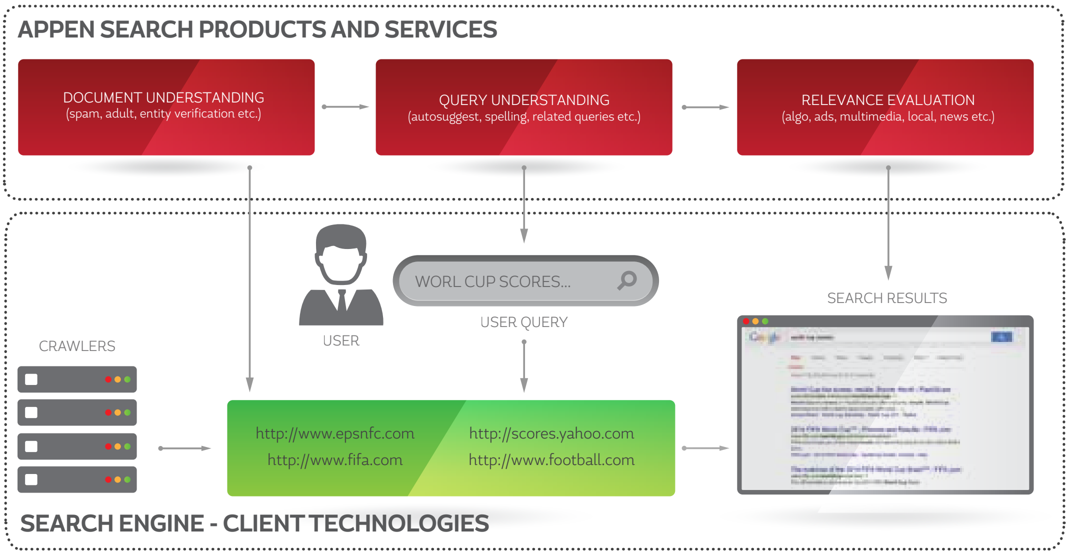
Appen's data solutions and tech-enabled services accelerate the development cycle of internet and mobile connected devices and technology in over 140 languages and dialects, thus allowing Appen's customers to engage with devices using speech or text and to receive intuitive responses including websites, videos, images, products, ads, and social media friends, likes and comments. Appen's operations can be summarised as follows:

[3.4.2] CONTENT RELEVANCE

Appen believes content relevance and social engagement are critical components for enterprises seeking to build a loyal user base. Appen's range of capabilities is used across search engines, e-commerce, social network media sites and cognitive computing/Q&A systems to assist the users of Appen's client businesses to discover what they are looking for and build confidence in their decisions.

For these assignments, Appen's evaluators categorise queries and web pages with respect to user intent and expectations to create data sets of accurate answers for machine learning algorithms. Example data annotation includes:

- **Whole Page Evaluation:** a holistic rating of search engine page results to evaluate the integration and mix of page components, including answers, titles, snippets, links, related searches and images.
- **Ad and Search Relevance:** categorise ads and search page results with respect to a query and the implicit query intent.
- **Query categorisation:** categorise queries based on implicit factors including, for example, propensity to buy products and then assigns queries to a set taxonomy.
- **Geographical or local entity verification:** confirm local business data provided by clearing houses to confirm hours of operation, website, address etc.



- **E-commerce evaluation:** evaluate the effectiveness of e-commerce search for site visitors and competitive analysis. Provide feedback on failed or suboptimal product searches recommending factors for improve sales conversions.
- **Spam detection:** identify fake or spam sites.

[3.4.2.1] TECHNOLOGY SOLUTIONS "TIGER"

Appen recently created and launched a next generation technology solution, "Tiger," that will provide the Company with a competitive advantage in the content relevance, search optimisation, crowd management and language services market. Tiger will aim to address the market need for clients who currently do not have a data collection platform. Tiger also extends clients' own capabilities with additional reporting functionality and Appen talent network management features.

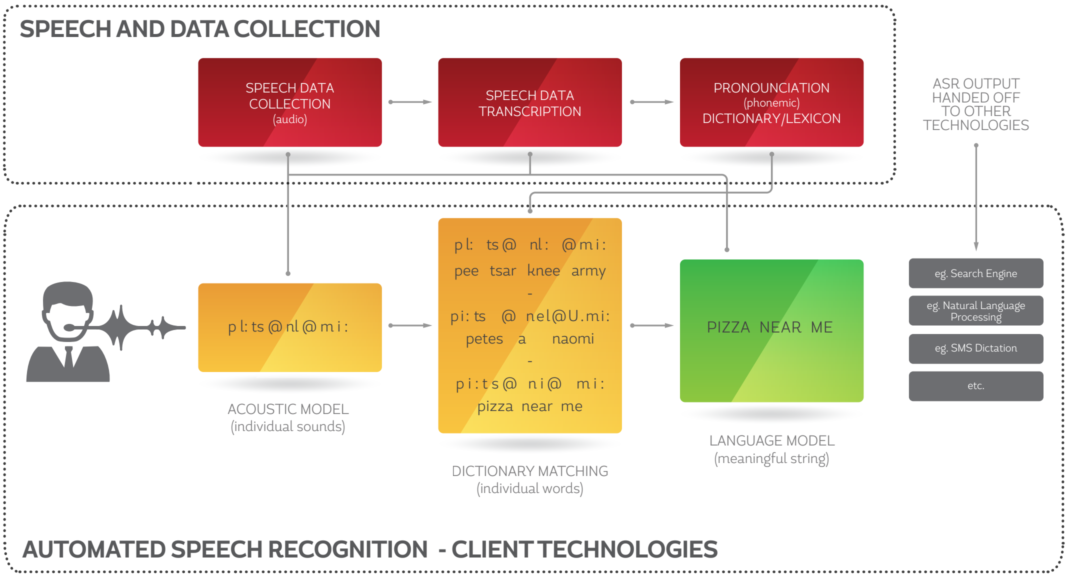
Building upon Appen's internal expertise, existing resources and time-tested processes, Tiger will provide solutions to service our existing and prospective clients' needs. Tiger is designed to be extensible and quickly configurable thereby allowing for a large range of customer projects and requirements. A primary strategic goal for Tiger is to integrate usage of Tiger into our clients' own processes, therefore ensuring a long-term and committed partnership. Tiger will significantly improve Appen's internal efficiency around project management and delivery, maximising cost savings and improving margins.

Tiger, which utilises a cloud based service, is architected to provide a secure, highly scalable, highly available solution for any size project. Appen's worldwide crowd of evaluators, annotators, transcribers, translators and data collectors will utilise this best-in-class, modern web-application on any web-enabled device.

[3.4.2.2] Content Relevance Revenue Model

Revenue from Content Relevance is generated from a number of purchase orders awarded within a longer term Master Services Agreement. Key revenue drivers for Appen include:

- launch of new features and functionality to search, e-commerce and social engines;
- constant requirement of search engines to update with new data in order to keep pace with constantly changing web content and traffic patterns;
- launch of new markets for global expansion plans; and
- improvements in e-commerce search functionality.



[3.4.3] SPEECH AND DATA COLLECTION

Providers of speech recognition systems require a suite of elaborately annotated language materials to develop software acoustic models of the target languages for client applications. For this, Appen provides a comprehensive set of products and services including linguistic materials and analysis, annotated speech databases, machine-readable pronunciation lexicons, annotated transcription of customer data for ongoing tuning, handwriting collection and pairings of data with human insight to enable more seamless, multilingual global communication and flow of information.

- **Speech-Recognition Training Data:** Appen uses its own advanced tools for transcription of speech data and compiles matched companion pronunciation dictionaries ready for integration into a client's speech-recognition system. This training data incorporates sampled gender, age and dialectal variation across spoken language representing coverage of all the sounds of the target language as well as inclusion of domain specific vocabulary for the intended application(s) and typical "ways of saying". Appen also offers licensable off-the-shelf resources that are useful for rapid start-up or the expansion of coverage of a speech-recognition system.

- **Text-to-Speech Voice Talent Recordings:** Appen provides high-quality data and support for the creation of custom voices for text-to-speech (TTS) systems. For the voice development of a TTS system or voice synthesis, Appen offers the following linguistic support:
  - review of recording scripts;
  - coaching the voice talent and supervising the recordings;
  - monitoring of adherence to guidelines: style, content, prosody, reading speed, voice range, regional variety and pronunciation; and
  - post-processing of recorded data to ensure correct phonetic transcription, segmentation and alignment.

- **Text-and-Prompt Collection:** Expert linguists provide data collection in any domain (e.g. business listings, music titles, artists names, abbreviations and acronyms, food, transportation, computing or geographical locations) to develop specific:
  - web or app user interfaces;
  - prompts and grammar specifications to be used in voice-interactive devices or automated phone systems;
  - domain-specific lexica; and
  - specialty word lists.
- **Phonetic Transcription:** Appen employs a group of in-country native speakers who are trained to transcribe speech or text data into its phonemic or phonetic equivalent, according to customer guidelines.
- **Handwriting Data Collection:** Appen performs special data collections for constructing and improving handwriting recognition. Data collection is available in many languages and scripts, and in many environments.
- **Lexicon Development for Speech Technology:** Teams of lexicographers build customised pronunciation and part-of-speech lexicons for almost any language or dialect. Lexicons can be developed based on existing licensable corpora to reduce cost and accelerate delivery. Specialist linguists code prosodic mark-up on speech recordings for TTS for model training maximising the naturalness and intelligibility of the synthesis quality for customers.
- **Fixed-Phrase Grammars:** Customised fixed-phrase grammar conventions are applied to restrict the search tree during speech recognition, improving recognition accuracy.
- **Text Annotation:** Trained native speakers provide coded material for Named Entity Extraction model training used in information extraction in fields such as spoken conversation, text and technical documents.
- **Localisation:** Appen helps technology clients expand into multiple markets by providing localisation of speech recognition grammars, speech interface prompts and other product specific material. Localisation is a specialised form of translation in which products and/or product interfaces are adapted to the unique needs of a given market. Quality localisation ensures maintenance of both cultural integrity and product functionality.
- **Translation:** Appen translates text and speech data to produce parallel corpora. These corpora are essential to the development of statistical machine translation technologies.

3.5 CLIENTS

For client confidentiality reasons, Appen is not able to disclose the full list of its clients but it has a diverse client base consisting of global search engines, social media, e-commerce and technology companies and other multinationals, government organisations and public sector research organisations. Geographically, the majority of the Company's clients are located in the US.

Appen has a number of long term relationships with high quality customers. The strength of Appen's relationships with existing customers is demonstrated by its high degree of revenue retention year on year which exceeds 89% for the last 3 years. Appen has a strong relationship with Microsoft® and Microsoft® remains an integral part of Appen's business. The top 5 clients of Appen, including Microsoft®, are forecast to represent 82% of FY14 revenue.

Appen believes that achieving its growth strategy in the short to medium term will reduce this concentration of revenues as new markets and clients within these markets are obtained.

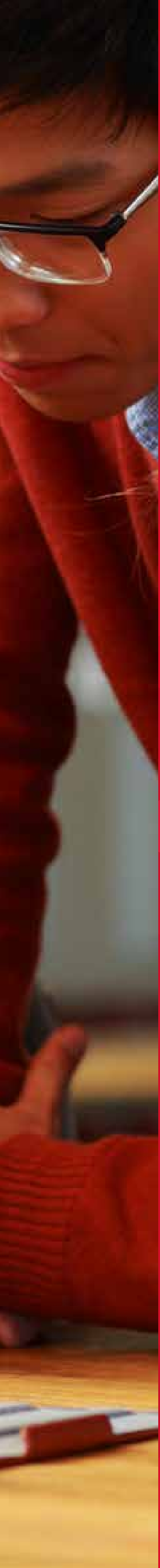
3.6 GROWTH STRATEGY

Appen's clients view Appen as a global leader in linguistic technology solutions in an otherwise fragmented market. Appen has a history of organic growth and strategic acquisitions. Appen's strategy is to benefit from technology industry trends which include the recent acceleration of devices and technology that require human computer interaction and globalisation.

Appen's growth strategy includes:

- continuing to develop its strong brand among existing and new clients including expanding regionally with their global launches of new products and devices while continuing to benefit from the increase in speech interfaces for mobile, in-car devices and game and TV consoles;
- expanding its web search expertise vertically to e-commerce, apps-related searches and social media;
- ongoing focus towards new customers and the services provided to these customers;
- attracting, retaining and developing its highly skilled staff and crowdsourced contractors;
- investing in technology to enhance its product offering and improve margins; and
- considering potential acquisition opportunities that complement the Company's current business operations and provide shareholder returns.

APPEN PROVIDES DATA SOLUTIONS USED IN TABLET DEVICES



SECTION 4

KEY RISKS

KEY RISKS

This section 4 describes some of the potential risks associated with Appen's business and the industry in which it operates, as well as the risks associated with an investment in Shares.

It does not purport to list every risk that may be associated with Appen's business, or the industry in which it operates, or an investment in Shares now or in the future, and the occurrence or consequences of some of the risks described in this Section which are partially or completely beyond the control of the Company, the Directors and Company management.

The selection of risks included in this Section 4 has been based on an assessment of a combination of the probability of the risk occurring and impact of the risk if it did occur. The assessment is based on the knowledge of the Directors as at the date of this Prospectus, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters and should consider if Shares are a suitable investment for you, having regard to your own investment objectives, financial situation and particular needs (including financial and tax issues). If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in Shares, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.

Prospective investors should be aware that the risks outlined in this Section 4 should be considered in conjunction with the other information disclosed in this Prospectus. There can be no guarantee that Appen will achieve its stated objectives or that any forward looking statements or forecasts contained in this Prospectus will be realised or otherwise eventuate.

4.1 RISKS SPECIFIC TO AN INVESTMENT IN APPEN

[4.1.1] CONCENTRATION OF CUSTOMERS

Appen's customer base consists of, amongst others, a number of large global multi-national technology companies. The projects awarded by these companies, or the ongoing services which Appen may provide to these companies, can generate large amounts of revenue from an individual. This revenue model leads to a high concentration of revenues with one or more customers. As set out in Section 5, 82% of forecast pro forma FY14 revenue will come from Appen's top 5 customers and accordingly, the financial performance of Appen is susceptible to the loss of one or more of these clients if that were to occur. Appen's US business has worked with its leading customer, Microsoft®, for over 20 years, however any loss of the Microsoft® contract or other key customer contracts will have a negative effect on the financial performance of the Company. The current Statement of Works granted under the Microsoft® Master Vendor Agreement under which Appen currently undertakes work for Bing® is due for annual renewal at the end of June 2015. Given the Company's existing relationship with Microsoft® it is hoped that the Statement of Works will be renewed for a further period, however there can be no guarantee that this will occur.

[4.1.2] REVENUE MODEL

A substantial part of Appen's revenue is generated from individual case by case projects rather than long-term contracts. Appen cannot be assured that a customer will re-engage Appen on future projects or services once the project is completed or that the customer will not unilaterally reduce the scope of, or terminate, existing projects on short-term notice (generally 30 days). The absence of long-term revenue makes it difficult to predict the future revenues of Appen and investors should consider this factor in the context of the financial information (including the Forecast Financial Information) included in this Prospectus.

Appen's revenue model is predominantly driven by project demands of customers and can be unpredictable throughout any financial year due to the timing of projects, length of sales cycles and the product-release cycles of Appen's clients. Revenues will be impacted from half-year to half-year, and year to year depending on the customer demand factors or on the completion rate of projects. Investors should not rely on half-yearly results as an indication of future performance. If any half-yearly results are less than the expectations of security analysts and investors, then the trading price of Shares may fall.

[4.1.3] MANAGEMENT PERSONNEL

Appen depends on the talent and experience of its management personnel. The loss of any key personnel, or a significant number of personnel generally, may have an adverse effect on Appen. It may be difficult to replace the loss of those personnel, or to do so in a timely manner, or at comparable expense.

There can be no assurance that Appen will be able to retain key personnel. The loss of key senior executives could cause material disruption to Appen's activities in the short to medium term.

The Board reviews the employment conditions of Appen's employees on an ongoing basis with a view to ensuring Appen remains competitive in terms of remuneration and other incentives. The Board also reviews employee incentive plans from time to time with a view to further aligning management and employees' interests with those of the Company and Shareholders.

Refer to section 6 for details of contractual arrangements for key management personnel together with incentive policies to retain such key executives.

[4.1.4] RECRUITMENT AND CROWDSOURCING

Appen's operating model requires an ability to mobilise a large number of independent contractors on a project by project basis to fulfil customer needs and project requirements. If Appen fails to find independent contractors of a suitable quality, and/or suitable number, and/or jurisdictions restrict flexible independent contractor relationships, this may lead to project delays or lower revenues being generated in relation to the project. These difficulties may be more prevalent during times when national economies are strong or getting stronger due to the reduced number of persons looking for work.

Certain parts of the Company's search relevance and data analytics services are crowdsourced to, and often performed by, independent contractors. The independent contractors performing these services are retained pursuant to written agreements with Appen or its subsidiaries that specify the individual's status as an independent contractor, confirm the individuals are not employees of the employing company, and require the individuals to indemnify the employing company in the event the individual incorrectly represented their status to the employing company. Notwithstanding the foregoing express contractual language, from time to time in the United States individuals previously retained by Appen or its subsidiaries as independent contractors file claims for unemployment with the applicable state unemployment agencies claiming employee status with Appen or its subsidiaries and seeking unemployment benefits. Such benefits are, from time to time, awarded by the US state unemployment agencies, which may result in nominal charges or increases to the employer's unemployment tax accounts with the various states in which these individuals perform services and in which Appen or its subsidiaries do not have existing employees. The Company is also subject to the usual risks posed to businesses that employ crowdsourcing, including claims relating to employee classification, claims to benefits, wage and hour claims and other employment claims.

[4.1.5] ACQUISITIONS AND INVESTMENTS BY APPEN MAY NOT BE SUCCESSFUL

As part of its growth strategy, Appen may acquire businesses from time to time. While Appen will take every effort to ensure that any acquisition is successfully integrated and benefits realised, there can be no assurance that Appen will be successful in realising the anticipated benefits and synergies of any businesses that it acquires. The ability to realise these benefits will depend in part on whether Appen can efficiently integrate acquired businesses with its existing operations. The challenges of integrating and operating acquired businesses may be greater if Appen acquires businesses that provide services outside Appen's current geographic offering, particularly if it is unable to retain the acquired company's management. In addition, there is a risk that Appen will overestimate the value of acquired businesses and therefore overpay. These factors may adversely impact Appen's financial performance.

[4.1.6] COMPETITION

If the actions of current or potential competitors of the Company become more effective, Appen may be unable to compete successfully. For example, competitors of Appen might adopt more aggressive strategies to capture market share. Such actions may negatively affect the Company's future profitability, planned growth and market share.

The sectors in which the Company operates are subject to vigorous competition, based on factors including price, service, innovation and the ability to provide the customer with the appropriate services in a timely manner.

The Company's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, or a failure by the Company to continue to position itself successfully to meet changing market conditions, customer demands and technology. Any changes in Appen's competitive position or the competitive landscape may result in a decline in sales revenue and margins, which may have a material adverse effect on its future financial performance and position.

[4.1.7] TECHNOLOGY FAILURE

Appen relies on a variety of IT systems in order to manage and deliver services and communicate with its customers. Any failure of Appen's IT systems could cause disruption to its ability to offer services, which may have an adverse effect on its revenue and profitability.

[4.1.8] DEVELOPMENT AND COMMERCIALISATION OF INTELLECTUAL PROPERTY

Appen relies on its ability to develop and commercialise its language data and services. A failure to develop and commercialise its intellectual property successfully would lead to a loss of opportunities and may adversely impact on the operating results and financial position of Appen. Furthermore, any third party developing superior technology or with greater commercial appeal in the fields in which Appen operates may harm the future prospects of the Company.

[4.1.9] INTELLECTUAL PROPERTY RIGHTS

Appen's success depends, in part, on its ability to maintain trade secret protection and operate without infringing the rights of third parties. If the Company's intellectual property rights have not been protected, have not been protected adequately or cannot be protected, competitors may use the Company's intellectual property to take market share from Appen.

[4.1.10] INFRINGEMENT OF THIRD PARTY INTELLECTUAL PROPERTY RIGHTS

Appen does not believe that it is currently infringing any third party's intellectual property rights. To date, no third party has asserted to Appen that this is the case. However, in the future Appen may be subjected to infringement claims or litigation arising out of patents and pending applications for patents involving competitors, or additional proceedings initiated by third parties, the United States Patent and Trademark Office or other intellectual property regulators. The defence and prosecution of intellectual property rights lawsuits, proceedings, and related legal and administrative proceedings are costly and time-consuming to pursue, and their outcome is uncertain. If Appen infringes the rights of third parties, the Company could be prevented from selling its products and be forced to defend litigation and pay damages.

Further, there is always a risk of third parties claiming involvement in, or membership of, technological advances contained in Appen's products and, if any disputes arise, they could adversely affect the Company.

[4.1.11] TRADE SECRETS

In addition to its licensing activities, Appen also relies on protecting its trade secrets. The protective measures Appen employs may not always be sufficient to protect its trade secrets. If Appen's trade secrets become public, this could erode its competitive advantage. The Company also cannot be certain that others will not independently develop similar technologies on their own, or gain access to trade secrets, or have disclosed to them such technology, or that Appen will otherwise be able to meaningfully protect its trade secrets and unpatented know-how and keep them secret.

This could allow competitors to commercialise products and services competitive with Appen's products and services. Although Appen implements reasonable endeavours to protect its intellectual property, these measures may not always be sufficient.

[4.1.12] BRAND AND REPUTATION RISK

The reputation and brand of Appen and its individual products are important in attracting customers. Given the nature of Appen's customer base, Appen must act with the greatest integrity otherwise it will risk losing customers. Any reputation damage or negative publicity around Appen or its products could adversely impact on Appen's customer relationships, general business and ultimately its financial performance.

The actions of the Company's employees, including breaches of any regulations to which the Company is subject, or any negligence in the provision of data, may damage the Appen brand.

[4.1.13] ACTS OF TERRORISM OR SABOTAGE

Appen currently operates in certain jurisdictions in the world that may from time to time be the subject of heightened terrorism or sabotage threat. Appen believes that its operations are not immune from being the target of terrorism or sabotage. Any such attack could have detrimental effect on Appen's business from an employee, reputational and financial point of view.

[4.1.14] FOREIGN EXCHANGE RISK

Appen's financial reports are prepared in Australian dollars. However, a substantial proportion of Appen's sales revenue, expenditures and cash flows are generated in, and assets and liabilities are denominated in, US dollars. Any adverse movements of the US dollar against the Australian dollar as well as other adverse exchange rate fluctuations or volatility, particularly during the period between when an invoice is issued and when payment is made, could have an adverse effect on Appen's future financial performance and position. To mitigate this risk, Appen's policy is to hedge at least 80% of its US denominated revenues generated by its Speech and Data Collection division. Movements in foreign exchange rates could also impact the cost competitiveness of both Appen and its competitors. Any adverse movement in foreign exchange rates against Appen but to the benefit of its competitors could affect its ability to obtain business which could adversely impact the future financial performance of Appen. Movements in the exchange rate may also effect the decision of potential clients to enter certain markets.

[4.1.15] LITIGATION AND DISPUTES

Appen may be involved from time to time in disputes or claims and litigation with current or former customers, employees or independent contractors. These disputes may lead to legal and other proceedings, and may cause Appen to suffer additional costs.

If future litigation, or threatened litigation, against Appen were to result in damages being awarded against Appen, it could have an adverse impact on the financial performance, position and future prospects of Appen (and, therefore, its Share price or liquidity of Shares).

Appen maintains professional indemnity and public liability insurance in respect of a range of events within coverage ranges determined in accordance with the Board's review and decision. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover any or all claims.

As far as Appen is aware, there are no current formal claims or litigation in which Appen is involved.

[4.1.16] EXISTING OWNERS RETAIN A SIGNIFICANT STAKE IN APPEN POST-LISTING

The continued shareholding of Existing Owners of 68.3% of the Company's enlarged Share Capital may cause or contribute to limiting liquidity in the market for Shares, which could affect the market price at which other Shareholders are able to sell their Shares. A significant sale of Shares by Existing Owners after the end of the escrow period, or the perception that such a sale has or might occur, could adversely affect the price of Shares. The continued shareholding of Existing Owners may also negatively impact the timing and effectiveness of any capital raising activities of Appen, which could adversely affect Appen's cost of capital and financial position. Escrow arrangements for Existing Owners are summarised in Section 7.

4.2 GENERAL RISKS OF AN INVESTMENT IN APPEN

[4.2.1] ACTIVITY LEVELS IN KEY INDUSTRY SECTORS MAY CHANGE

Appen's customer base is spread across numerous industry sectors including automobile, industrial, telecommunications, information technology, and government. Any adverse developments which impact these industry sectors have the potential to in turn impact the demand for Appen's services, which could adversely impact the future financial performance of Appen.

[4.2.2] MACRO-ECONOMIC RISKS

Appen's business is exposed to changes in general global economic conditions. For example, adverse macroeconomic conditions such as economic recessions, downturns or extended periods of uncertainty or volatility, which may influence spending by the Company's clients to defer or cancel expenditure or lead to downward pricing pressure, may affect the Company's future financial performance and operating performance, the price of the Shares and the Company's ability to pay dividends.

[4.2.3] TAXATION

Changes to the rate of taxes imposed on Appen (including overseas jurisdictions in which Appen operates now or in the future), or tax legislation generally, may affect Appen and its Shareholders. In addition, an interpretation of Australian taxation laws by the Australian Taxation Office that differs from Appen's interpretation may lead to an increase in Appen's taxation liabilities and reduction in Shareholder returns.

[4.2.4] AUSTRALIAN ACCOUNTING STANDARDS MAY CHANGE

Australian Accounting Standards are set by the AASB and are outside the control of either Appen or its Directors and management. The AASB is due to introduce new or refined Australian Accounting Standards during the period from 2014 to 2018, which may affect future measurement and recognition of key statement of profit and loss and balance sheet items, including revenue and receivables. There is also a risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key statement of profit and loss and balance sheet items, including revenue and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB, or changes to the commonly held views on the application of those standards, could materially adversely affect the financial performance and position reported in Appen's consolidated financial statements.

[4.2.5] GENERAL INVESTMENT RISKS

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the price at which the Shares are being offered under this Prospectus. There is no assurance that the price of the Shares will increase following the quotation on the ASX, even if Appen's earnings increase.

Some of the factors which may affect the price of the Shares include:

- fluctuations in the domestic and international market for listed stocks;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices or changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices;
- the nature of the markets in which Appen operates; and
- general operational and business risks.

Other factors which may negatively affect investor sentiment and influence Appen specifically or the stock market more generally, include acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events.

APPEN PROVIDES DATA SOLUTIONS USED IN TABLET DEVICES

SECTION 5

FINANCIAL INFORMATION

FINANCIAL INFORMATION

5.1 INTRODUCTION

The financial information contained in this Section includes:

- pro forma historical financial information of Appen, which comprises:
  - the pro forma historical consolidated income statements of Appen for the financial years ended 31 December 2012 (FY12), 31 December 2013 (FY13) and for the half year ended 30 June 2014 (1HFY14), together with a reconciliation to the statutory income statement for each period (refer to Section 5.3.4);
  - the pro forma historical consolidated cash flow statements of Appen for FY12, FY13 and 1HFY14 (refer to Section 5.5); and
  - the pro forma historical consolidated balance sheet of Appen as at 30 June 2014, together with a reconciliation to the statutory historical consolidated balance sheet as at 30 June 2014 (refer to Section 5.4),

(together the Pro Forma Historical Financial Information) and

- forecast financial information of Appen which includes both pro forma forecast financial information and information prepared on a basis consistent with how the Company's statutory financial statements will be prepared for future periods (statutory financial information), and comprises:
  - the Directors' pro forma forecast consolidated income statements of Appen for the financial years ending 31 December 2014 (FY14) and 31 December 2015 (FY15) (refer to Section 5.3.1);
  - the Directors' statutory forecast consolidated income statements of Appen for FY14 and FY15 (refer to Section 5.3.1); and
  - the Directors' pro forma and statutory forecast consolidated cash flow statements of Appen for FY14, and FY15 (refer to Section 5.5.1),

(together the Forecast Financial Information).

The Pro Forma Historical Financial Information and Forecast Financial Information together form the Financial Information.

The Pro Forma Historical Financial Information and the pro forma Forecast Financial Information for FY14 and FY15 are presented on a comparable basis, including the incremental impact of the costs of being a listed entity, which have been included in the Pro Forma Historical Financial Information, as if Appen were a listed entity during the historical periods presented.

The Financial Information has been reviewed and reported on by the Investigating Accountant, whose Investigating Accountant's Report is set out in Section 8. Investors should note the scope and limitations of that report.

Other information

Also summarised in this Section 5 are:

- the basis of preparation and presentation of the Financial Information (refer to Section 5.2);
- pro forma segment information of Appen for FY12, FY13, FY14 and FY15 (refer to Section 5.3.2);
- key operating metrics (refer to Section 5.3.3);
- a summary of capitalisation and indebtedness before and after the Offer (refer to Section 5.4.1);
- management discussion and analysis of the Pro Forma Historical Financial Information (refer to Section 5.6);
- the Directors' best estimate assumptions underlying the Forecast Financial Information (refer to Section 5.7);
- an analysis of the sensitivity of the Forecast Financial Information to changes in key assumptions (refer to Section 5.8);
- a summary of the Company's foreign exchange hedging policy (refer to Section 5.9); and
- a summary of the Company's dividend policy (refer to Section 5.10).

All amounts disclosed in this Section 5 are presented in Australian dollars and unless otherwise noted, are rounded to the nearest $0.1 million. Tables in this Section 5 have not been amended to correct immaterial summation differences that may arise from this rounding convention.

5.2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

[5.2.1] OVERVIEW

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (including the Australian Accounting Interpretations) and the summarised significant accounting policies adopted by Appen as set out in Section 10. The Financial Information is presented in an abbreviated form and does not include all of the disclosures, statements or comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The information in this Section 5 should be read in conjunction with the risk factors set out in Section 4 and other information contained in this Prospectus.

Appen has two reportable segments under AASB 8 Operating Segments, which are Speech and Data Collection and Content Relevance.

[5.2.2] PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

The Pro Forma Historical Financial Information has been prepared for the purposes of inclusion in this Prospectus. The Pro Forma Historical Financial Information for FY12, FY13 and 1HFY14 has been derived from the audited consolidated financial statements of Appen. Pro forma adjustments have been made to the historical information to reflect Appen's operating and capital structure following Completion of the Offer, to eliminate certain one-off non-operating charges related to acquisitions and other non-operating or non-recurring items, and to reflect the incremental costs of being a standalone listed entity as described in Section 5.3.4. Pro forma adjustments have not been made to reflect the pre-acquisition impact of acquisitions made by Appen as the directors do not consider there to be a reasonable basis to include this information.

The financial statements of Appen for the financial years ended 31 December 2012, 2013 and the six months ended 30 June 2014 were audited by KPMG, which has issued unqualified opinions.

Investors should note that past results are not a guarantee of future performance. There can be no guarantee that Appen will achieve its stated objectives or that any forward looking statements or forecasts in this Section will be realised or will otherwise eventuate.

[5.2.3] PREPARATION OF FORECAST FINANCIAL INFORMATION

The Forecast Financial Information has been prepared solely for inclusion in this Prospectus.

PRESENTATION ON STATUTORY AND PRO FORMA BASIS

The Forecast Financial Information is presented on both a pro forma and statutory basis.

The statutory forecast consolidated income statements have been prepared on the basis of how Appen expects to report the results of the business under Australian Accounting Standards.

The pro forma consolidated forecast income statements, which are set out in Section 5.3, differ from the statutory consolidated forecast income statements, as the pro forma forecast consolidated income statements reflect the forecast full year effect of the operating and capital structure that will be in place upon Completion of the Offer such as the inclusion of expected annual listed entity costs and post-Offer interest and tax expense, but exclude the one-off costs of the Offer, one-off tax implications arising as a result of the Offer and other non-recurring and non-operating items which are not expected to occur in the future. See Section 5.3.4 for reconciliations between the statutory and pro forma Forecast Financial Information.

COMPOSITION OF THE FORECAST FINANCIAL INFORMATION

The Forecast Financial Information for FY14 comprises the actual results and cash flows of Appen for the six months ended 30 June 2014 and forecast results and cash flows for the six months ending 31 December 2014.

The FY15 Forecast Financial Information comprises the forecast results and cash flows for the twelve months ending 31 December 2015.

DIRECTORS' BEST ESTIMATE ASSUMPTIONS

The Forecast Financial Information has been prepared by the Company based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions as set out in Section 5.7. The Directors believe the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus.

Presentation of the best estimate assumptions is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The Forecast Financial Information is not fact and investors are cautioned not to place undue reliance on it. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on the Company's actual financial performance, cash flows or financial position. In addition, the assumptions upon which the Forecast Financial Information is based are by their nature subject to significant uncertainties and contingencies, many of which will be outside the control of Appen, the Directors and management and are not reliably predictable. Accordingly, none of Appen, the Directors or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

Investors are advised to review the Forecast Financial Information and best estimate assumptions set out in Section 5.7, in conjunction with the sensitivity analysis set out in Section 5.8, the risk factors set out in Section 4 and other information set out in this Prospectus.

Appen has no intention to update or revise the Forecast Financial Information or other forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

[5.2.4] NON IFRS FINANCIAL MEASURES

Investors should be aware that certain financial data included in this Section 5 is 'non-IFRS financial information' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. The Company believes that this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of Appen. As non-IFRS measures are not defined by recognised standard setting bodies, they do not have a prescribed meaning. Therefore, the way in which Appen calculates these measures may be different to the way other companies calculate similarly titled measures. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios.

In particular the following non-IFRS financial data is included:

- **EBITDA** – which is earnings before interest, taxation, depreciation and amortisation;
- **EBITDA margin** - which is EBITDA, divided by revenue, expressed as a percentage. EBITDA margin is a key measure that management used to evaluate the profitability of the overall business, its business segments and individual contracts;
- **EBIT** – which is earnings before interest and taxation;

- **Working capital** – Appen defines working capital as the total of current trade and other receivables, prepayments, trade and other payables and other current creditors; and
- **EBITDA conversion** – EBITDA conversion is calculated as net cash flow from operations divided by EBITDA and expressed as a percentage. It is important to note that the net cash flow from operations does not take into account the requirements of the business to fund financing costs such as interest expenses and tax payments.

5.3 HISTORICAL AND FORECAST CONSOLIDATED INCOME STATEMENTS

[5.3.1] OVERVIEW

Table 1 sets out a summary of Appen's pro forma historical consolidated income statements for FY12, FY13 and 1HFY14, the pro forma forecast consolidated income statements for FY14 and FY15, and the statutory forecast consolidated income statements for FY14 and FY15.

TABLE 1: Summary pro forma historical, pro forma forecast and statutory forecast consolidated income statements

		PRO FORMA HISTORICAL		PRO FORMA FORECAST		STATUTORY FORECAST		PRO FORMA HISTORI-CAL
$m	Notes	FY12	FY13	FY14	FY15	FY14	FY15	1HFY14
Sales revenue		**33.3**	**60.5**	**49.1**	**53.6**	**49.1**	**53.6**	**26.9**
Cost of sales	1	(13.9)	(31.0)	(21.4)	(24.2)	(21.4)	(24.2)	(11.8)
Employee Costs	2	(12.1)	(17.9)	(17.8)	(18.1)	(17.8)	(18.1)	(9.5)
Other operating expenses	3	(3.6)	(5.1)	(4.6)	(4.5)	(6.7)	(4.8)	(2.0)
Total operating expenses		(29.6)	(54.0)	(43.8)	(46.8)	(45.9)	(47.1)	(23.3)
EBITDA		**3.7**	**6.5**	**5.3**	**6.8**	**3.1**	**6.6**	**3.7**
Depreciation and amortisation	4	(0.9)	(0.9)	(1.0)	(1.1)	(1.0)	(1.1)	(0.5)
EBIT		**2.8**	**5.6**	**4.2**	**5.7**	**2.1**	**5.4**	**3.2**
Net finance costs	5	-	-	-	-	(0.1)	-	-
Profit before tax		**2.8**	**5.6**	**4.2**	**5.7**	**2.0**	**5.4**	**3.2**
Tax expense	6	(0.8)	(1.6)	(1.2)	(1.6)	(1.2)	(1.6)	(0.9)
NPAT		**2.0**	**4.0**	**3.0**	**4.0**	**0.8**	**3.8**	**2.3**

NOTES

1. Cost of sales relate to field partner /contractor costs incurred in servicing clients on individual projects. These field partner services / contractors are recruited on a contract basis and are flexible in nature.
2. Employee costs relate to all permanent employees of the business including project managers who work on Speech and Data Collection projects. The project managers are not used on the Content Relevance projects.
3. Operating expenses include general and administration expenses including foreign exchange. The pro forma other operating expenses include additional public company costs ($0.5 million in FY12, FY13, FY14 and FY15 and $0.2 million in 1HFY14). The FY14 statutory forecasts include re-measurement of contingent consideration as part of the Butler Hill acquisition in FY11 and costs incurred in relation to the Offer. The portion of the Offer costs not contingent on the success of the IPO have been expensed in FY14 and the portion of the Offer costs contingent on the IPO have been expensed in FY15.
4. Depreciation and amortisation includes amortisation of customer contracts (FY12 & FY13: $0.5 million; FY14 and FY15: $0.4 million and 1HFY14: $0.1 million) acquired with the acquisition of Butler Hill in FY11.
5. Net finance costs – pro forma historical net finance costs have been adjusted to reflect the intended capital structure after listing.
6. The blended tax rate used of 29% is calculated as a blended Australian and US tax rate. It excludes permanent differences such as share based payments, amortisation of customer contracts & good will and eligible R&D expenditure for pro forma and also excludes the change in fair value of contingent consideration for statutory accounts.
7. The reconciliation between the statutory and pro forma financial information is presented in Section 5.3.4

[5.3.2] OPERATING SEGMENTS

Segment profit represents the profit generated by each segment without allocation of central administration costs, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

Table 2 sets out Appen's pro forma consolidated revenue and EBITDA by operating segment for the historical periods FY12, FY13 and 1HFY14, and the forecast periods FY14 and FY15.

TABLE 2: Summary pro forma consolidated revenue and EBITDA by operating segments

	PRO FORMA HISTORICAL		PRO FORMA FORECAST		PRO FORMA HISTORICAL
$m	FY12	FY13	FY14	FY15	1HFY14
Sales revenue					
Speech and Data Collection	14.7	22.6	21.9	22.9	12.0
Content Relevance	18.6	38.0	27.1	30.7	14.9
Total sales revenue	**33.3**	**60.5**	**49.1**	**53.6**	**26.9**
EBITDA					
Speech and Data Collection		3.8	6.5	6.9	4.0
Content Relevance		7.9	4.1	5.0	2.3
Corporate overheads		(5.1)	(5.2)	(5.1)	(2.6)
Total EBITDA	**3.7**	**6.5**	**5.3**	**6.8**	**3.7**

NOTES

EBITDA by segment for FY12 has not been disclosed in the table above due to lack of reliable data as the costs were not tracked and reported in these segments in FY12.

[5.3.3] KEY OPERATING METRICS

Set out below is a summary of certain key operating metrics for the periods reflected in the Pro Forma Historical Information and the Forecast Financial Information.

TABLE 3: Key operating metrics for FY12, FY13, 1HFY14, FY14 and FY15

	PRO FORMA HISTORICAL		PRO FORMA FORECAST		STATUTORY FORECAST		PRO FORMA HISTORICAL
$m	FY12	FY13	FY14	FY15	FY14	FY15	1HFY14
Sales revenue growth		81.9%	(19.0%)	9.3%	(19.0%)	9.3%	
EBITDA growth		77.0%	(19.4%)	29.8%	(40.4%)	108.8%	
EBITDA margin	11.1%	10.8%	10.7%	12.7%	6.4%	12.2%	13.6%
EBIT growth		103.2%	(24.9%)	34.1%	(51.7%)	155.6%	
EBIT margin	8.4%	9.3%	8.6%	10.6%	4.3%	10.1%	11.9%
NPAT growth		103.2%	(24.9%)	34.1%	(48.2%)	359.2%	
EBITDA conversion %	118.6%	98.4%	96.0%	83.8%	176.6%	73.6%	16.2%

[5.3.4] PRO FORMA ADJUSTMENTS TO THE STATUTORY INCOME STATEMENTS

Table 4 sets out a summary of Appen's statutory historical consolidated income statements for FY12, FY13 and 1HFY14.

TABLE 4: Summary statutory historical consolidated income statements

	PRO FORMA HISTORICAL		
$m	FY12	FY13	1HFY14
Sales revenue	**33.3**	**60.5**	**26.9**
Cost of sales	(13.9)	(31.0)	(11.8)
Employee Costs	(12.1)	(17.9)	(9.5)
Other operating expenses	(6.5)	(6.3)	(2.3)
Total operating expenses	(32.5)	(55.3)	(23.5)
EBITDA	**0.8**	**5.3**	**3.4**
Depreciation and amortisation	(0.9)	(0.9)	(0.5)
EBIT	**(0.2)**	**4.4**	**2.9**
Net finance costs	(0.6)	(0.1)	(0.1)
Profit before tax	**(0.8)**	**4.2**	**2.9**
Tax expense	(1.1)	(2.7)	(0.8)
NPAT	**(1.9)**	**1.6**	**2.1**

Table 5 sets out the adjustments that have been made to the audited statutory consolidated historical income statements for FY12, FY13 and 1HFY14, and the statutory consolidated forecast income statements for FY14 and FY15.

TABLE 5: Pro forma adjustments to the statutory consolidated income statements

		HISTORICAL			FORECAST	FORECAST
$m	Notes	FY12	FY13	1HFY14	FY14	FY15
Statutory EBITDA		**0.8**	**5.3**	**3.4**	**3.1**	**6.6**
Change in fair value of contingent consideration	1	3.4	1.7	0.4	2.1	-
Public company costs	2	(0.5)	(0.5)	(0.2)	(0.5)	-
Listing costs	3	-	-	-	0.4	0.3
Other	4	-	-	0.1	0.1	-
Pro forma EBITDA		**3.7**	**6.5**	**3.7**	**5.3**	**6.8**
Statutory NPAT		**(1.9)**	**1.6**	**2.1**	**0.8**	**3.8**
Change in fair value of contingent consideration	1	3.4	1.7	0.4	2.1	-
Preference share interest	4	0.6	-	-	-	-
Public company costs	2	(0.5)	(0.5)	(0.2)	(0.5)	-
Net interest expense	5	0.0	0.1	0.1	0.1	-
Listing costs	3	-	-		0.4	0.3
Other		-	-	0.1	0.1	-
Tax adjustmen ts	6	0.3	1.0	(0.2)	(0.1)	(0.1)
Pro forma NPAT		**2.0**	**4.0**	**2.3**	**3.0**	**4.0**

NOTES

1. The Company reflects a contingent consideration liability in its balance sheet arising from the acquisition of Butler Hill in FY11. The contingent consideration liability comprises the fair value of the deferred earn-out payable, and of the options issued, to the vendor of Butler Hill. The options issued were considered to be a compound financial instrument and accordingly the total values of the options were split between an equity component and a liability component. The fair values of both the deferred earn out and the liability components of the options are re-measured at each reporting period. As a 30 June 2014, the contingent consideration liability comprised the fair values of the deferred earn out and the option liabilities of $2.5m and $3.3m respectively. Changes in the fair value are recorded in the income statement. The change in fair value of contingent consideration has been excluded from the pro forma results as the contingent consideration liability will be settled as part of the IPO
2. The Company expects that it will incur incremental annual costs of $0.5 million as a listed public company, which has been adjusted in the Historical Period as if the Company had been listed for the entire historical period. These incremental costs include Executive remuneration, additional audit and tax costs, listing fees, share registry fees, directors' and officers' insurance premiums, as well as annual general meeting and annual report costs. The Company currently incurs $0.3 million towards director fees which are not anticipated to change post the IPO.
3. One-off listing costs anticipated to be posted to the income statement on completion of the Offer have been excluded from the pro forma forecast financial information. Total listing costs are $2.2 million, of which $1.5 million will be netted off against equity, representing the portion relating to the primary raise. The remaining $0.7 million has been apportioned between FY14 and FY15 based on the contingent nature of these costs.
4. Preference share interest paid in FY12 of $0.6m has been excluded on a pro forma basis as the preference shares were converted to ordinary shares in FY12 and also to reflect the intended capital structure after listing.
5. Interest expenses have been excluded on a pro forma basis to reflect the intended capital structure after listing.
6. The income tax adjustments incorporates the tax impact of the Pro forma adjustments (change in contingent consideration is a permanent difference and as such does not qualify for a tax deduction) and over/under provisions in the relevant years.

5.4 HISTORICAL CONSOLIDATED BALANCE SHEET

[5.4.1] OVERVIEW

The pro forma adjustments made to the audited consolidated balance sheet of Appen as at 30 June 2014 reflect the events and assumptions noted in the table below that will be in place following Completion of the Offer as if they had occurred or were in place as at 30 June 2014.

Proceeds from the Offer will be used to pay:

- the Existing Owners the cash component of the consideration for the purchase of all Shares from the Existing Owners;
- the contingent consideration and options in relation to the acquisition of Butler Hill Inc. by Appen Pty Limited;
- the buy-back of outstanding management options as part of the Offer; and
- costs of the Offer to be paid on Completion of the Offer.

The post-Offer pro forma historical consolidated balance sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Appen's view on its future financial position.

TABLE 6: Pro forma historical consolidated balance sheet

AS AT 30 JUNE 2014 ($M)	AUDITED STATUTORY	NOTE 1: IMPACT OF THE OFFER	NOTE 2: PAYMENT OF EXISTING OBLIGATIONS	PRO FORMA
Current assets				
Cash and cash equivalents	3.6	7.7	(11.3)	-
Trade and other receivables	12.5	-	-	12.5
Current tax assets	0.7	-	-	0.7
Total current assets	**16.8**	**7.7**	**(11.3)**	**13.2**
Non-current assets				
Property, plant and equipment	0.4	-	-	0.4
Intangible assets and goodwill	9.6	-	-	9.6
Deferred tax asset	-	0.7	-	0.7
Total non-current assets	**9.9**	**0.7**	**-**	**10.6**
Total assets	**26.7**	**8.3**	**(11.3)**	**23.8**
Current liabilities				
Bank overdraft	-	-	1.1	1.1
Trade and other payables	5.3	-	-	5.3
Loans and borrowings	4.7	-	(4.7)	-
Contingent consideration	5.8	-	(5.8)	-
Employee benefits	0.7	-	-	0.7
Total current liabilities	**16.6**	**-**	**(9.4)**	**7.2**
Non-current liabilities				
Employee benefits	0.1	-	-	0.1
Deferred tax liabilities	0.9	-	-	0.9
Total non-current liabilities	**0.9**	**-**	**-**	**0.9**
Total liabilities	**17.6**	**-**	**(9.4)**	**8.1**
Net assets	**9.2**	**8.3**	**(1.9)**	**15.6**
Equity				
Issued capital	8.6	8.8	-	17.4
Reserves	0.4	-	(0.2)	0.1
Other Equity	2.3	-	-	2.3
Accumulated losses	(2.1)	(0.5)	(1.6)	(4.2)
Total equity	**9.2**	**8.3**	**(1.9)**	**15.6**

NOTES

1. Reflects the impact of the Offer including proceeds of $9.9 million adjusted for costs associated with the Offer of $2.2 million and recognition of deferred tax asset of $0.7 million, as the Offer costs are deductible for tax purposes over a number of years. The $0.5 million adjustment to accumulated losses relates to the after tax costs of the Offer ($0.7 million before tax).

2. The cash proceeds from the Offer used for the settlement of the contingent consideration ($2.2 million), buyback of options issued as part of the Butler Hill acquisition ($5.2 million) and buyback of management options ($0.2 million). Repayment of debt of $4.7 million will be made in December 2014 from the cash resources of the Company.

   The adjustment to Accumulated Losses of $1.6m comprises the change in fair value of the contingent consideration liability from 30 June 2014 to the date of the IPO. The adjustment to Reserves of $0.2m arises from the buyback of the management options.

Table 7 sets out the indebtedness of Appen as at 30 June 2014, before and immediately after Completion of the Offer.

TABLE 7: Pro forma historical consolidated indebtedness as at 30 June 2014

AS AT 30 JUNE 2014, ($M)	NOTES	BEFORE COMPLETION OF THE OFFER	AFTER COMPLETION OF THE OFFER
Cash and cash equivalents		(3.6)	-
Current borrowings		4.7	-
Bank overdraft		-	1.1
Pro forma net total indebtedness / (cash)	**1**	**1.1**	**1.1**
Pro forma net debt/FY14 Pro forma EBITDA			**0.21x**
Pro forma net debt/FY15 Pro forma EBITDA			**0.16x**

NOTES

1. Represents Appen's pro forma indebtedness at 30 June 2014. Cash and cash equivalents balance after Completion of the Offer is anticipated to be $2.4 million.

5.5 HISTORICAL AND FORECAST CONSOLIDATED CASH FLOW STATEMENTS

[5.5.1] OVERVIEW

Table 8 sets out a summary of Appen's pro forma historical consolidated cash flow statements for FY12, FY13 and 1HFY14, the pro forma forecast consolidated cash flow statements for FY14 and FY15, and the statutory forecast consolidated cash flow statements for FY14 and FY15.

TABLE 8: Summary pro forma historical, pro forma forecast and statutory forecast cash flow statements

		PRO FORMA HISTORICAL		PRO FORMA FORECAST		STATUTORY FORECAST		PRO FORMA HISTORICAL
$m	Notes	FY12	FY13	FY14	FY15	FY14	FY15	1HFY14
EBITDA	1	**3.7**	**6.5**	**5.3**	**6.8**	**3.1**	**6.6**	**3.7**
Movement in working capital	2	0.2	0.1	(0.2)	(0.6)	0.2	(1.1)	(3.1)
Other non-cash movements	3	0.6	1.2	0.1	-	2.1	-	0.1
Net cash flows from operations (before tax and interest)		**4.5**	**7.8**	**5.1**	**6.2**	**5.4**	**5.5**	**0.7**
Capital expenditure		(0.1)	(0.1)	(0.1)	(0.5)	(0.1)	(0.5)	(0.1)
Acquisition of software		-	(1.2)	-	-	-	-	-
Net cash flow from operating activities after capital expenditure (before tax and interest)		**4.4**	**6.4**	**5.1**	**5.7**	**5.3**	**5.0**	**0.6**
Net finance costs paid	4			-	-	(0.1)	-	
Tax paid				(1.2)	(1.7)	(1.1)	(1.7)	
Proceeds from the Offer	5			-	-	-	9.9	
Proceeds from borrowings	6			-	-	1.8	-	
Repayments of borrowings	7			-	-	(4.7)	-	
Buyback of options	8			-	-	-	(5.4)	
Settlement of contingent consideration	9			-	-	(2.9)	(2.2)	
Listing costs	10			-	-	-	(1.5)	
Proceeds from the issue of shares	11			-	-	0.4	-	
Free cash flow				**3.8**	**4.0**	**(1.2)**	**4.1**	
Dividends paid	12					(1.2)		
Net cash flow				**3.8**	**4.0**	**(2.4)**	**4.1**	

NOTES

The cash flows in relation to the Proceeds and the costs of the Offer and settlement of contingent consideration are expected to occur in FY15.

1. Pro forma EBITDA above reflects the pro forma adjustments set out in section 5.3.4.
2. The movement in working capital in FY14 includes the accrual of listing costs not expected to be paid until FY15.
3. Represents sundry non-cash movements including unrealised foreign exchange gains and losses, share based payments and the change in fair value of contingent consideration (statutory forecast only).
4. Finance costs represent the actual interest expense incurred in 1HFY14.
5. Proceeds from the Offer represents $9.9 million raised as part of the Offer.
6. Proceeds from borrowings represent $2.1 million of funds received and repayment of $0.3 million in 1HFY14.

7. Repayments of borrowings relate to the payment of existing debt of $4.7 million at 30 June 2014 from the operating cash flow of the Company. 8. Represents the buyback of options issued as part of the Butler Hill acquisition ($5.2 million) and management options ($0.2 million).
9. Settlement of contingent consideration includes a payment of $2.2 million from the Offer and $2.9 million paid during 1HFY14.
10. Represents the portion of the costs associated with the Offer charged directly to equity.
11. Represents proceeds from the issue of shares in 1HFY14.
12. Represents payment to current shareholders in 1HFY14 prior to completion of the Offer. No additional dividend is expected to be paid in FY14. The Company intends to pay a dividend in FY15, refer to Section 5.10 for the Company's Dividend Policy.

[5.5.2] PRO FORMA ADJUSTMENTS TO THE STATUTORY CASH FLOW STATEMENTS

Table 9 sets out the adjustments to the historical consolidated cash flow statements for FY12, FY13 and 1HFY14, and the statutory forecast consolidated cash flow statements for FY14 and FY15.

TABLE 9: Pro forma adjustments to the statutory consolidated cash flow statements

		HISTORICAL		FORECAST		HISTORICAL
$m	Notes	FY12	FY13	FY14	FY15	1HFY14
Statutory cash flow from operations (before tax and interest)		**4.3**	**8.3**	**5.4**	**5.5**	**0.8**
Incremental public company costs	1	(0.5)	(0.5)	(0.5)	-	(0.2)
Listing costs	2	-	-	-	0.7	-
Preference share interest	3	0.6	-	-	-	-
Other		-	-	0.1	-	0.1
Pro forma cash flow from operations (before tax and interest)		**4.5**	**7.8**	**5.1**	**6.2**	**0.7**

NOTES
1. Incremental public company costs are included in the Pro forma historical and forecast consolidated cash flow statements but not in the statutory consolidated cash flow statements for FY12 to FY14.
2. Represents the portion of the costs associated with the Offer charged directly to P&L.
3. Represents borrowing costs relating to the Preference shares included in Financing Activities in the statutory consolidated cash flow statement.

5.6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF PRO FORMA HISTORICAL FINANCIAL INFORMATION

[5.6.1] GENERAL FACTORS AFFECTING THE OPERATING RESULTS OF APPEN

This Section 5.6 sets out a discussion of the main factors which affected Appen's operations and relative financial performance in FY12 and FY13, and which may continue in the future. The discussion of these factors is intended to provide a brief summary only and does not detail all factors that affected the historical operations and financial performance, nor everything which may affect the future operations and financial performance.

The information in this Section 5.6 should also be read in conjunction with the risk factors set out in Section 4 and the other information contained in this Prospectus.

Table 10 sets out Appen's pro forma consolidated revenue/operating segment for FY12, FY13 and 1HFY14, and FY14 and FY15.

TABLE 10: Pro forma revenue summary by product/service line

	PRO FORMA HISTORICAL		PRO FORMA FORECAST		PRO FORMA HISTORICAL
$m	FY12	FY13	FY14	FY15	1HFY14
Sales revenue					
Speech and Data Collection	14.7	22.6	21.9	22.9	12.0
Content Relevance	18.6	38.0	27.1	30.7	14.9
Total sales revenue	**33.3**	**60.5**	**49.1**	**53.6**	**26.9**

[5.6.1.1] REVENUE

An overview of the different revenue streams generated by Appen and the key drivers of each revenue stream is set out below.

SPEECH AND DATA COLLECTION REVENUE

Appen's Speech and Data Collection offerings are outlined in Section 3.4.3. Speech and Data Collection revenue includes fees paid by clients for the provision of services for:

- Speech and Data collection projects covering work such as speech recognition, language processing, speech recordings, transcription, annotation, speech synthesis, localisation and translation. This is a project based revenue model.
- linguistic consultancies which involve supplying consulting services to clients for complex linguistic projects. The majority of this revenue is based on charge out rates agreed with clients
- the sale and licensing of language and linguistic databases. Appen owns a large number of these databases which are licensed separately to clients. This revenue is based on one off prices negotiated with clients at the time.

Speech and Data Collection revenue may depend on a range of factors set out in Sections 2 and 3, including:

- the industry in which Appen operates and the wider technology industry
- ability of Appen to retain and build new business with current clients
- ability of Appen to attract new clients
- technological changes
- competitors' behaviour

CONTENT RELEVANCE

Appen's Content Relevance offerings are outlined in Section 3.4.2. Content Relevance is data annotation for improving relevance and accuracy of search results for search engines which include web, e-commerce and social engagement technologies. Content Relevance revenue reflects the fees paid by clients for work which is impacted by:

- Contractor costs where contractors are engaged by Appen to perform the services which are driven by the number of contractors and hours worked.
- Project management charges agreed with the client to run the program based on hours worked.
- Consultancy work which is based on charge out rates and hours worked.

Revenue from Content Relevance is generated from a number of purchase orders awarded within a longer term Master Services Agreement. The revenue is dependent on the volumes and breadth of services that clients request.

Content Relevance revenue may depend on a range of factors set out in Sections 2 and 3, including:

- the ongoing demand from the search, social media and e-commerce industries.
- the ability of Appen to retain and growth business with current clients.
- the ability of Appen to find and attract new clients.
- the ability of Appen to recruit and train contractors to perform the required services.

[5.6.1.2] OPERATING EXPENSES

Table 11 sets out Appen's pro forma consolidated operating expenses for FY12, FY13 and 1HFY14, and FY14 and FY15.

TABLE 11: Pro forma operating expenses summary

	PRO FORMA HISTORICAL		PRO FORMA FORECAST	PRO FORMA FORECAST	PRO FORMA HISTORICAL
$m	FY12	FY13	FY14	FY15	1HFY14
Operating expenses					
Cost of sales	(13.9)	(31.0)	(21.4)	(24.2)	(11.8)
Employee Costs	(12.1)	(17.9)	(17.8)	(18.1)	(9.5)
Other operating expenses	(3.6)	(5.1)	(4.6)	(4.5)	(2.0)
Total operating expenses	**(29.6)**	**(54.0)**	**(43.8)**	**(46.8)**	**(23.3)**

Key operating expenses comprise

- **Cost of sales –** these are made up of two types of costs being contractor and field partner costs which are largely variable in nature. Contractor costs are paid to individuals who perform services for Content Relevance programs. Third party field partner costs are incurred by Appen data collections where Appen requires assistance in overseas projects.
- **Employee costs –** salaries, wages and other related employment related costs associated with the board, management, operations, IT, HR, Finance and administration staff. These also include costs for Project Managers who provide services to the Speech and Data Collection customers. These expenses are considered short-term fixed costs.
- **Other operating expenses –** includes general and administration expenses such as costs to run the Appen infrastructure and other costs which are largely fixed in nature such as audit, legal and rent. It also includes discretionary costs such as travel, marketing, training and recruitment.

[5.6.1.3] DEPRECIATION AND AMORTISATION

- **Depreciation –** these expenses relate to the depreciation of the IT infrastructure (such as servers, computers, etc.) with the majority of these items written down over 3 years.
- **Amortisation –** relates to the amortisation of intangible assets. Intangible assets include acquired customer contracts, capitalised databases, capitalised in-house software development costs and the Company's Enterprise Resource Planning system.

[5.6.1.4] NET FINANCE COSTS

The Company currently incurs interest charges on a USD denominated debt facility at a rate of approximately 3.2%.

[5.6.1.5] CAPITAL EXPENDITURE

Appen's capital expenditure consists of investment in IT hardware and labour costs associated with the in-house development of software. It should be noted that some other technology costs which do not meet the criteria for capitalisation are expensed for accounting purposes.

[5.6.1.6] WORKING CAPITAL

Working capital can vary monthly depending on the timing associated with the delivery of projects as well as changes in the scale of work requested by the clients. The majority of invoicing is done on a monthly basis with terms of trade ranging from 10 to 60 days. Creditor's normal trading terms are10-45 days depending on projects. Employees and contractors in Australia are paid fortnightly and monthly for overseas employees.

[5.6.1.7] TAX

Appen's effective tax rate is impacted by the following:

- R & D expenditure incurred in Australia which is eligible for R & D tax offset under the R & D incentive program. During FY12 and FY13 Appen benefited from R & D tax offsets of $0.3m and $0.1m respectively.
- allowable deductions of amortisation charges associated with goodwill and some intangible assets in the US that are not amortised for accounting purposes. In FY12 and FY13 this amounted to USD $0.2m each year and is expected to continue at this rate for the next 2 years.
- operations in some Asian jurisdictions with a statutory tax rate of less than 30%.

The accounting tax expense differs from the actual tax paid due to:

- the timing of the deductibility for tax purposes of Offer-related costs.
- the non-deductibility of accounting amortisation associated with acquired customer contracts.

- the timing of work in progress which will vary year to year depending on the timing and completion of projects.
- realised and unrealised foreign exchange gains and losses.

5.6.2 PRO FORMA CONSOLIDATED INCOME STATEMENTS – FY12 VS. FY13

Table 12 sets out the summary pro forma consolidated income statements for FY12 and FY13.

TABLE 12: Summary of pro forma consolidated income statements: FY13 compared to FY12

	PRO FORMA HISTORICAL		CHANGE	PRO FORMA AND STATUTORY FORECAST
$m	FY12	FY13	$	%
Sales revenue				
Speech and Data Collection	14.7	22.6	7.9	53.7%
Content Relevance	18.6	38.0	19.4	104.3%
Total sales revenue	33.3	60.5	27.3	81.9%
Cost of sales	(13.9)	(31.0)	(17.1)	123.5%
Employee Costs	(12.1)	(17.9)	(5.8)	47.8%
Other operating expenses	(3.6)	(5.1)	(1.5)	41.6%
Total operating expenses	(29.6)	(54.0)	(24.4)	82.6%
EBITDA	**3.7**	**6.5**	**2.8**	**77.0%**
Depreciation and amortisation	(0.9)	(0.9)	0.0	(3.0%)
EBIT	**2.8**	**5.6**	**2.9**	**103.2%**

[5.6.2.1] REVENUE

Total revenue increased by 81.9% to $60.5 million in FY13 from $33.3 million in FY12. A summary of key factors affecting Appen's revenue growth in FY13 is outlined below:

- Strong demand from clients who had a number of new product launches in 2013.
- Significant increase in search relevance to support a significant product upgrade undertaken by a key customer.

[5.6.2.2] OPERATING EXPENSES

Total operating expenses increased by 82.6% to $54 million in FY13 from $29.6 million in FY12, primarily driven by:

- Increase in contractors costs to meet the increased client revenue.
- Investment in the number of employees to support the increased revenue base and development of sales and marketing function.

- Higher bonus payments due to the performance in FY13.
- Investment in the social media business within Content Relevance.
- Build out of the operations in the Philippines.

[5.6.2.3] EBITDA AND EBIT

EBITDA increased by 77% in FY13 due to strong revenue growth of 81.9%. This was supported by improved leverage of employee overheads and operating expense which only grew by 47.8% and 41.6% respectively. During this time, Appen invested in its social media business and built out its sales and marketing function. There was little change in depreciation and amortisation over the year.

[5.6.3] PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS – FY12 VS. FY13

Table 13 sets out the summary pro forma consolidated cash flow statements for FY12 and FY13.

Overall net cash from operations increased by $2.0 million year on year. The differences between FY12 and FY13 were driven by the significant increase in the business in FY13 which generated additional free cash partially offset by the investment in a new ERP system of $1.2 million in FY13.

During the year the Company borrowed US$4.0 million to support its growth which was paid down during the year.

TABLE 13: Summary pro forma consolidated cash flow statements: FY13 compared to FY12

	PRO FORMA HISTORICAL		CHANGE	
$m	FY12	FY13	$	%
EBITDA	3.7	6.5	2.8	77.0%
Movement in working capital	0.2	0.1	(0.1)	(52.1%)
Other non-cash movements	0.6	1.2	0.6	107.5%
Net cash flows from operations (before tax and interest)	**4.5**	**7.8**	**3.3**	**75.1%**
Capital expenditure	(0.1)	(0.1)	(0.1)	81.8%
Acquisition of software	-	(1.2)	(1.2)	-
Net cash flow from operating activities after capital expenditure (before tax and interest)	**4.4**	**6.4**	**2.0**	**46.8%**

5.7 FORECAST FINANCIAL INFORMATION

The Forecast Financial Information is based on various best estimate assumptions, including those set out below. In preparing the Forecast Financial Information, Appen has undertaken an analysis of the historical performance and applied assumptions where appropriate across each of the business segments. However, actual results are likely to vary from those forecasts and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based are by their nature subject to significant uncertainties and contingencies, many of which are beyond the control of the Company, the Directors and Company management, and are not reliably predictable.

None of Appen, the Directors or any other person can give any assurance that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved. Events and outcomes might differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 5.8, the risk factors set out in Section 4 and the Investigating Accountant's Report set out in Section 8.

[5.7.1] GENERAL ASSUMPTIONS

In preparing the Forecast Financial Information, the following general best estimate assumptions have been adopted in respect of the forecast period:

1. No material change in the competitive operating environment in which Appen operates;
2. No significant deviation from current market expectations of global economic condition relevant to Appen;
3. No material changes in any government legislation or regulation (including tax legislation), or government policy that have a material impact on the financial performance or cash flows, financial position, accounting policies, or licensing requirements of Appen, or its ability to earn income from clients including jurisdictions where it is not licensed and does not actively market;
4. No material changes in key personnel and Appen maintains its ability to recruit and retain the personnel required to support future growth;
5. No significant interruptions are experienced in relation to technology, platform or data utilised by Appen;
6. No material changes in applicable Australian Accounting Standards or other mandatory professional reporting requirements of the Corporations Act which have a material effect on Appen's financial performance, financial position, accounting policies, financial reporting or disclosure;
7. No material industry disturbances, environmental costs, contingent liabilities or legal claims will arise or be settled to the detriment of Appen;
8. No material acquisitions, divestments, restructuring or investments other than as set out in, or contemplated by, this Prospectus;
9. No material changes to Appen's corporate or funding structure other than as set out in, or contemplated by, this Prospectus;
10. No material disruptions to the continuity of operations of Appen nor other material changes in its business activities;
11. No material amendment to or termination of any material agreement, contract or arrangement other than set out in, or contemplated by, this Prospectus;
12. None of the key risks listed in Section 4 eventuates, or if they do, none of them have a material adverse impact on the operations of Appen;
13. Foreign exchange rates are forecast to remain consistent. Key exchange rates used by Appen's management is 0.90 US Dollars to one Australian Dollar; and
14. The Offer proceeds in accordance with the timetable set out in the Key Offer Information of this Prospectus.

[5.7.2] SPECIFIC ASSUMPTIONS

The basis of the specific assumptions that have been used in the preparation of the Forecast Financial Information in respect of the forecast period is set out below.

[5.7.2.1] PRO FORMA CONSOLIDATED INCOME STATEMENTS – FY13 VS. FY14

Table 14 sets out the summary pro forma historical consolidated income statement for FY13 and summary pro forma forecast consolidated income statement for FY14. The Forecast Financial Information for FY14 comprises the actual results of Appen for the six months ended 30 June 2014 and forecast results for the six months ending 31 December 2014.

TABLE 14: Summary pro forma consolidated income statements: FY14 compared to FY13

	PRO FORMA HISTORICAL	PRO FORMA FORECAST	CHANGE	
$m	FY13	FY14	$	%
Sales revenue				
Speech and Data Collection	22.6	21.9	(0.7)	(3.0%)
Content Relevance	38.0	27.1	(10.8)	(28.5%)
Total sales revenue	**60.5**	**49.1**	**(11.5)**	**(19.0%)**
Cost of sales	(31.0)	(21.4)	9.7	(31.1%)
Employee Costs	(17.9)	(17.8)	0.1	(0.6%)
Other operating expenses	(5.1)	(4.6)	0.5	(9.0%)
Total operating expenses	(54.0)	(43.8)	10.2	(18.9%)
EBITDA	**6.5**	**5.3**	**(1.3)**	**(19.4%)**
Depreciation and amortisation	(0.9)	(1.0)	(0.1)	15.7%
EBIT	**5.6**	**4.2**	**(1.4)**	**(24.9%)**

REVENUE

The Company has forecast revenue of $49.1 million in FY14 which represents a $11.5 million decline from FY13. The key reason for this change is the completion of a product upgrade required by a key client in FY13 in the Content Relevance segment. Speech and Data Collection revenues are forecast to be slightly lower than FY13 but the mix of projects has resulted in much stronger anticipated gross margin than FY13.

For the six months to the 30 June 2014, revenue is $26.9 million after a strong first half FY14. The Company has forecast the second half of FY14 as outlined below.

The basis for the forecast revenue for the six months ending 31 December 2014 is:

- contracted but not yet delivered projects which will generate revenue of $4.2 million in the second half of FY14;
- $7.2 million of revenue invoiced since 30 June 2014 up to the date of the Prospectus;
- purchase orders received from customers and to be delivered by 31 December 2014 totalling $9.0 million; and
- the Company is expected to generate additional revenue of $1.8 million based on historical run rates of certain other services that are not included in the above items.

[5.7.2.2] OPERATING EXPENSES

The Company forecasts operating expenses to be down by 18.9% closely in line with revenue. The primary drivers behind this are:

- change in the mix of projects and operational efficiencies have generated improved margins in 1HFY14 compared to FY13 resulting in a 31.1% reduction in cost of sales compared to revenue decline of 19.0%.
- maintained flat employee costs in preparation for future growth in FY15.
- other operating expenses are forecast to increase by 4% after eliminating the foreign exchange impact of $0.3 million between the years. This is driven by the full year effect of costs of the Philippines operations in FY14.

These costs were forecast based on:

- costs of sales calculated by reviewing current work in progress, outstanding purchase orders and historical run rates for clients and projects.
- employee costs based on actual headcount and employee contracts and other records.
- operating expenses based on actual supplier agreements and rental agreements currently or expected to be in place during the forecast period, and historical run rates where costs are not subject to formal agreements.

[5.7.2.3] DEPRECIATION AND AMORTISATION

Depreciation is consistent with FY13 however amortisation is forecast to increase due to the capitalisation of an Enterprise Resource Planning system which was implemented in March 2014.

[5.7.2.4] PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS – FY13 VS. FY14

Table 15 sets out the summary pro forma historical consolidated cash flow statements for FY13 and summary statutory forecast consolidated cash flow statements for FY14.

TABLE 15: Summary pro forma consolidated cash flow statements: FY14 compared to FY13

	PRO FORMA HISTORICAL	PRO FORMA FORECAST	CHANGE	
$m	FY13	FY14	$	%
EBITDA	6.5	5.3	(1.3)	(19.4%)
Movement in working capital	0.1	(0.2)	(0.3)	(329.0%)
Other non-cash movements	1.2	0.1	(1.1)	(93.1%)
Net cash flows from operations (before tax and interest)	**7.8**	**5.1**	**(2.7)**	**(34.3%)**
Capital expenditure	(0.1)	(0.1)	0.1	(49.0%)
Acquisition of software	(1.2)	-	1.2	(100.0%)
Net cash flow from operating activities after capital expenditure (before tax and interest)	**6.4**	**5.1**	**(1.4)**	**(21.3%)**

The Company forecasts the net cash flow from operating activities after capital expenditure to be $1.4 million lower than FY13 primarily driven by lower revenue in FY14 and lower non cash balances such as unrealised foreign exchange gains/losses, share based payments and impairment of receivables partially offset by the lower investment in capital expenditure.

During FY14 the Company increased its debt by US$2.0 million to fund short term working capital needs.

[5.7.2.5] PRO FORMA CONSOLIDATED INCOME STATEMENTS – FY14 VS. FY15

Table 16 sets out the summary pro forma forecast consolidated income statement for FY14 and summary pro forma and statutory forecast consolidated income statement for FY15.

TABLE 16: Summary pro forma consolidated income statements: FY15 compared to FY14

	PRO FORMA FORECAST		CHANGE	
$m	FY14	FY15	$	%
Sales revenue				
Speech and Data Collection	21.9	22.9	1.0	4.6%
Content Relevance	27.1	30.7	3.6	13.1%
Total sales revenue	**49.1**	**53.6**	**4.6**	9.3%
Cost of sales	(21.4)	(24.2)	(2.8)	13.2%
Employee Costs	(17.8)	(18.1)	(0.3)	1.5%
Other operating expenses	(4.6)	(4.5)	0.1	(1.4%)
Total operating expenses	(43.8)	(46.8)	(3.0)	6.9%
EBITDA	**5.3**	**6.8**	**1.6**	29.8%
Depreciation and amortisation	(1.0)	(1.1)	(0.1)	12.0%
EBIT	**4.2**	**5.7**	**1.4**	34.1%

[5.7.2.6] REVENUE

Total revenue is forecast to grow by 9.3% in FY15.

SPEECH AND DATA COLLECTION

The Company is forecasting the Speech and Data Collection segment to grow by 4.6% in FY15.

The forecast growth in FY15 of 4.6% is driven by the following assumptions:

- assessment of the current industry environment
- assessment of work currently underway that will be delivered in 2015
- review and assessment of all sales opportunities and proposals in progress with clients including an assessment of the probability of winning each opportunity/ proposal
- review and assessment of proposals submitted to potential clients including an assessment of the probability of winning each proposal
- review of historical run rates by client over the last 2 years where work is not undertaken in accordance with formal contracts.

CONTENT RELEVANCE

Content Relevance is forecast to grow in FY15 at 13.1% over FY14. In 2014, the Company invested in this segment and believes that it is well placed to grow this business in FY15. The majority of this growth will be generated by new clients some of which have current pilot projects in progress. The Company has anticipated that the revenue of a large client will be declining slightly year on year based on the latest historical activity.

The forecast revenue growth in FY15 of 13.1% is driven by the following assumptions:

- inclusion of purchase orders which extend into 2015
- current pilots being run with a number of new clients operating in the social media and technology sector will result in new projects to be delivered
- review of purchase orders are expected to be extended or increased in the future
- review of proposals in progress with clients including an assessment of the probability of winning each proposal
- review of historical run rates by client where work is not undertaken in accordance with formal contracts

[5.7.2.8] OPERATING EXPENSES

The Company forecasts operating expenses to grow by 6.9% to $46.8 million. This increase is based on the following:

- cost of sales for each segment is expected to maintain margins at the levels achieved in the six months ending 31 December 2014.
- employee costs are expected to grow at 1.5% with CPI wage growth for employees and increased efficiencies as the Company leverages its investment in labour from 2014.
- operating expenses are expected to remain largely consistent with FY14 levels.

[5.7.2.9] DEPRECIATION AND AMORTISATION

Depreciation and amortisation are forecast to remain largely consistent with FY14.

[5.7.2.10] NET FINANCE COSTS

All debt will be repaid from the cash resources of the Company in FY14. The Company has no immediate requirements for additional debt and consequently the forecast for net finance costs is nil.

[5.7.2.11] TAX

Pro forma tax is assumed to be based on profit before tax by entity at the relevant tax rate in each jurisdiction and reduced for the permanent difference from the R&D tax offset credits.

[5.7.2.12] PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS – FY14 VS. FY15

Table 17 sets out the summary pro forma consolidated cash flow statements for FY14 and summary pro forma and statutory consolidated cash flow statements for FY15.

TABLE 17: Summary pro forma consolidated cash flow statements: FY15 compared to FY14

	PRO FORMA HISTORICAL	PRO FORMA FORECAST	CHANGE	
$m	FY13	FY14	$	%
EBITDA	5.3	6.8	1.6	29.8%
Movement in working capital	(0.2)	(0.6)	(0.4)	197.9%
Other non-cash movements	0.1	-	(0.1)	(100.0%)
Net cash flows from operations (before tax and interest)	**5.1**	**6.2**	**1.1**	**20.6%**
Capital expenditure	(0.1)	(0.5)	(0.4)	520.0%
Net cash flow from operating activities after capital expenditure (before tax and interest)	**5.1**	**5.7**	**0.7**	**13.3%**

The Company forecasts net cash flow from operating activities and after capex to increase by $0.7 million in FY15 reflecting the forecast growth of EBITDA by 29.8% from FY14 to FY15. Forecast capital expenditure and investment in working capital are forecast to increase by $0.4 million as a result of the increased business activity.

5.8 SENSITIVITY ANALYSIS

The Forecast Financial Information included in Sections 5.3 and 5.7 is based on a number of estimates and assumptions, as described in Sections 5.7.1 and 5.7.2. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Directors and Company management, and upon assumptions with respect to future business decisions, which are subject to change.

Set out in Table 18 is a summary of the sensitivity to changes of the Forecast Financial Information in a number of key variables. The changes in the key variables set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown, and these variances may be substantial.

Care should be taken in interpreting these sensitivities. In order to illustrate the likely impact on the Forecast Financial Information, the estimated impact of changes in each of the assumptions has been calculated in isolation from changes in other assumptions. In practice, changes in assumptions may offset each other or be additive, and it is likely that Appen management would respond to any changes in one item to seek to minimise the net effect of Appen's NPAT and cash flow.

For the purpose of the sensitivity analysis in Table 18, each of the sensitivity is presented in terms of the impact on FY15 pro forma EBITDA ($6.8 million) and NPAT ($4.0 million).

TABLE 18: Sensitivity analysis

	EBITDA ($M)		NPAT ($M)	
Sensitivity	Negative	Positive	Negative	Positive
1. New Search Customer (+ / - 50%) *	(0.4)	0.4	(0.1)	0.1
2. Speech and Data Collection delay in new customers (3 months)	(0.4)	-	(0.1)	-
3. Content Relevance delay in new customers (3 months)	(0.6)	-	(0.2)	-
4. Speech new business (+ / - 25%)	(0.3)	0.3	(0.1)	0.1
5. Largest existing customer revenue (+ / - 10%)	(0.8)	0.8	(0.3)	0.3
6. Group EBITDA margin (+ / - 1bps)	(0.5)	0.5	(0.2)	0.2
7. Group revenue (+ / - 1%)	(0.5)	0.5	(0.2)	0.2
8. Cost of sales (+ / - 1%)	(0.2)	0.2	(0.1)	0.1
9. Group operating expenditure (+ / - 1%)	(0.2)	0.2	(0.1)	0.1
10. AUD / USD +/-0.5c	(0.4)	0.4	(0.1)	0.1

NOTES

The top 5 sensitivities are discussed below:

1. Due to the status of a new client in FY15F, the Company has sensitised the impact on EBITDA and NPAT in the event of FY15 actual revenue from the new social media customer being 50% lower or higher than the forecast.
2. The sensitivity reflects the impact on EBITDA and NPAT if there is a delay of three months in revenue generation from the Speech and Data Collection new customers in FY15.
3. Similar to the above, the sensitivity reflects the impact on EBITDA and NPAT if there is a delay of 3 months in revenue generation from the Content Relevance new customers in FY15.
4. The sensitivity reflects the impact on EBITDA and NPAT in the event the revenue from Speech and Data Collection new customers is 25% higher or lower than the FY15 forecast.
5. The sensitivity reflects the impact on EBITDA and NPAT in the event the revenue from the largest existing client is 10% higher or lower than the FY15 forecast.

* Pilot commenced on 10 November 2014.

5.9 FOREIGN EXCHANGE HEDGING POLICY

The Company currently generates the majority of its revenue in overseas currencies with the primary currencies being US dollars and Euros. At the same time, a large amount of expenses are paid locally in Australian dollars resulting in a mismatch between revenue and expenses in terms of foreign exchange exposure. The Company reports in Australian dollars and therefore this can have a potential foreign exchange impact on the balance sheet.

The Company has therefore created a foreign exchange strategy to protect the Company from currency exposures as soon as they arise. The Company's policy is to buy Australian dollars (through foreign exchange contracts) equal up to 100% of the value of the contracts (once they have been signed) generally for the following six month period after taking into consideration any foreign currency debts and any balances covered by natural hedge through paying overseas suppliers (assuming such payments are in the same currency as the revenue).

The Board will periodically review the foreign exchange hedging policy.

5.10 DIVIDEND POLICY

Subject to future business conditions and the future cash flow requirements of Appen, the Directors intend to target a dividend payout ratio in the range of 30% to 50% of NPAT. It is the current intention of the Directors to pay interim dividends in respect of the half year ending 30 June and final dividends in respect of full years ending 31 December.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend and the level of franking on any such dividend in future periods. The payment of a dividend by the Company is at the discretion of the Directors and will be a function of a number of factors, including general business conditions, the operating results and financial condition of Appen, future funding requirements, compliance with debt facilities, capital management initiatives, taxation considerations (including level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Directors may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.

SECTION 6

KEY PEOPLE, INTERESTS AND BENEFITS

KEY PEOPLE, INTERESTS AND BENEFITS

The Board of Directors brings relevant experience and skills including professional services, financial management, legal services and corporate governance.

6.1 BOARD OF DIRECTORS

CHRIS VONWILLER
Non-Executive Chairman

- Chris is the Non-Executive Chairman of Appen having formerly served as Appen CEO from 1999-2010. Prior to joining Appen, Chris served for 20 years in senior executive positions with the Australian telecommunications carrier Telstra Corporation Limited, playing a leading role in the development and deployment of innovative internet services, multimedia, and pay television.
- Chris is a former Chairman of the Warren Centre for Advanced Engineering at The University of Sydney. For his work at Appen, Chris was named an Innovation Hero by the Warren Centre in June 2007.
- Chris holds Degrees in Science and Engineering, with Honours, from The University of Sydney and an MBA from Macquarie University. He was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2007.

LISA BRADEN-HARDER
Managing Director

- Lisa Braden-Harder is the Managing Director of Appen. Lisa founded the Butler Hill Group in 1993. After the merger with Appen, she became president of Appen Butler Hill North America. In January 2013, Lisa became the Managing Director of Appen.
- For more than 20 years, Lisa has worked on technology and linguistics projects.
- Lisa has experience in applied research at the IBM Thomas J. Watson Research Center, where she received the IBM Outstanding Technical Achievement Award, an IBM Research Division Award, and four patents. She holds a Master's in Computer Science from New York University and a Bachelor in Computer Science from Purdue University.

WILLIAM PULVER
Non-Executive Director

- William (Bill) Pulver is a Non-Executive Director having originally joined Appen as CEO in April 2010 overseeing the merger of Appen and Butler Hill in 2011. In January 2013, Bill transitioned to a non-executive director role on the Appen board, after taking on the role of CEO of the Australian Rugby Union.
- Prior to joining Appen, Bill served as president and chief executive officer of NetRatings, Inc., a NASDAQ-listed company, headquartered in New York and specialising in Internet media and market research. Bill led NetRatings until it was bought by The Nielsen Company in June 2007 and was responsible for its extensive growth through organic product development and acquisitions.
- Bill holds a Bachelor of Commerce, with a Major in Marketing, from the University of New South Wales, Australia.

ROBIN LOW
Independent Non-Executive Director

- Robin was appointed as an Independent Non-Executive Director in October 2014. If the Company is not admitted to the official list of ASX before 31 January 2015, Robin's appointment will be revoked.
- Robin is a director of Austbrokers Limited, CSG Limited, IPH Limited, Sydney Medical School Foundation, Primary Ethics and the Public Education Foundation. She is also a member of the Auditing and Assurance Standards Board.
- Robin worked at PricewaterhouseCoopers for 28 years and was a partner from 1996 to 2013.

- Robin holds a Bachelor of Commerce, with a Major in Accounting, from the University of New South Wales, Australia and is a Fellow of the Institute of Chartered Accountants, Australia.

JEREMY SAMUEL
Non-Executive Director

- Jeremy has been a Non-Executive Director of Appen since October 2009 and is the founder and Managing Director of Anacacia Capital.
- Jeremy is a director of several companies in which Anacacia has invested, including K-Care and Yumi's Quality Foods and was formerly a director of Rafferty's Garden, Home Appliances and Lomb Scientific.
- Jeremy holds an MBA from Yale University School of Management and Arts and Law degrees from the University of New South Wales.

The composition of the Board committees and details of the Board's key corporate governance policies are set out in Section 6.4

The Board has considered the Company's immediate requirements as it transitions to an ASX listed company and is satisfied that the composition of the Board reflects an appropriate range of independence, skills and experience for the Company at the time of Listing. Following Listing, the Board intends to continue to strengthen the composition of the Board by the appointment of at least one additional independent Director, preferably based in the United States.

Each of the Directors has indicated that they are able to devote sufficient time to their duties as a director of Appen.

6.2 SENIOR EXECUTIVE MANAGEMENT

Appen's senior executive managers are set out below:

LISA BRADEN-HARDER
Managing Director

See section 6.1 for details.

MARK BYRNE
Chief Financial Officer and Company Secretary

- Mark Byrne is responsible for Appen's financial operations and has worked in senior financial roles over the last 20 years.
- Mark is a member of Chartered Accountants Australia, Chartered Secretaries Australia, and a graduate member of the Australian Institute of Company Directors.
- Mark holds a Bachelor of Economics and earned an MBA from Macquarie University in 2002.

TOM WHITE
Senior Vice President, Strategy, Sales and Marketing

- Tom White leads Appen's strategy, sales and marketing in Content Relevance bringing over 20 years of experience at Microsoft® in their quality assurance, search, and office online management divisions.
- Tom was also Program Director at Bing® for 4 years and has extensive search engine knowledge.
- During his time at Microsoft® Tom developed data-collection platforms used by many product teams within the company.
- Tom holds a Bachelor's Degree in Computer Science from Gonzaga University.

TAMMY GARVES
Senior Vice President, Content Relevance

- Tammy Garves joined Appen in 2007, and is head of operations and program development.
- Tammy has more than 20 years of management experience in both program and project management.

- Prior to joining Appen, Tammy spent 6 years consulting in the IT industry, managing high profile projects for a number of internationally recognised companies.
- Tammy holds a Bachelor's Degree in Global Studies from the University of Washington.

PHIL HALL
Senior Vice President, Speech & Data Collection

- Phil Hall joined Appen in 2001 and heads Appen's Sydney-based Speech and Data Collection division.
- Under Phil's leadership, Appen's Speech and Data Collection division delivers large programs of work, with a focus on speech and language data, to some of the world's leading commercial and government technology organisations.
- Phil holds a 1st Class Honours Degree in Linguistics and in 1999 was awarded the Macquarie University Medal for his research into the language of interrogation.

6.3 INTERESTS AND BENEFITS

This section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director
- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- underwriter to the Offer or a financial services licensee named in this Prospectus as a financial services licensee,

holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

[6.3.1] INTERESTS OF ADVISERS

The nature and extent of the interests and fees of professional advisers engaged by the Company is set out below. Appen has engaged the following professional advisers in connection with the Offer:

- Bell Potter has acted as Lead Manager to the Offer. Appen has paid, or agreed to pay, the Lead Manager the fees described in Section 9.5.1 for these services;
- Norton Rose Fulbright Australia has acted as Australian legal adviser to Appen in relation to the Offer. Appen has paid, or agreed to pay, approximately $175,000 (excluding disbursements and GST) for these services. Further amounts may be paid to Norton Rose Fulbright Australia in accordance with its normal time-based charges;
- Deloitte has acted as Investigating Accountant and has prepared the Investigating Accountant's Report and has performed work in relation to due diligence enquiries. Appen has paid, or agreed to pay, approximately $310,000 (excluding disbursements and GST) for the above services up until the Prospectus Date; and

- KPMG has acted as Tax Adviser to Appen in relation to the Offer and has performed work in relation to due diligence enquiries. In addition, KPMG completed the audit for the half year ending 30 June 2014 in their capacity as the Company auditor. Appen has paid, or agreed to pay, approximately $200,000 (excluding disbursements and GST) for their services up until the Prospectus Date.

These amounts, and other expenses of the Offer, will be paid by Appen out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.3.

[6.3.2] NON-EXECUTIVE DIRECTOR REMUNERATION AND DIRECTOR INTERESTS

[6.3.2.1] NON-EXECUTIVE DIRECTORS' REMUNERATION

Under the Constitution, the Directors decide the amount paid to each Director as remuneration for their services as a Director to Appen. Under the ASX Listing Rules, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by Appen's shareholders in general meeting. This amount has been fixed by Appen at $450,000, of which only $225,000 is currently utilised. Annual non-executive Directors' fees currently agreed to be paid by Appen are $90,000 to the Chairman Chris Vonwiller, and $55,000 to each of William Pulver, Robin Low and Jeremy Samuel. However, Jeremy Samuel has agreed to waive his directors' fee until the end of 2015. In addition, the Chair of the Audit and Risk Committee will be paid an additional $15,000 annually. The Chair of the Nomination and Remuneration Committee will be paid an additional $10,000 annually. All Non-Executive Directors' fees include any required superannuation payment.

[6.3.2.2] DEEDS OF ACCESS, INSURANCE AND INDEMNITY FOR DIRECTORS

Appen has entered into deeds of access, indemnity and insurance, with each Director which contain rights of access to certain books and records of Appen on certain conditions for a period of seven years after the Director ceases to hold office. This seven year period can be extended where a claim arises within the seven year period.

Pursuant to the Constitution, Appen may indemnify Directors and officers, past and present, against liabilities that arise from their position as a Director or officer allowed under law. Under each deed of access, indemnity and insurance, Appen indemnifies the Directors to the maximum extent permitted by law against any liability incurred, including liability arising from negligence, breach of statutory duty or for any other reason, and reasonable legal costs on a solicitor/client basis in connection with any claim (on an after tax basis) that is due and payable by the Director, in connection with any alleged or actual act, omission or other conduct (including any misleading statement, misstatement, mistake, neglect or breach of duty) by the Director as a director of Appen.

This indemnity is subject to certain limitations: it only applies to the extent Appen is not precluded by law from indemnifying the Director; it does not apply to any liability connected with fraudulent, criminal or dishonest conduct, or a reckless or intentional breach of the Directors' duties as a director of Appen; and will only apply to the extent approval of the members of Appen is not needed under any applicable legislation unless that approval has been obtained. If the Director incurs legal costs in circumstances where, depending on the outcome of a claim the Company may be obliged to indemnify the Director for those legal costs, the Company must on request of the Director providing documentary evidence of those legal costs, lend to the Director an amount equal to those legal costs. The loan is ultimately repayable by the Director on conclusion of the claim, and may be set-off against any indemnity payment due by the Company to the Director.

Pursuant to the Constitution, Appen may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law. Under the deed of access, indemnity and insurance, Appen must obtain such insurance during each

Director's period of office and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven year period expires.

[6.3.2.3] OTHER INFORMATION

Directors may also be reimbursed for expenses reasonably incurred in attending to Appen's affairs. Non-executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as a director of Appen or a subsidiary. There is no contractual redundancy benefit for Directors, other than statutory superannuation contributions. The interests of Directors are set out in this section.

[6.3.2.4] DIRECTORS' SHAREHOLDINGS

Directors are not required under the Constitution to hold any Shares. Details of the number of Shares held by Directors, both before and after the Offer are expected to be as follows:

[6.3.3] EXECUTIVE REMUNERATION

[6.3.3.1] MANAGING DIRECTOR – LISA BRADEN-HARDER

Lisa Braden-Harder is the Managing Director of Appen. Ms Braden-Harder will receive annual fixed remuneration of US$330,000 for FY15 which is inclusive of optional employee contributions towards 401(k) pension fund and health insurance plans. There are also exclusive Company contributions to 401(k) pension fund and health insurance plans. Ms Braden-Harder is also currently eligible to participate in the executive bonus plan details of which are set out in Section 6.3.4.1 and in her case is eligible to receive an annual cash bonus ranging from 0% to 75% of annual salary or such other amount as determined by the Board. Payment of the cash bonus will depend on Appen's performance and Ms Braden-Harder's achievement of certain key performance indicators.

Ms Braden-Harder may terminate her employment contract by giving 90 days' notice in writing. Appen may terminate by giving 90 days' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Appen may terminate Ms Braden-Harder's employment contract immediately by notice in

DIRECTOR	SHARES AT PROSPECTUS DATE	SHARES ACQUIRED / (SOLD) IN THE OFFER	SHARES HELD ON COMPLETION OF THE OFFER	SHARES HELD ON COMPLETION OF THE OFFER
	NUMBER	NUMBER	NUMBER	%
Chris Vonwiller [1]	17,210,082	-	17,210,082	18.2
Lisa Braden-Harder [2]	1,844,672	-	1,844,672	1.9
William Pulver [1]	8,843,055	-	8,843,055	9.3
Robin Low	-	-	100,000	0.1
Jeremy Samuel [3]	-	-	-	-

NOTES

1 Chris Vonwiller and William Pulver hold their shares through related entities which they control for the purposes of the Corporations Act.

2 In connection with the Offer, Lisa Braden-Harder will receive approximately $5.2 million for the cancellation of Options that were originally issued as part of the payment of the contingent consideration liability for the acquisition of Butler Hill in FY11.

3 Jeremy Samuel is also the managing director of Anacacia Capital Pty Limited, the fund manager of Anacacia Partnership I LP, that will continue to be the registered holder of 33,784,985 Shares (amounting to 35.7% of the enlarged share capital} following the Offer. As at the Prospectus Date, Jeremy Samuel does not have a relevant interest in those Shares for the purposes of the Corporations Act.

writing and without payment in lieu of notice. Upon the termination of Ms Braden-Harder's employment contract, she will be subject to a restraint of trade period of four years. The enforceability of the restraint clause is subject to all usual legal requirements in the United States.

[6.3.3.2] CFO – MARK BYRNE

Mark Byrne is the Chief Financial Officer of Appen. Mr Byrne will receive annual fixed remuneration of $250,000 for FY15 inclusive of superannuation. Mr Byrne is also eligible to participate in the executive bonus plan, details of which are set out in Section 6.3.4.1 and in Mr Byrne's case means Mr Byrne is eligible to receive an annual cash bonus ranging from 0% to 45% of annual salary or such other amount as determined by the Board. Payment of a cash bonus will depend on Appen's performance and Mr Byrne's achievement of certain key performance indicators.

Mr Byrne may terminate his employment contract by giving six weeks' notice in writing. Appen may terminate the employment contract by giving six weeks' notice in writing or alternatively by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Appen may terminate Mr Byrne's employment contract immediately by notice in writing and without payment in lieu of notice.

[6.3.3.3] OTHER KEY MANAGEMENT PERSONNEL

Each of Appen's senior management team is employed under individual executive services agreements. These establish:

- total compensation including a base salary and participation in the executive bonus plan;
- variable notice and termination provisions;
- confidentiality provisions;
- leave entitlements; and
- in the case of certain employees, restraint provisions.

[6.3.4] EMPLOYEE INCENTIVE ARRANGEMENTS

[6.3.4.1] EXECUTIVE BONUS PLAN

The Company operates an executive bonus plan which entitles some executives of the Company to a bonus ranging from 0% to 150% of an on target bonus which is typically a percentage of their annual salary, subject to Board approval. The key performance indicators for payment of a bonus are revenue, EBIT and EBIT margin (revenue divided by EBIT). Each of these financial metrics is given a percentage weighting – typically revenue 25%, EBIT 50% and EBIT margin 25%, and a score allocated to each financial metric depending on the actual financial performance of the Company against the financial metric. For example, if the Company achieves 80% of the revenue number, 100% of the EBIT number and 80% of the EBIT margin percentage, the overall score for bonus purposes would be 90% of their on target bonus. The actual bonus is calculated based on a sliding scale between 0% and 150% (with 0% if the Company is below 80% and 64% potentially payable if the Company achieves an overall rating of 80% based on the financial metrics and 150% potentially payable if the Company achieves an overall rating of 122.5% or more based on the financial metrics). Based on the example, an overall score of 90% based on the financial metrics would result in the payment of a bonus equal to 81% of the on target bonus. All bonus payments are inclusive of superannuation (where applicable). Bonuses will only be paid to employees who remain employed in the Company on 31 December. Any bonus payment remains at the overall discretion of the Board and is not guaranteed. Any bonuses to be paid for FY14 are likely to be considered, and if appropriate, approved at the Board meeting in February 2015, and paid to employees in March 2015.

[6.3.4.2] EMPLOYEE INCENTIVE PLAN AND BONUS PLAN

Employees will be entitled to participate in the employee incentive scheme following the release of the FY15 financial accounts and meeting certain key performance indicators determined by the Company currently focused predominantly on earnings, margin and revenue. As at the Prospectus Date, employee shareholders, excluding non-executive directors, own 4,774,380 Shares. Following the Listing, the Board, on the recommendation of the Nomination and Remuneration Committee (which will take into account professional advice on the matter), intends to implement a further long term employee incentive scheme to allow employees to be issued up to 5% additional in aggregate of the total share capital of the Company subject to exceeding performance benchmarks that will be determined by the Board.

The majority of employees are currently entitled to participate in the Company's annual bonus plan. Under this plan, employees receive bonus compensation after meeting certain key performance indicators determined by the Company predominantly based on earnings, margin and revenue. This plan is in place for FY14. The Board, on the recommendation of the Nomination and Remuneration Committee, intends to implement a similar annual bonus plan for FY15.

As part of the IPO, the Company has resolved to provide a bonus to its existing employees based on the employee's length of service with the Company. The bonus is up to a maximum amount of $120,000 in aggregate for all employees. It is intended that, to the extent practicable, the bonus will be provided in the form of free Shares (up to approximately 240,000 Shares in aggregate) but if there are legal or regulatory hurdles to the provision of the bonus in the form of Shares, an employee may receive the bonus as a cash payment. Any offer of bonus Shares to employees in Australia will be made under this Prospectus.

6.4 CORPORATE GOVERNANCE

This Section 6.4 explains how the Board will oversee the management of the Company's business. The Board is responsible for the overall corporate governance of the Company. The Board is responsible for, and has the authority to determine, all matters relating to strategic direction, policies, practices, management goals and the operations of Appen.

Appen has in place corporate governance practices which are formally embodied in corporate governance policies and codes adopted by the Board **(Policies)**. The aim of the Policies is to ensure that Appen is effectively directed and managed, risks identified, monitored and assessed, and appropriate disclosures made.

The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations **(ASX Recommendations)**. The recommendations are not prescriptions, but guidelines. In preparing the Policies, the Directors considered the ASX Recommendations. The Directors incorporated the ASX Recommendations into the Policies to the extent the Directors considered the ASX Recommendations were appropriate taking into account Appen's size, board structure, resources and activities.

Under the ASX Listing Rules, the Company will be required to provide a Corporate Governance Statement on its website or in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where the Company does not follow an ASX Recommendation, it must identify the ASX Recommendation that has not been followed and give reasons for not following it. Except as set out in section 6.4.11 below, the Board does not anticipate that the Company will depart from the ASX Recommendations, however, it may do so in the future if it considers that such a departure would be reasonable.

Details of the Policies will be available from Listing at **www.appen.com**, and are summarised below.

[6.4.1] BOARD OF DIRECTORS

Chris Vonwiller, William Pulver, Robin Low and Jeremy Samuel are all Non-Executive Directors who are not a part of the Company's management.

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time. The Board Charter sets out guidelines of materiality for the purpose of determining independence of Directors in accordance with the ASX Recommendations and has adopted a definition of independence that is largely based on that set out in the ASX Recommendations.

The Board considers qualitative principles of materiality for the purpose of determining "independence" on a case-by-case basis. The Board will consider whether there are any factors or considerations which may mean that the Director's interest, business or relationship could, or could be reasonably perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The Board considers that Robin Low is free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of her judgement and she is able to fulfil the role of independent Non-Executive Director for the purpose of the ASX Recommendations.

Given the guidelines adopted by the Company regarding the independence of Directors, having considered the substantial ongoing shareholdings of parties that are related to Chris Vonwiller, William Pulver and Jeremy Samuel, and given Lisa Braden-Harder's ongoing executive position within the Company, those Directors are not considered by the Board to be independent.

Accordingly, as at Listing, the Board will consist of a majority of Non-Executive Directors and one will be considered to be an independent Director.

[6.4.2] BOARD CHARTER

The Board has adopted a Board Charter which sets out the responsibilities of the Board in greater detail, including the following responsibilities:

- providing leadership and approving the strategic objectives of the Company and establishing goals to promote their achievement;
- monitoring the operational and financial position and performance of the Company;
- establishing investment criteria including acquisitions and divestments, approving investments, and implementing ongoing evaluations of investments against such criteria;
- determining dividend policy and the amount, nature and timing of dividends to be paid (if any);
- approving and monitoring the progress of major capital expenditure, capital management and major acquisitions and divestitures;
- providing oversight of the Company, including its control and accountability systems;
- overseeing management's implementation of the Company's strategic objectives and its performance generally;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, in conjunction with the Company's Audit and Risk Management Committee, and ensuring they are operating effectively;
- appointing and removing the Managing Director (or equivalent) and monitoring their performance;
- approving the Company's remuneration framework, including approving remuneration of the Managing Director and the remuneration policy and succession plans for the Managing Director; and

- exercising due care and diligence and sound business judgment in the performance of those functions and responsibilities.

The charter provides for the Board to delegate specific matters to senior management, or to committees established by the Board.

The composition of the Board, its performance and the appointment of new Directors will be reviewed periodically by the Board, taking advice from external advisers where considered appropriate.

[6.4.3] BOARD COMMITTEES

In order to better manage its responsibilities, the Board has established an Audit and Risk Management Committee and a Nomination and Remuneration Committee. Each committee has adopted a charter approved by the Board, setting out its responsibilities. Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

The committees will initially be comprised of:

- Audit and Risk Management Committee: Robin Low (Chair), Chris Vonwiller and William Pulver; and
- Nomination and Remuneration Committee: William Pulver (Chair), Chris Vonwiller and Robin Low.

[6.4.4] AUDIT AND RISK MANAGEMENT COMMITTEE

The purpose of the Audit and Risk Management Committee is to assist the Board in fulfilling its responsibilities for corporate governance and oversight responsibilities by monitoring and reviewing the integrity of financial statements, the effectiveness of internal financial controls, the independence, objectivity and competency of internal and external auditors, and the policies on risk oversight and management.

The role and responsibilities, composition, structure and membership requirements of the Audit and Risk Management Committee are documented in an Audit and Risk Management Committee Charter approved by the Board and include:

- making recommendations to the Board on the nomination and remuneration of external auditors;
- reviewing the performance and independence of the external audit;
- providing an independent, objective review of financial information provided by management to Shareholders and regulatory authorities;
- reviewing the adequacy and effectiveness of the Company's policies and procedures which relate to risk management and compliance;
- maintaining an up-to-date understanding of areas where the Company is, or may be, exposed to risk and compliance issues and seek to ensure that management is effectively managing those issues; and
- assisting the Board in fulfilling its responsibilities relating to the risk management and compliance practices of Appen.

Formal systems have been introduced for regular reporting to the Board on financial risks and compliance matters. The independent auditors will have a direct line of reporting to the Committee and have clear and open access to members of this Committee.

The Company does not currently have an internal audit function in place. The Audit and Risk Management Committee Charter puts in place processes to monitor the Company's financial and risk management procedures and the Board currently considers these processes appropriate for the size and level of operations of the Company. Appen employs several safeguards to ensure that its risk management and internal control process is efficient and accurate.

These include:

- annual review of its risk management and internal control processes by its external auditor reporting directly back to the board on its findings;
- board approval required for all management approval limits; and
- board approval for key policies that impact the Company's financial and legal exposure.

The Audit and Risk Management Committee Charter provides that the committee should comprise, to the extent practicable given the size and composition of the Board from time to time, at least three members, each of whom are Non-Executive Directors, and a majority of whom are independent. To the extent practicable, the chair of the committee shall be an independent Non-Executive Director who is not the Chairman.

The Audit and Risk Management Committee will meet at least 3 times per year. The chair of the Audit and Risk Management Committee may invite other Directors, members of Management and representatives of the external auditor to be present at meetings of the committee and seek advice from external advisers. The Audit and Risk Management Committee will regularly report to the Board about committee activities, issues and related recommendations.

[6.4.5] NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee has two key functions. The purpose of the nomination function is to review and make recommendations to the Board with respect to identifying nominees for directorships and key executive appointments, considering the composition of the Board, ensuring that effective induction and education procedures exist for new Board appointees and key executives, and ensuring that appropriate procedures exist to assess and review the performance of the Chairman, Non-executive Directors, senior executives (including senior and key officers of the Company) and the Board as a whole.

The purpose of the remuneration function is to provide advice, recommendations and assistance to the Board in relation to the Company's remuneration policies and remuneration packages of senior management, Executive Directors and Non-executive Directors.

The role and responsibilities, composition, structure and membership requirements of the Committee are documented in a Nomination and Remuneration Committee Charter approved by the Board and include:

- providing advice and recommendations to the Board with respect to the appointment and removal of Directors and senior executives;
- developing and maintaining a succession plan designed to ensure that an appropriate balance of skills, experience and expertise is maintained on the Board;
- ensuring that the Board is of a size and composition that ensures a range of different skills and perspectives and allows for decisions to be made effectively and expediently;
- facilitating and supervising the election of Directors;
- evaluation and review of the performance of the Board;
- providing the Board with advice and recommendations regarding an executive and senior executive remuneration policy;
- reviewing and providing recommendations to the Board with respect to the remuneration packages of senior executives and Executive Directors;
- reviewing and providing recommendations to the Board with respect to incentive schemes;
- providing advice to the Board with respect to Non-executive Directors' remuneration; and
- reviewing and providing recommendations to the Board on the Company's remuneration, recruitment, retention and termination policies.

The Nomination and Remuneration Committee Charter provides that the committee should comprise, to the extent practicable given the size and composition of the Board from time to time, at least three members, each of whom are Non-Executive Directors, and a majority of whom are independent. To the extent practicable, the chair of the committee shall be an independent Non-Executive Director. It is noted that this will not be acheived immediately on listing, due to the current board composition. The Committee will meet at least twice each year.

[6.4.6] CODE OF CONDUCT

The Board has approved a Code of Conduct to guide compliance with legal and other obligations to the Company's stakeholders and which sets ethical standards for Appen personnel and reflects the Directors' intention to ensure that their duties and responsibilities of all staff to the Company are performed with the utmost integrity. The Company considers its stakeholders to be employees, shareholders, creditors, customers, suppliers, contractors, consultants, governmental and non-governmental organisations, the communities where the Company operates and other parties that have influence over or are influenced by the Company.

The Code of Conduct deals with the following principal areas:

- integrity and professionalism;
- compliance with the law;
- conflicts of interest;
- confidential information;
- inside information;
- benefits to senior executives;
- corporate opportunities;
- protection and proper use of company assets;
- encouragement of the reporting of unlawful, unethical behaviour;
- responsibilities to Shareholders and the financial community;
- employment practices;
- fair trading and dealing;
- responsibilities to the community;
- responsibilities to the individual;
- how Appen complies with legislation affecting its operations; and
- how Appen monitors compliance with the code.

[6.4.7] PRICE SENSITIVE INFORMATION POLICY

Appen's Price Sensitive Information Policy is designed to ensure compliance with the ASX Listing Rules disclosure requirements and imposes obligations and procedures on all Directors and employees of the Company to ensure the timely and balanced disclosure of all material matters concerning the Company.

The Price Sensitive Information Policy includes vetting and authorisation processes designed to ensure that Appen's information:

- is disclosed in a timely manner;
- is factual;
- does not omit material information; and
- is expressed in a clear and objective manner that allows the input of the information when making investment decisions.

[6.4.8] SHAREHOLDER COMMUNICATION POLICY

Appen's Shareholder Communication Policy is designed to facilitate full and open communication with its shareholders, observing the highest standards in corporate governance and shareholder communications. As a publicly listed company, the Company has obligations under the Corporations Act and the ASX Listing Rules to keep the market fully informed of all information which may have or could be expected to have a material effect on the price or value of its securities. The Shareholder Communication

Policy is designed for strict compliance with these requirements.

The Board aims to ensure that all Shareholders are kept informed of all material developments affecting Appen's business. Information will be communicated to Shareholders through announcements to ASX, Appen's annual report, annual general meetings, half yearly and full year results, and Appen's website, www.appen.com.

The Secretary has been appointed as the person primarily responsible for managing external communications with ASX.

[6.4.9] SECURITIES DEALING POLICY

Appen has a Securities Dealing Policy for Directors, senior executives and employees of Appen. The policy requires Directors and key management personnel to obtain approval prior to dealing in Appen securities. The policy also sets a trading window of six weeks following the release of annual or half-yearly results, in which staff members covered by the policy may trade in Appen securities. All other times are considered restricted periods during which staff may not trade. The policy also requires that Directors and employees of the Company in possession of price sensitive information must not at any time deal in securities of the Company, or advise or suggest another person do so, or communicate the price sensitive information to a person who may deal in securities of the Company. The policy prohibits Directors and key management personnel from engaging in short term dealing in securities of the Company.

Directors and employees may take out margin loans over their holdings in Appen Securities. However they must not allow a margin call to be met by the sale of Appen securities at a time when they would not have been able to sell those securities themselves under the Securities Dealing Policy

The Securities Dealing Policy clearly identifies those individuals who are restricted from trading and the relevant laws relating to trading.

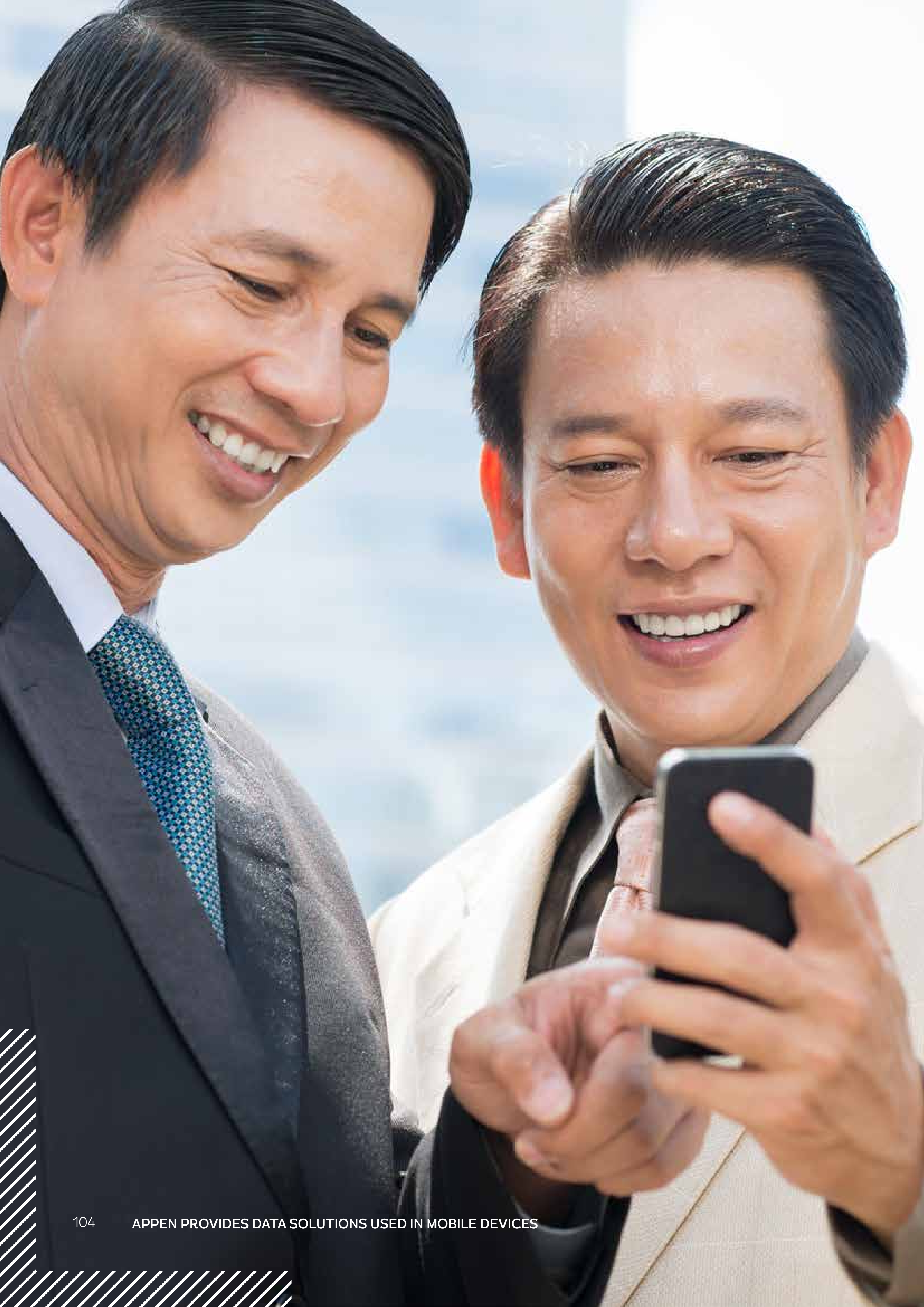
[6.4.10] DIVERSITY POLICY

Appen has adopted a diversity policy which sets out Appen's commitment to diversity and inclusion in the workplace. The diversity policy provides a framework under which the Board, or an appropriate committee of the Board, will set measurable objectives for achieving gender diversity targets and will assess annually both those objectives and Appen's progress in achieving the objectives that the Company has set itself. The initial key focus of the Board on diversity relates to gender diversity at the Board and senior executive level, and gender and ethnic diversity among employees. It is noted that 40% of Appen's board and 40% of Appen's senior executives are currently female, supporting Appen's commitment to gender diversity. Under the diversity policy Appen recognises other diversity grounds and commits to not discriminate against individuals on a number of grounds including race, impairment, parental status, religious beliefs and political beliefs. Under the policy the Company states that, as a principle, it will not tolerate discrimination, harassment, vilification or victimisation in the workplace. The Company will report annually against the measurable objectives that it sets regarding diversity.

[6.4.11] DEPARTURES FROM THE ASX RECOMMENDATIONS

ASX PRINCIPLES AND ASX RECOMMENDATIONS	SUMMARY OF POSITION OF APPEN
Recommendation 2.1: The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	Due to the current structure and composition of the Board, Appen is unable to fully comply with Recommendation 2.1. Appen is satisfied that the current composition of committee members is adequate and that non-compliance with Recommendation 2.1 will not be detrimental to Appen.
Recommendation 4.1: The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	Due to the current structure and composition of the Board, Appen is unable to fully comply with Recommendation 4.1. Appen is satisfied that the current composition of committee members is adequate and that non-compliance with Recommendation 4.1 will not be detrimental to Appen.

ASX PRINCIPLES AND ASX RECOMMENDATIONS	SUMMARY OF POSITION OF APPEN
Recommendation 7.1: The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	Due to the current structure and composition of the Board, Appen is unable to fully comply with Recommendation 7.1. Appen is satisfied that the current composition of committee members is adequate and that non-compliance with Recommendation 7.1 will not be detrimental to Appen.
Recommendation 8.1: The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	Due to the current structure and composition of the Board, Appen is unable to fully comply with Recommendation 8.1. Appen is satisfied that the current composition of committee members is adequate and that non-compliance with Recommendation 8.1 will not be detrimental to Appen.



APPEN PROVIDES DATA SOLUTIONS USED IN MOBILE DEVICES

SECTION 7
DETAILS OF THE OFFER

DETAILS OF THE OFFER

This Prospectus relates to an offer of 30.0 million Shares, comprising an initial public offering of 19.7 million New Shares by Appen and the sale of 10.3 million Existing Shares held by SaleCo.

7.1 DESCRIPTION OF THE OFFER

The total number of Shares on issue at the Completion of the Offer will be 94.6 million and all Shares will rank equally with each other. The Shares offered under this Prospectus will represent approximately 31.7% of the Shares on issue on Completion of the Offer.

The Offer has been fully underwritten by the Lead Manager. A summary of the Underwriting Agreement, including the events which would entitle the Lead Manager to terminate the Underwriting Agreement, is set out in section 9.5.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.2 STRUCTURE OF THE OFFER

The Offer comprises:

- the Broker Firm Offer, which is only open to Australian resident investors who are not Institutional Investors and who have received a firm allocation of Shares from a Broker; and
- the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors in Australia, New Zealand and certain overseas jurisdictions.

No general public offer of Shares will be made under the Offer.

The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Lead Manager in consultation with the Company, having regard to the allocation policy described in section 7.8 and section 7.10.

7.3 PURPOSE OF THE OFFER AND USE OF PROCEEDS

The Offer is expected to raise $9.9 million for Appen and $5.1 million for SaleCo. The proceeds received by SaleCo, will be paid to those Existing Owners who sold Existing Shares to SaleCo. Proceeds received by Appen for the issue of Shares under the Offer will be used by Appen to settle the contingent consideration liability, the costs of the Offer and the proceeds due to optionholders for the buy-back of their Options in accordance with the terms of those Options.

The table below sets out in detail the use of the proceeds raised by Appen from the Offer:

SOURCES OF FUNDS	A$(M)
Cash proceeds received for issue of Shares by Appen and the transfer of Existing Shares by SaleCo	15.0
Total	**15.0**

USES OF FUNDS	A$(M)
Payment to Existing Shareholders	5.1
Payment to optionholders	5.4
Costs of the Offer	2.2
Settlement of contingent consideration	2.2
Total	**15.0**

NOTES

Residual cash of approximately $7.1 m will be used to pay down debt of $4.7 million in December 2014.

7.4 SHAREHOLDERS

The details of the ownership of Shares as at the Prospectus Date and of the expected ownership of the Shares at the Completion of the Offer is shown in the table below:

	AT PROSPECTUS DATE		AT COMPLETION OF THE OFFER	
$m	Shares (m)	%	Shares (m)	%
Anacacia	42.1	56.3	33.8	35.7
Chris Vonwiller	17.2	23.0	17.2	18.2
William Pulver	8.8	11.8	8.8	9.3
Lisa Braden-Harder	1.8	2.5	1.8	1.9
Management Shareholders	3.4	4.5	2.3	2.4
Other Existing Shareholders	1.4	1.9	0.7	0.7
New Shareholders pursuant to the Offer	-	-	30.0	31.7
Total	**74.8**	**100.0%**	**94.6**	**100.0%**

NOTES

Total may differ due to rounding.

Chris Vonwiller holds Shares through a related entity. William Pulver holds Shares through two related entities.

Lisa Braden-Harder will receive approximately $5.2 million for the cancellation of Options for the settlement of the contingent consideration liability for the acquisition of Butler Hill in FY11.

7.5 CONTROL IMPLICATIONS OF THE OFFER

While Anacacia is expected to hold 35.7% of the Shares on issue on Completion of the Offer, the Directors do not expect any shareholders to control Appen on Completion of the Offer.

7.6 ESCROW ARRANGEMENTS

The Major Shareholders and Management Shareholders currently hold Shares in Appen, and in some cases they also hold Options. Immediately prior to Listing the Options will be purchased by the Company for the net value for each Option (being the sum of the Offer Price less the exercise price of the Option) and subsequently cancelled.

In conjunction with the Listing, each Major Shareholder and Management Shareholder was provided with the opportunity to realise up to 75% of the aggregate value of his or her interest in Appen ("Pre-Listing Value") through the sale of Shares at the Offer Price and the cancellation of Options for their net value.

Appen has been advised by ASX that none of the Shares held by the Existing Shareholders following Completion of the Offer will be classified as restricted securities by ASX and accordingly will not be subject to mandatory escrow. However, each Major Shareholder and Management Shareholder has agreed to enter into voluntary escrow arrangements for at least 25% of the Pre-Listing Value under which they have undertaken to Appen not to dispose of any interest in, or to grant any security over any of the 63.9 million Shares in aggregate held by all of them on Completion of the Offer.

Under the terms of the voluntary escrow arrangements, Shares held by the Major Shareholders and certain Management Shareholders may not be sold or encumbered in the period from the date of Listing until the day after Appen's financial results for FY2015 are released to the market, subject to a portion of the escrowed shares being released early on the following basis:

SECURITIES TO BE RELEASED FROM ESCROW	ESCROW RELEASE CONDITIONS
25% of Shares held at Completion of the Offer	• Financial results for FY2014 released; and • Volume-weighted average price in any 10 consecutive trading days following release of those financial results exceeds the Offer Price by more than 20%.
25% of Shares held at Completion of the Offer	• Financial results for 1HFY2015 released; and • Volume-weighted average price in any 10 consecutive trading days following release of those financial results exceeds the Offer Price by more than 20%.

After the release of the FY2015 financial results, all remaining Shares held by the Major Shareholders and Management Shareholders will cease to be subject to escrow restrictions.

All of the Major Shareholders and Management Shareholders may also be released early from escrow to enable a Major Shareholder and Management Shareholder to accept an offer under a full or proportional takeover bid in relation to their Shares provided holders of not less than 50% of the Shares not subject to the restrictions then on issue have accepted the takeover bid, or to enable the Shares of a Major Shareholder and Management Shareholder to be transferred or cancelled as part of a merger by scheme of arrangement under Part 5.1 of the Corporations Act. Additionally, each Major Shareholder and Management Shareholder is entitled to:

- transfer any or all of its Shares held on Completion of the Offer to an affiliate controlled by the Major Shareholder or Management Shareholder (provided the affiliate has agreed to be bound by the restrictions that apply to the Major Shareholder or Management Shareholder); and
- deal with any or all of its Shares held on Completion of the Offer, if required by law to do so.

The undertakings given by the Major Shareholder and Management Shareholders to Appen may give Appen a "relevant interest" in these Shares for the purposes of the Corporations Act. However, ASIC has granted relief so that the takeovers provisions of the Corporations Act will not apply to these relevant interests. See Section 9.7 for further information.

7.7 CORPORATE, FINANCIAL AND OTHER INFORMATION ABOUT APPEN

Details of Appen's formation, registration and tax status, along with information regarding Appen's corporate structure and the acquisition from the Existing Owners, are set out in Section 9.

The Company's pro forma balance sheet as at 30 June 2014, including details of the pro forma adjustments, is set out in Section 5.4.1.

The Company's capitalisation and indebtedness as at 30 June 2014, before and following completion of the Offer, is set out in Section 5.4.1.

The Directors believe that, on completion of the Offer, the Company will have sufficient funds and working capital available to meet its immediate stated business objectives.

7.8 TERMS AND CONDITIONS OF THE OFFER

TOPIC	SUMMARY
What is the type of security being offered?	Shares (being fully paid ordinary shares in Appen).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to these, is set out in section 7.14 below.
What is the consideration payable for each security being offered?	The Offer Price is $0.50 per Share.

TOPIC	SUMMARY
What is the Offer period?	The key dates, including details of the Offer period, are set out in the Key Offer Information at the front of this Prospectus. No securities will be issued on the basis of this Prospectus later than the date that is 13 months after the Prospectus Date.
What are the cash proceeds to be raised?	$5.1 million is expected to be raised by SaleCo and $9.9 million by Appen under the Offer.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Lead Manager in consultation with the Company, having regard to the allocation policy outlined in sections 7.9.3 and 7.10.2. With respect to the Broker Firm Offer, it is a matter for the Brokers how they allocate Shares among eligible retail clients. For further information on the Broker Firm Offer, refer to section 7.9. The allocation of Shares among applicants in the Institutional Offer will be determined by the Lead Manager in consultation with the Company. For further information on the Institutional Offer, refer to section 7.10.
When will I receive confirmation whether my application has been successful?	It is expected that initial holding statements will be mailed by standard post on or about 23 December 2014. Refunds (without interest) to applicants who make an application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies, will be made as soon as practicable after settlement of the Offer. Applicants in the Broker Firm Offer will be able to call the Share Registry on 1800 500 095 (within Australia) or +61 1800 500 095 (outside Australia) from 8.30am to 5.30pm (Sydney, Australia time), Monday to Friday after the allocation policy is announced to confirm their allocations. Applicants under the Broker Firm Offer will also be able to confirm their allocation through the Broker from whom they received their allocation.

TOPIC	SUMMARY
Will the Shares be quoted?	The Company will apply to ASX within seven days of the Prospectus date for admission to the official list of, and quotation of its Shares by, ASX under the code 'APX'. Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. The Company will be required to comply with the Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.
When are the Shares expected to commence trading?	It is expected that trading of the Shares on ASX will commence on or about 7 January 2015 on a normal settlement basis. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. The Company and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Appen Offer Information Line, by a Broker or otherwise.
Is the Offer underwritten?	Yes. The Lead Manager has fully underwritten the Offer. The Underwriting Agreement is subject to a number of conditions precedent and sets out a number of circumstances under which the Underwriting Agreement may be terminated by the Lead Manager. Details are provided in section 9.5.

TOPIC	SUMMARY
Are there any escrow arrangements?	Yes. Details are provided in section 7.6.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Offer. See section 9.5.1 for details of various fees payable by the Company to the Lead Manager.
What should I do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Appen Offer Information Line on 1800 500 095 (toll free within Australia) or +61 1800 500 095 (outside Australia) from 8.30am until 5.30pm (Sydney, Australia time) Monday to Friday (Business Days only). If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest.

7.9 BROKER FIRM OFFER

Who can apply in the Broker Firm Offer?	Australian resident investors who are not Institutional Investors and who have received an invitation form from their Broker to participate. If you have received an invitation from your Broker, you will be treated as an Applicant under the Broker Firm Offer in respect of that allocation.
How to apply for Shares in the Broker Firm Offer?	Complete the Application Form accompanying this Prospectus. Contact your Broker for further instructions. Broker Firm Applicants must lodge their Application Form and Application Monies with the Broker that offered them their firm allocation in accordance with that Broker's directions.
What is the minimum and maximum Application amount?	The minimum Application amount is $2,000. There is no maximum Application amount.

TOPIC	SUMMARY
What is the Offer Period?	The Broker Firm Offer is expected to: • open at 9.00am (Sydney, Australia time) on 10 December 2014; and • close at 5.00pm (Sydney, Australia time) on 16 December 2014. Your Broker may impose an earlier closing date. Please contact your Broker for instructions.
Can I apply for Shares prior to the opening of the Broker Firm Offer?	Your Broker may elect to receive your Applications prior to the opening of the Broker Firm Offer during the Exposure Period. However, Applications received during the Exposure Period will not be processed until the opening of the Broker Firm Offer. No preference will be conferred on Applications received during the Exposure Period.
What is the Exposure Period?	The seven day period after the Prospectus Date allowing for the Prospectus to be examined by market participants prior to the raising of funds. This period may be extended by ASIC by up to a further seven days.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Broker Firm Offer.
How can I obtain a copy of this Prospectus and Application Form?	By downloading a Prospectus and Application Form from **www.appen.com/IPO** or by requesting a Prospectus by contacting the Appen Offer Information Line on 1800 500 095 (toll free within Australia) or +61 1800 500 095 (outside Australia) from 8.30am until 5.30pm (Sydney, Australia time) Monday to Friday during the Offer Period.

[7.9.1] APPLICATION MONIES

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions from the Broker that offered them the firm allocation.

Application Monies received under the Offer will be held on trust in a special purpose account until Shares are issued to successful Applicants. Applicants under the Offer whose Applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by the Company.

You should ensure that sufficient funds are held in the relevant account to cover your Application Monies. If the amount of Application Monies is less than the amount specified on the Application Form, you may (unless your Broker advises otherwise) be taken to have applied for such lower dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your Application may be rejected.

[7.9.2] ACCEPTANCE OF APPLICATIONS

An Application in the Broker Firm Offer is an offer by the Applicant to the Company and SaleCo to acquire Shares, for all or any of the Application Amount specified in and accompanying the Application Form, at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form. To the extent permitted by law, the offer by an Applicant is irrevocable.

An Application may be accepted by the Company and the Lead Manager in respect of the full amount, or any lower amount than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application in full or in part will give rise to a binding contract.

The Lead Manager and the Company reserve the right to reject any Application under the Offer. All dates are subject to change and are indicative only. The Company and the Lead Manager have the right to vary these dates, without prior notice, including the right to extend the Offer, close the Offer early or to withdraw the Offer and to accept late Applications (either generally or in particular cases). Applicants are encouraged to submit their Application Forms as early as possible.

[7.9.3] ALLOCATION POLICY UNDER BROKER FIRM OFFER

The allocation of firm stock to Brokers will be determined by agreement between the Lead Manager and the Company. Applications relating to firm stock allocated to Brokers for allocation to their Australian resident Broker clients will not be scaled back by the Company (subject to the right of the Company and the Lead Manager to reject Applications which are for more than $250,000 worth of Shares, or which are from persons whom they believe may be Institutional Investors). It will be a matter for the Brokers as to how they make firm allocations among their Broker clients and they (and not the Company and the Lead Manager) will be responsible for ensuring that Broker clients who have received a firm allocation from them receive the relevant Shares. The Lead Manager will be instructed by the Company to allocate firm stock to certain participants in the Broker Firm Offer.

[7.9.4] ANNOUNCEMENT OF ALLOCATION POLICY UNDER BROKER FIRM OFFER

Successful Applicants will be notified in writing of the number of Shares allocated to them as soon as possible in the form of an initial holding statement. Initial holding statements are expected to be despatched on or around 23 December 2014.

Broker Firm Offer Applicants wishing to find out their Allocation prior to receiving an initial holding statement should contact their Broker. However, if you are an Applicant in the Broker Firm Offer and sell Shares before receiving an initial holding statement, you do so at your own risk, even if you have obtained details of your holding from your Broker.

Shares are expected to commence trading on ASX on a normal settlement basis on or about 7 January 2015.

7.10 INSTITUTIONAL OFFER

[7.10.1] INVITATIONS TO BID

The Institutional Offer consists of an invitation prior to or after the Prospectus Date to certain Institutional Investors in Australia and New Zealand and certain other jurisdictions to apply for Shares under this Prospectus. Application procedures for Institutional Investors have been, or will be, advised to the Institutional Investors by the Lead Manager.

[7.10.2] ALLOCATION POLICY UNDER THE INSTITUTIONAL OFFER

The allocation of Shares among Applicants in the Institutional Offer is determined by the Lead Managers in consultation with the Company. The Lead Manager, in consultation with the Company, will have absolute discretion regarding the basis of allocation of Shares among Institutional Investors and there is no assurance that any Institutional Investor will be allocated any Shares, or the number of Shares for which it has bid. The allocation policy will be influenced by the following factors:

- number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- desire for an informed and active trading market following listing on ASX;
- desire to establish a wide spread of institutional shareholders;
- overall level of demand under the Broker Firm Offer and the Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long term shareholders; and
- any other factors that Appen and the Lead Manager considered appropriate.

7.11 DISCRETION REGARDING THE OFFER

Appen and SaleCo may withdraw the Offer at any time before the issue of Shares to successful applicants under the Broker Firm Offer and the Institutional Offer respectively. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest) in accordance with the requirements of the Corporations Act.

Appen, SaleCo and the Lead Manager also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late applications or bids either generally or in particular cases, reject any application or bid, or allocate to any applicant or bidder fewer Shares than the amount applied or bid for applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

7.12 RESTRICTIONS ON DISTRIBUTION

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise permit a public offering of the Shares in any jurisdiction outside Australia. The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Offer and the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction in the United States and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons, except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act, and any other applicable securities laws.

This Prospectus may not be distributed in the United States and may only be distributed to persons to whom the Offer may be lawfully made in accordance with the laws of any applicable jurisdiction.

Each Applicant will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities law of any state of the United States and may not be offered, sold or resold in the United States, or to or for the account or benefit of US Persons, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States or a US Person, and is not acting for the account or benefit of a US Person, unless it is applying for Shares in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States or to any person that is, or is acting for the account or benefit of, a US Person; and it will not offer or sell the Shares in the United Sates or to, or for the account or benefit of, any US Person or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered or sold.

Each person who bids for Shares in the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.13 ASX LISTING, REGISTERS AND HOLDING STATEMENTS

[7.13.1] APPLICATION TO ASX FOR LISTING AND QUOTATION OF SHARES

Application for admission of the Company to the official list of ASX and quotation of the Shares on ASX will be made to ASX no later than seven days after the Prospectus Date. Appen's expected ASX code will be "APX". If the Company does not make such an application within seven days after the Prospectus Date, or the Company is not admitted to the official list of ASX within three months of the date of this Prospectus (or any longer period permitted by law), the Offer will be cancelled and all Application Monies will be refunded (without interest).

The fact that ASX may admit Appen to the official list is not to be taken as an indication of the merits of Appen or the Shares offered. Trading of Shares on ASX, if admission to the official list is granted, is expected to commence on or about 7 January 2015 on a normal settlement basis.

Subject to certain conditions (including any waivers obtained by Appen from time to time), Appen will be required to comply with the ASX Listing Rules.

[7.13.2] CHESS AND ISSUER SPONSORED HOLDINGS

The Company will apply to participate in ASX's Clearing House Electronic Sub-register System (CHESS), in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer sponsored sub-register. For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated. This statement will also provide details of a Shareholder's Holder Identification Number (HIN) for CHESS holders or, where applicable, the Security holder Reference Number (SRN) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

7.14 RIGHTS AND LIABILITIES ATTACHING TO SHARES AND MATERIAL PROVISIONS OF THE CONSTITUTION

[7.14.1] INTRODUCTION

The business of the Company is to be managed by or under the direction of the Directors. The Directors may exercise all the powers of the Company except any powers that the Corporations Act, the ASX Listing Rules or the Constitution require the Company to exercise in general meeting.

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the official list of ASX.

[7.14.2] ISSUE OF SHARES

Subject to the Corporations Act, the ASX Listing Rules and any special rights conferred on the holders of any shares or class of shares, the Directors may issue, allot or grant options for, or otherwise dispose of, shares in the Company, to persons and on such terms, as they see fit. This power allows the Directors to, among other things, grant options over unissued shares, and issue and allot shares with any preferential, deferred or special rights, privileges or conditions, with any restrictions in regard to dividend, voting, return of capital or otherwise, which are liable to be redeemed, which are bonus shares for whose issue no consideration is payable to the Company, or which have any combination of characteristics described above.

[7.14.3] VARIATION OF CLASS RIGHTS

Rights attached to shares in a class of shares may, unless their terms of issue state otherwise, be varied or cancelled only by special resolution of the Company, and either by special resolution passed at a meeting of the members holding shares in the class, or with the written consent of members with at least 75% of the votes in the class.

[7.14.4] UNMARKETABLE PARCELS

Subject to the Listing Rules, the Company is entitled to sell securities of a minority member on the conditions set out in the Constitution.

[7.14.5] TRANSFER OF SHARES

Except where required or permitted by law, the ASX Listing Rules, the ASX Settlement Operating Rules or the Constitution, there is no restriction on the transfer of shares. Where the securities are quoted on ASX, the Directors may in their absolute discretion refuse to register any transfer subject to a holding lock, in any circumstances permitted by the ASX Listing Rules, or where the transfer is in breach of the ASX Listing Rules or a restriction agreement.

[7.14.6] SHARE BUY BACKS

The Company may, in accordance with the Corporations Act, buy back its own shares.

[7.14.7] PROPORTIONAL TAKEOVERS

A proportional takeover offer for securities in the Company must be approved by a resolution of members in general meeting. This rule will cease to have effect on the third anniversary of its adoption, unless renewed.

[7.14.8] MEETINGS OF SHAREHOLDERS

Except as permitted by law, a general meeting, to be called the annual general meeting, must be held at least once in every calendar year, and must be held in accordance with the Corporations Act and the ASX Listing Rules. Written notice of a meeting of the Company's members must be given to each member entitled to vote at the meeting.

[7.14.9] VOTING AT MEETINGS OF MEMBERS

Subject to any rights or restrictions attached to any class of shares, at a meeting of members, on a show of hands, each member has one vote and on a poll each member has one vote for each fully paid share held.

[7.14.10] APPOINTMENT OF DIRECTORS

The number of the Directors (excluding alternate Directors) must be not less than three nor more than seven, or such lesser number as the Directors determine (following approval by ordinary resolution of the shareholders in a general meeting). Directors are elected at annual general meetings of the Company. At each annual general meeting of the Company, one third of the Directors, or the number nearest to but not exceeding one third, retire from office. From the Prospectus Date a Non-Executive Director may not hold office for a continuous period in excess of three years or past the third annual general meeting following the Prospectus Date and the Director's appointment, whichever is the longer, without submitting for re-election.

The Directors may at any time appoint a person qualified to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but such additional Director holds office only until the termination of the next annual general meeting of the Company.

[7.14.11] REMUNERATION OF DIRECTORS

The Company will determine by resolution the total remuneration to be paid to the Directors, and the Directors will determine how the total remuneration is divided among them. The remuneration of a Director must not include a commission on, or a percentage of, profits or revenue. The total aggregate remuneration agreed by the Company in meeting is currently $450,000, of which the Company currently only uses $225,000 – see Section 6 for further details.

The Company may also pay the Directors' travelling and other expenses that they properly and reasonably incur in attending Directors' meetings or any meetings of committees of Directors, general meetings of the Company, and in connection with the Company's business. Subject to the Corporations Act, any Director called upon to perform extra services or undertake any executive or other work for the Company beyond his or her general duties may be remunerated either by a fixed sum or a salary as determined by the Directors.

[7.14.12] ALTERNATE DIRECTORS

Any Director (except the Managing Director) may appoint any person approved by a majority of the other directors to act as an alternate Director in place of the appointing Director for a meeting or for a specified period. An alternate Director is not to be taken into account in determining the number of Directors under the Constitution.

[7.14.13] MEETINGS OF DIRECTORS

The Directors may meet together for the despatch of business and adjourn and otherwise regulate their meetings as they see fit. A resolution of the Directors must be passed by a majority of the votes cast by Directors entitled to vote on the resolution. The chair does not have a casting vote in addition to any vote he or she has as a Director.

The Directors must keep minute books in accordance with the Corporations Act and in which they record proceedings and resolutions of meetings of the Company's members, proceedings and resolutions of Directors' meetings (including meetings of a committee of Directors), resolutions passed by members without a meeting, and resolutions passed by Directors without a meeting.

[7.14.14] DIVIDENDS

The Directors may by resolution either, declare a dividend and may fix the amount, time and method for payment, or determine a dividend or interim dividend is payable and fix the amount and the time for and method of payment.

A general meeting of the Company or the Directors may establish a dividend reinvestment plan under which some or all members may elect that dividends determined in respect of some or all of the shares held by the members may be satisfied by the issue of Shares.

[7.14.15] INDEMNITIES

To the extent permitted by law, the Company may indemnify every person who is or has been an officer of the Company or a related body corporate of the Company. The Company may indemnify such persons against all losses, liabilities, costs, charges and expenses incurred by that person in his or her capacity as an officer of the Company or of the related body corporate (as the case may be) including, but not limited to, in connection with the IPO.

The Company has entered into deeds of access, indemnity and insurance with each Director which grant each Director rights to access Board papers and requires the Company to indemnify each Director for liability incurred as an officer of the Company or its related bodies corporate.

[7.14.16] WINDING UP

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, divide among the members in kind all or any of the Company's assets, and for that purpose, determine how he or she will carry out the division between the different classes of members but may not require a member to accept any shares or other securities in respect of which there is any liability.

APPEN'S DATA SOLUTIONS ARE USED IN TABLET DEVICES

SECTION 8

INVESTIGATING ACCOUNTANT'S REPORT

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Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and regulated emissions units (i.e., carbon) to retail and wholesale clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We and other entities related to Deloitte Touche Tohmatsu:

- do not have any formal associations or relationships with any entities that are issuers of financial products
- may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1300 780 808
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 February 2013

Deloitte Corporate Finance Pty Limited, ABN 19 003 883 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

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Member of Deloitte Touche Tohmatsu Limited

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The Directors
Board of Directors
Appen Ltd
Level 6, 9 Help Street
Chatswood NSW 2067
Australia

Board of Directors
Appen (SaleCo) Pty Ltd
Level 6, 9 Help Street
Chatswood NSW 2067
Australia

1 December 2014

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT AND FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the directors (the Directors) of Appen Ltd (the Company) for inclusion in the Prospectus to be issued by the Company (the Prospectus) in respect of the initial public offering of fully paid ordinary shares in the Company (the Offer) and listing of the Company on the Australian Securities Exchange.

In this report, references to the Group or Appen mean, prior to settlement of the Offer, Appen Holdings Pty Limited and its subsidiaries; and after settlement of the Offer, the Company and its subsidiaries, or, where the context requires, the business described in the Prospectus.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services Licence under the Corporations Act 2001 (Cth) for the issue of this report.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

Scope

Pro forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review:

- the Pro forma Historical Consolidated Income Statements of the Group for the financial years ended 31 December 2012 (FY12) and 31 December 2013 (FY13) and the six months ended 30 June 2014 (1HFY14), which are included in Table 1 of Section 5 of the Prospectus;
- the Pro forma Historical Consolidated Statements of Cash Flows of the Group for FY12, FY13 and 1HFY14, which are included in Table 8 of Section 5 of the Prospectus;
- the Pro forma Historical Consolidated Balance Sheet of the Group as at 30 June 2014, which is included in Table 6 of Section 5 of the Prospectus,

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(together, the Pro forma Historical Financial Information).

The Pro forma Historical Financial Information has been derived from the following financial information:

- the audited consolidated financial statements of the Group for the financial years ended 31 December 2012 (FY12) and 31 December 2013 (FY13), and the six months ended 30 June 2014 (1HFY14) (the Statutory Historical Financial Information); and
- the pro forma adjustments applied to the Statutory Historical Financial Information to illustrate the effect of events and transactions related to the Offer on the Group as described in Section 5.3.4 of the Prospectus (the Pro forma Adjustments).

The Statutory Historical Financial Information has been extracted from the financial reports of the Group for the financial years ended 31 December 2012 (FY12) and 31 December 2013 (FY13), and the six months ended 30 June 2014 (1HFY14) which were audited by KPMG in accordance with the Australian Auditing Standards. KPMG issued unqualified audit opinions on these financial reports.

The Pro forma Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Historical Financial Information, the Group's accounting policies and the events and transactions to which the pro forma adjustments relate, as described in Section 5.3.4 of the Prospectus, as if those events and transactions had occurred as at the date of the Statutory Historical Financial Information. Due to its nature, the Pro forma Historical Financial Information does not represent the Group's actual or prospective financial position or financial performance.

Forecast Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review the forecast financial information of the Group being the:

- Statutory Forecast Consolidated Income Statements for the financial years ending 31 December 2014 (FY14) and 31 December 2015 (FY15), which are included in Table 1 of Section 5 of the Prospectus; and
- Statutory Forecast Consolidated Cash Flow Statements for FY14 and FY15, which are included in Table 8 of Section 5 of the Prospectus

  (together, the Statutory Forecasts);
- Pro forma Forecast Consolidated Income Statements of the Group for the financial year ending 31 December 2014 (FY14) and 31 December 2015 (FY15), which are included in Table 1 of Section 5 of the Prospectus; and
- Pro forma Forecast Consolidated Cash Flow Statements for FY14 and FY15, which are included in Table 8 of Section 5 of the Prospectus

  (together, the Pro forma Forecasts)

(together, the Forecast Financial Information).

The Directors' best estimate assumptions underlying the Statutory Forecasts are described in Section 5.7 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecasts is the recognition and measurement principles contained in Australian Accounting Standards and the Group's adopted accounting policies.

The Pro forma Forecasts has been derived from the Statutory Forecasts, after adjusting for the effects of the Pro forma Adjustments. The stated basis of preparation used in the preparation of the Pro forma Forecasts is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Forecasts and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred prior to 1 July 2014. Due to its nature the Pro forma Forecasts does not represent the Group's actual prospective financial performance or cash flows for the financial years ending 31 December 2014 and 31 December 2015.

The Forecast Financial Information has been prepared by management of the Group and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Group for the financial

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years ending 31 December 2014 and 31 December 2015. There is a considerable degree of subjective judgment involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variations may be material.

The Directors' best estimate assumptions on which the Forecast Financial Information is based relate to future events and/or transactions that management of the Group expect to occur and actions that management of the Group expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Group. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance (audit) conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. The limited assurance (review) conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Group, which are detailed in the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly prospective investors should have regard to the investment risks set out in Section 4 and sensitivities set out in Section 5.8 of the Prospectus.

The sensitivity analysis set out in Section 5.8 of the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of the Group, that all material information concerning the prospects and proposed operations of the Group has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Pro forma Historical Financial Information, including the selection and determination of the Pro forma Adjustments made to the Statutory Historical Financial Information and included in the Pro forma Historical Financial Information;
- the preparation of the Forecast Financial Information, including the best estimate assumptions underlying the Forecast Financial Information and the selection and determination of the Pro forma Adjustments made to the Statutory Forecasts and included in the Pro forma Forecasts; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Statutory Historical Financial Information, the Pro forma Historical Financial Information and the Forecast Financial Information that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pro forma Historical Financial Information, the Statutory Forecasts and the Pro forma Forecasts based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagement (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

In connection with the review, we made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that

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we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Pro forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information is not presented fairly in all material respects, on the basis of the pro forma adjustments described in Section 5.3.4 of the Prospectus and in accordance with the recognition and measurement principles contained in the Australian Accounting Standards and the accounting policies adopted by the Group as disclosed in the Prospectus.

Statutory Forecasts

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Statutory Forecasts do not provide reasonable grounds for the Statutory Forecasts;

(ii) in all material respects, the Statutory Forecasts are not:

   a. prepared on the basis of the Directors' best estimate assumptions as described in the Prospectus; and

   b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Group and the recognition and measurement principles contained in the Australian Accounting Standards; and

(iii) the Statutory Forecasts themselves are unreasonable.

Pro forma Forecasts

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Pro forma Forecasts do not provide reasonable grounds for the Pro forma Forecasts;

(ii) in all material respects, the Pro forma Forecasts are not:

   a. prepared on the basis of the Directors' best estimate assumptions as described in the Prospectus; and

   b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Group and the recognition and measurement principles contained in the Australian Accounting Standards, and the Pro forma Adjustments as disclosed in the Prospectus; and

(iii) the Pro forma Forecasts themselves are unreasonable.

Restrictions on Use

Without modifying our conclusions, we draw your attention to Section 5.2.3 of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, this Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

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Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is not the auditor of the Group.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Ian Turner
Director

APPEN'S RANGE OF CAPABILITIES IS USED ACROSS
SEARCH ENGINES, E-COMMERCE AND SOCIAL NETWORK SITES

SECTION 9
ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

9.1 REGISTRATION

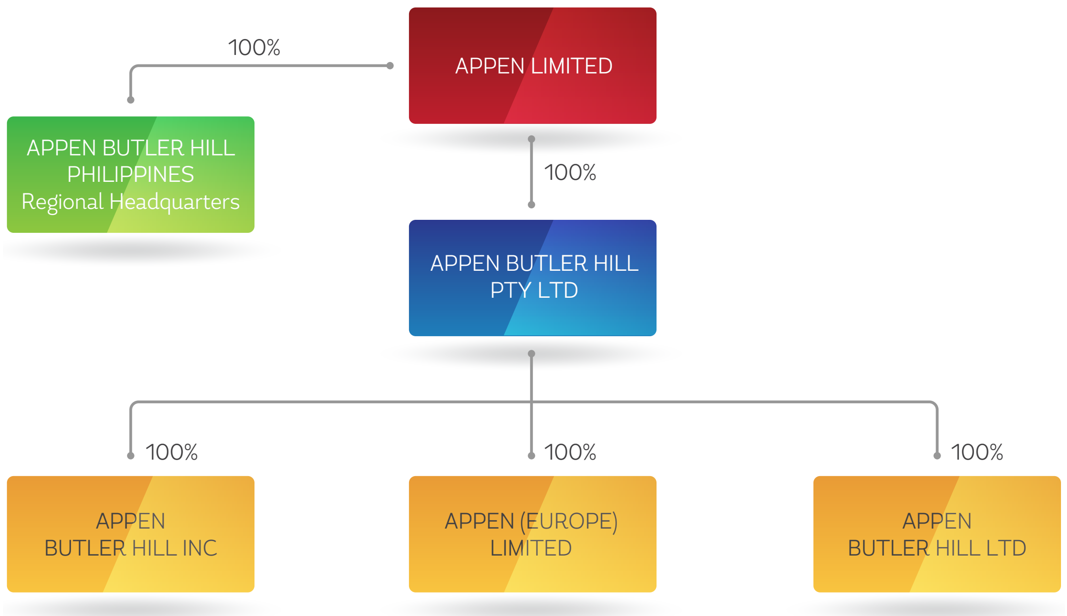
The Company was registered in Victoria, Australia on 14 August 2009 as a proprietary company limited by shares. The Company converted to a public company limited by shares on 30 October 2014.

9.2 TAX STATUS

The Company will be taxed as an Australian tax resident public company for the purpose of Australian income tax law.

9.3 CORPORATE STRUCTURE

The following diagram shows a high level corporate structure of Appen on Listing.



9.4 SALE OF SHARES BY SALECO

SaleCo, a special purpose vehicle, has been established to facilitate the sale of Existing Shares by the Existing Owners.

The Existing Shares which SaleCo acquires from the Existing Owners will be transferred to successful Applicants at the Offer Price. The price payable by SaleCo to the Existing Owners for these Existing Shares is the Offer Price.

SaleCo has no material assets, liabilities or operations other than its interests in and obligations under the Underwriting Agreement. The sole shareholder of SaleCo is Lisa Braden-Harder. The directors of SaleCo are Chris Vonwiller, William Pulver, Lisa Braden-Harder, Robin Low and Jeremy Samuel.

Appen will provide such resources and support as are necessary to enable SaleCo to discharge its functions in relation to the Offer and has indemnified SaleCo in respect of the costs of the Offer. Appen has agreed to indemnify each director and company secretary of SaleCo and the shareholders of SaleCo for any loss suffered or incurred by that person acting in that capacity that arises in connection with the Offer (excluding any loss arising from any criminal, fraudulent, dishonest or malicious act), to the extent that such loss is not reimbursed by SaleCo or covered by the directors' and officers' liability insurance effected by Appen or the prospectus liability insurance intended to be effected by Appen, and only to the extent permitted by law.

9.5 MATERIAL CONTRACTS

[9.5.1] UNDERWRITING AGREEMENT

The Offer has been underwritten by the Lead Manager pursuant to an underwriting agreement between Appen, SaleCo and the Lead Manager. Under the Underwriting Agreement, the Lead Manager has agreed to manage and underwrite the Offer.

[9.5.1.1] FEES

Appen must pay the Lead Manager management, underwriting and success and selling fees totalling 3.25% of the total proceeds of the Offer.

Appen has agreed to reimburse the Lead Manager for certain costs and expenses incurred in respect of the Offer, including legal costs up to $45,000 and reasonable travel and other out of pocket expenses.

[9.5.1.2] REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

The Underwriting Agreement contains certain standard representations, warranties and undertakings by Appen and SaleCo to the Lead Manager. The representations and warranties given by Appen and SaleCo relate to matters such as the terms of issue of the Shares, restrictions on voting or transfer of the Shares, compliance with applicable laws and the ASX Listing Rules, content of the Offer Documents, financial information, the due diligence process for the Offer, the conduct of Appen, no breach of law or action taken against Appen in relation to the Offer or the Prospectus, that Appen has not engaged in misleading or deceptive conduct in connection with the Offer, no material adverse change in Appen, power and authorisations, material contracts, insurance, solvency, tax obligations and the Sale Deed.

The undertakings given by Appen and SaleCo include that SaleCo will pay the Offer Proceeds in accordance with the Sale Deed, that Appen will not, without the prior written consent of the Lead Manager, issue any further securities until 180 days after Shares have been issued under the Offer, subject to certain exceptions, not breach laws or representations and warranties in the Underwriting Agreement, and not vary the Constitution, alter its Board (except to appoint a new independent director) or vary any material contracts until 180 days after Shares have been issued under the Offer.

The representations and warranties given by the Lead Manager to Appen relate to matters such as due incorporation, capacity and power, and that it has not engaged in conduct that is misleading or deceptive in relation to the Offer or the Underwriting Agreement.

[9.5.1.3] INDEMNITY

Appen and SaleCo have undertaken to indemnify the Lead Manager and certain affiliated persons against all claims and liabilities incurred in connection with the Offer. This indemnity is subject to certain exceptions, including fraud, negligence, wilful misconduct and criminal penalties or fines.

[9.5.1.4] TERMINATION EVENTS

The Lead Manager may terminate the Underwriting Agreement at any time prior to the issue of Shares under the Offer, if certain events occur, including:

- the Company and SaleCo fail to lodge the Prospectus with ASIC in a form approved by the Lead Manager on the lodgement date;
- a statement contained in the Prospectus or other Offer Documents is misleading or deceptive (including by omission) or likely to mislead or deceive or becomes misleading or deceptive or a material matter is omitted from the Offer Documents;
- the Prospectus or other Offer Documents do not comply with the Corporations Act, the ASX Listing Rules or any other applicable law;
- any forecast or forward-looking statement in the Prospectus or other offer document becomes incapable of being met or unlikely to be met in the projected time;
- unconditional approval (or conditional approval subject only to customary conditions) is refused or not granted by ASX to the Company's admission to the Official List, or the official quotation of all of the Shares on ASX within a specified time, or if granted, the ASX approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld or ASX indicates to the Company or the Lead Manager that approval is likely to be withdrawn, qualified (other than by customary conditions) or withheld;
- Appen and SaleCo withdraw the Offer Documents or the Offer;
- the Lead Manager reasonably forms the view that a supplementary prospectus must be lodged with ASIC and the Company does not lodge a supplementary prospectus in the form and with the content, and within the time, reasonably required by the Lead Manager;
- ASIC applies for an order under sections 1324B or 1325 of the Corporations Act in relation to the Offer, the Prospectus or any other offer documents, and the application is not dismissed or withdrawn before the date the Shares are allotted;
- ASIC gives notice of intention to hold a hearing in relation to the Offer or the Prospectus or any other offer documents under section 739(2) of the Corporations Act or makes an order under section 731 or an interim order under section 739(3);
- an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or the Prospectus or any other offer documents or ASIC commences any investigation or hearing under Part 3 of the ASIC Act in relation to the Offer, the Prospectus or any other offer documents;
- any person gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- at any time before Completion of the Offer, the S&P/ASX 200 Index closes at a level that is 10% or more below the level of that index at 5:00 pm (Sydney time) on the trading day immediately prior to the date of the Underwriting Agreement and remains at or below that level for a period of two consecutive trading days;
- any circumstance arises after lodgement of the Prospectus that results in Appen and SaleCo (as the case may be) either repaying the Application Money received from applicants or offering applicants an opportunity to withdraw their applications for Offer Shares and be repaid their Application Moneys;
- certain insolvency events occur with respect to Appen or SaleCo;

- ASIC or any other Government Agency commences or threatens to commence any hearing, inquiry, investigation, proceedings or prosecution, or takes any regulatory action or seeks any remedy, in connection with the Company, SaleCo, the Offer, the Offer Documents;
- any of the Company or SaleCo do not provide a certificate as and when required by the Underwriting Agreement; or
- the Company is or becomes unable, for any reason, to issue the Shares on Completion of the Offer.

The Lead Manager may terminate the Underwriting Agreement at any time prior to the issue of Shares under the Offer, if certain events occur which the Lead Manager believes are reasonably likely to have a material adverse effect on the outcome of the Offer or the condition or financial position of the Company, including:

- the due diligence report or any other information supplied by or on behalf of the Company to the Lead Manager in relation to the due diligence process Offer Shares, the Company, the Offer, or the Offer Documents is or becomes untrue, incorrect, misleading or deceptive (including by omission);
- any material adverse change occurs in or affecting the assets, liabilities, financial position or performance, profits, losses, prospects or condition, financial or otherwise of the Company;
- a material contract referred to in the Prospectus is, without the prior written consent of the Lead Manager, amended or varied, breached, terminated, or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights), is rescinded or avoided or its performance is or becomes illegal;
- the introduction of legislation into the parliament of the Commonwealth of Australia or of any state or territory of Australia which does or is likely to prohibit, restrict or regulate the Offer;
- the public announcement of prospective legislation or policy by the Commonwealth Government or the government of any state or territory which does or is likely to prohibit, restrict or regulate the Offer;
- the adoption by ASIC or its delegates or the Reserve Bank of Australia of any regulations or policy which does or is likely to prohibit, restrict or regulate the Offer;
- the Company contravenes the Corporations Act, its Constitution, the ASIC Act, any of the ASX Listing Rules, the Competition and Consumer Act 2010 (Cth), or any other applicable law or regulation;
- any of the warranties or representations by the Company in the Underwriting Agreement or the Lead Manager's mandate are or become materially untrue or incorrect;
- the Company or SaleCo is in default of any of the material terms and conditions of the Underwriting Agreement or breaches any undertaking or covenant given or made by it under the Underwriting Agreement and that default or breach is either incapable of remedy or is not remedied within 10 business days after being given notice to do so by the Lead Manager;
- without the prior written consent of the Lead Manager, the Company, SaleCo or any other member of the Group disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property other than as contemplated in the Prospectus, ceases or threatens to cease to carry on business, alters its capital structure (debt or equity), other than as contemplated in the Prospectus; amends the Constitution or any other constituent document of the Company other than to adopt the Company's new constition from listing, or amends the terms of the issue or transfer of the Offer Shares.
- a general moratorium on commercial banking activities in Australia, the United States of America or the United Kingdom is declared by the relevant authority in any of those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;

- trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for at least one day on which that exchange is open for trading;
- any adverse change or disruption to the existing financial markets, political or economic conditions of, or currency exchange rates or controls in, Australia, the United States of America or the United Kingdom, or the international financial markets or any adverse change in national or international political, financial or economic conditions;
- after the date of the Underwriting Agreement, a change or development (which was not publicly known prior to the date of the Underwriting Agreement) involving a prospective adverse change in taxation affecting the Company or the Offer occurs;
- there is an outbreak of hostilities (whether or not war or a national emergency has been declared) not presently existing, or a major escalation in existing hostilities occurs, or a major act of terrorism occurs in or involving Australia, New Zealand, the United Kingdom, the United States of America, Japan, the People's Republic of China or the Republic of India, or involving any diplomatic, military, commercial or political establishment of any of those countries elsewhere in the world;
- any of the following occur: [i] a director of the Company is charged with an indictable offence relating to a financial or corporate matter; [ii] any governmental agency or regulatory body commences any public action against the Company, a member of management of the Company or any of its Directors or announces that it intends to take such action; [iii] any director of the Company is disqualified from managing a corporation under Part 2D.6 of the Corporations Act; or [iv] a senior executive or a director of the Company engages in any fraudulent conduct or activity;
- other than as disclosed in the Prospectus, a change to the board of directors or senior management of the Company occurs;
- other than as disclosed in the Prospectus, the Company charges or agrees to charge or creates any encumbrance over, the whole, or a substantial part of its business or property;
- any event set out in the timetable in the Prospectus is delayed for more than two business days after the last date on which the event must be performed, unless the Lead Manager consent to a variation. This paragraph does not apply to a delay caused by ASIC extending the exposure period in accordance with section 727(3) of the Corporations Act;
- a statement in any certificate provided under the Underwriting Agreement is false, misleading, inaccurate or untrue or incorrect; or
- any person (other than the Lead Manager seeking to rely on this provision) gives a notice under section 733(3) of the Corporations Act or any person who has previously consented to the inclusion of its name in the Prospectus (or any replacement or supplementary prospectus) withdraws that consent.

[9.5.2] MICROSOFT® MASTER VENDOR AGREEMENT

[9.5.2.1] BACKGROUND

Appen provides various voice and speech services to Microsoft® and its operating divisions, including Bing®. The contract with Microsoft® and its operating divisions generates substantial revenue for the Company. The contractual framework is governed by a master vendor agreement (MVA) between Microsoft® Corporation and Appen Butler Hill Inc, a wholly-owned US subsidiary of Appen. The MVA is updated and replaced from time to time. The current MVA under which Appen and its subsidiaries contract is dated March 2013. The MVA allows Microsoft® (or any of its operating divisions) to contract services from Appen or its subsidiaries from time to time based on a purchase order or statement of work relating to the service to be provided. The services are provided in accordance with a combination of the terms of the purchase order or statement of work and the terms of the MVA.

A summary of the material terms of the MVA dated March 2013 are set out below.

[9.5.2.2] TERM AND TERMINATION

The MVA has been agreed for a 5 year term which can be extended by mutual written agreement of the parties. Microsoft® may terminate the MVA or any statement of work by giving 30 days' written notice to Appen. Microsoft® must pay for any services or deliverables that it has accepted prior to the effective date of termination or pay for services performed, where Microsoft® retains the benefit after the effective date of termination.

Either party may terminate the MVA or any statement of work if the other party materially breaches that contract and the breach has not been remedied in 30 days.

[9.5.2.3] PURCHASE ORDERS AND STATEMENTS OF WORK

The MVA consists of the terms and conditions noted in the MVA itself, any policies or procedures referenced in the MVA and any applicable statements of work. A statement of work includes any of the following which describe the services and/or deliverables ordered under the MVA (each of which may be changed if both parties agree):

- Microsoft® purchase order(s);
- electronic statement(s) of work transmitted by Microsoft®; or
- written agreement(s) signed by authorised representatives of both parties expressly referencing the MVA.

The statement of work will set out the fees payable by Microsoft® and any specific payment terms applicable to that statement of work. Unless otherwise agreed in a statement of work, once Microsoft® accepts the service provided by Appen and receives a proper invoice, it will pay the fees and approved expenses either within 10 days at a 2% discount or within 60 days in which case no discount applies. Microsoft® payments will be made in accordance with Microsoft® payment policies (as apply at the time of payment).

All statements of work with Microsoft® are for a period of 6 or 12 months, and will normally be up for renewal on 30 June of each year.

[9.5.2.4] REPRESENTATIONS AND WARRANTIES

Appen gives various representations and warranties under the MVA. These relate to (among others) the following items:

- Performance Levels: the services will be performed professionally and be of high grade, nature and quality;
- Viruses: that the services, deliverables and vendor or third-party intellectual property provided to Microsoft® will not contain any viruses or other malicious code that will degrade or infect any deliverables, product, service or any other software or Microsoft® network or systems; and
- Intellectual Property: that various intellectual property conditions (eg, licencing requirements) are complied with.

[9.5.2.5] LIABILITIES AND INDEMNITIES

The parties will indemnify each other for any liabilities arising out of the negligence or wilful acts or omissions of the other party (which in the case of Appen, extends to its subcontractors), or that party's failure to comply with applicable laws. Appen must also indemnify Microsoft® against losses caused by Appen breaching certain warranties relating to its capacity to perform the services under the MVA, breaching its confidentiality obligations or misusing any third-party intellectual property.

The MVA limits the parties' liability to the greater of US$2,000,000 and the actual fees paid by Microsoft® in the 12 month period prior to the date of a claim. Neither party can claim for consequential loss it has or may suffer. These limitations do not apply to third party claims, breaches of confidentiality, infringement of intellectual property rights or acts of fraud.

[9.5.2.6] CONFIDENTIALITY

In addition to containing standard confidentiality provisions protecting the designated confidential information of Microsoft®, the MVA dictates that Appen will not issue any press releases that relate to its relationship with Microsoft® or the MVA. The confidentiality obligation continues for 5 years after expiration of the term of the MVA.

In addition to the confidentiality obligations in the MVA, the Company also has a separate confidentiality agreement that permits disclosure of details relating to its arrangements with Microsoft® to the extent that this is required by law.

[9.5.2.7] OTHER ONGOING OBLIGATIONS

Appen must comply with various Microsoft® policies and procedures, such as its vendor guidelines and code of conduct, use of Microsoft® trademarks, security policies, and any other policies and procedures provided by Microsoft® and any changes to those policies. Appen's insurance must include the following coverage to the extent that the MVA creates risks generally covered by these insurance policies:

- commercial general liability (occurrence form) including contractual and product liability with limits of at least US$2,000,000 per occurrence and naming Microsoft®, its subsidiaries and their respective directors officers and employees as additional insureds;
- automobile liability with limits of at least US$2,000,000 per occurrence;
- workers compensation that satisfies all statutory limits;
- employer's liability with limits of at least US$500,000 per occurrence; and
- professional liability with limits of at least US$2,000,000 each claim, cover infringement of third party rights (eg, copy right and trademark) if commercially available, and have a retroactive coverage date of no later than the effective date of an applicable statement of work.

Microsoft® must approve any deductable or retention in excess of US$100,000 per occurrence or accident.

[9.5.2.7] CHANGE IN CONTROL AND ASSIGNMENT

Appen may not assign its rights under the MVA without the prior written consent of Microsoft® (not to be unreasonably withheld), which will be triggered if Appen engages in a change of control transaction. The consent of Microsoft® has been obtained in connection with any change of control that may arise as a result of the Offer. Microsoft® may assign the MVA to any of its affiliates.

[9.5.2.8] GOVERNING LAW

The MVA is governed by the laws of the State of Washington, United States.

[9.5.3] CONTRACT SUMMARIES

Summaries of contracts set out in this Prospectus (including the summaries of the Underwriting Agreement in Section 9.5), are included for the information of potential investors but do not purport to be complete and are qualified by the text of the contracts themselves.

9.6 OPTIONS

[9.6.1] TREATMENT OF OPTIONS GRANTED UNDER EXISTING OPTION GRANTS

Appen currently has granted 28.5 million Options to senior managers and other employees of Appen. Under the terms of issue of the Options the Company has the right to buy back the Options at the option value, being the difference between the price payable for Shares under the Offer and the exercise price of the Options with the agreement of the Company, a number of option holder shares elected to have their options bought back in connection with the IPO. Appen has resolved to buy back 26.2 million vested Options (including those with accelerated vesting under the terms of the issue of the Options) for a total aggregate payment of $5.4 million. Appen will pay this amount from the proceeds of issue of Shares under the Offer. On the buy back of the Options, each of the Options will be cancelled.

In accordance with the terms of issue of the Options, all Options that have not yet vested will lapse on Listing. Following Listing Appen intends to establish a new employee incentive plan to replace the existing incentive plan. (see Section 6.3.4.2)

[9.6.2] OPTIONS REMAINING ON ISSUE FOLLOWING LISTING

The Company proposes to retain on issue following the Listing the following options that are held by existing employees of the Company:

NO. OF OPTIONS	EXPIRY DATE	EXERCISE PRICE
613,500 *	1 March 2015	$0.428
296,198 *	1 March 2015	$0.367
112,802 *	1 April 2015	$0.367
173,825 +	1 March 2018	$0.412
337,425 +	1 March 2018	$0.432
173,825 +	1 March 2019	$0.494
337,425 +	1 March 2019	$0.489

Notes:

* Options that have been granted under the terms of the Subscription Deeds as set out in section 9.6.3

+ Options that have been granted under the terms of the Employee Share Option Plan set out in section 9.6.4

The retention of the above Options on issue following the Listing is subject to the approval of ASX. If such approval is not received, in accordance with the terms of issue of the Options the Company will buy back and cancel all Options prior to Listing. The Options will not be listed.

The terms of the Options which will remain on issue following Listing (subject to the approval of ASX) are governed by either a number of Subscription Deeds that are on the same or substantially similar terms or the rules of the Company's Employee Share Option Plan. The terms of issue of the Options are summarised below.

[9.6.3] OPTIONS GRANTED UNDER THE SUBSCRIPTION DEEDS

[9.6.3.1] EXERCISE

The Options may be exercised for the exercise price specified on grant of the Option. The Options may only be exercised during the designated exercise period for the relevant tranche of Options. The Options may be exercised by lodging the option certificate, a signed exercise notice and an amount equal to the exercise price multiplied by the number of Options being exercised at the Company's registered office. On exercise, the holder will be issued one ordinary share for each Option exercised.

[9.6.3.2] LAPSE

The Options lapse automatically:

- if the Subscriber ceases to be a full-time employee of the Company, subject to the discretion of the Board; or
- at the end of the designated exercise period for the relevant tranche of Options.

[9.6.3.3] RECONSTRUCTION

In the event of a reconstruction of share capital, proportionate adjustments (as determined by the Board) will be made to the aggregate number of shares to be issued on the exercise of the Option, or to the exercise price, as appropriate.

[9.6.3.4] TRANSFER/DEALING

A holder cannot dispose, encumber or otherwise deal with its Options without the prior approval of the Board.

[9.6.3.5] CANCELLATION/PURCHASE

The Company may, with 5 days' written notice, elect to purchase all of the Options held by the holder for the "option value", being the value of the shares that would be issued on exercise of the Options, less the relevant exercise price.

[9.6.4] OPTIONS GRANTED UNDER THE EMPLOYEE SHARE OPTION PLAN

[9.6.4.1] ISSUE OF OPTIONS

The Board may invite employees of the Group to participate in the Plan.

[9.6.4.2] EXERCISE

The Options may be exercised for the exercise price specified in the relevant invitation. The Options may only be exercised during a specified exercise period, after the vesting conditions and any other exercise conditions specified in the invitation have been met. The Options may be exercised by delivering an exercise notice to the Company and paying the exercise price. On exercise, the holder will be issued one ordinary share for each Option exercised. Each share acquired on exercise of an Option ranks equally in all respects with all other Shares.

[9.6.4.3] LAPSE

All unvested Options lapse automatically if the holder ceases to be employed by the Company.

Any vested Options lapse automatically:

- if the holder leaves the Company in circumstances which make them a "non-qualifying leaver" including termination for a material breach of their employment agreement, non-performance, fraud, wilful or serious misconduct; or
- on the earlier of the expiry date of the Options set out in the invitation and the fifth anniversary of the grant of the Options.

[9.6.4.4] RECONSTRUCTION

In the event of a reconstruction of share capital prior to the exercise of the Options, the number of Shares to be issued on the exercise of the Option and/or the exercise price must be reconstructed accordingly.

[9.6.4.5] TRANSFER/DEALING

A holder cannot dispose of their Options without the prior written consent of the Board.

9.7 ASIC RELIEF

The Company has obtained a modification from ASIC so that the takeovers provisions of the Corporations Act will not apply to the relevant interests that the Company would otherwise acquire in the Existing Owners' escrowed Shares by reason of the voluntary escrow arrangements in relation to those Shares described in Section 7.6.

9.8 LITIGATION AND CLAIMS

As at the Prospectus Date, so far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which Appen is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of Appen.

9.9 CONSENTS TO BE NAMED AND DISCLAIMERS OF RESPONSIBILITY

Each of the parties referred to below (each a "Consenting Party"), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations with regard to, and takes no responsibility for, any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the Consenting Parties has given and has not, before the lodgement of the Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. None of the Consenting Parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement is made in this Prospectus is based, other than as specified below:

- Bell Potter Securities Limited;
- Norton Rose Fulbright Australia;
- Deloitte Corporate Finance Pty Limited;
- Link Market Services Limited;
- KPMG; and
- Microsoft Corporation.

Deloitte Corporate Finance Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of statements by it, including its Investigating Accountant's Report in Section 8 and the statements specifically attributed to it in the text of this Prospectus, in the form and context in which they are included in this Prospectus.

KPMG has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of the tax considerations in Section 9.10, in the form and context in which they are included (and all other references to those statements) in this Prospectus.

Microsoft® Corporation has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of a summary of the Master Vendor Agreement in Section 9.5.2, in the form and context in which it is included in this Prospectus, on the basis that it does not take any responsibility for its accuracy, or for any information contained in the Prospectus generally.

9.10 AUSTRALIAN TAX CONSIDERATIONS

The comments below provide a general summary of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus and hold their Shares on capital account for Australian income tax purposes. The categories of Shareholders are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds.

These comments do not apply to Shareholders that hold their Shares on revenue account or as trading stock, or to non-Australian tax resident Shareholders. They also do not apply to Shareholders that are banks, insurance companies or taxpayers that carry on a business of trading in Shares. These Shareholders should seek independent professional advice.

These comments also do not consider the consequences of Division 230 of the Income Tax Assessment Act 1997 (the Taxation of Financial Arrangements or "TOFA" regime). Shareholders who are subject to TOFA should obtain their own tax advice as to the implications under the TOFA regime (if any).

The comments below are based on the tax laws in force as at the date of this Prospectus. The tax consequences discussed below may alter if there is a change to the tax law after the date of this Prospectus. They do not take into account the tax law of countries other than Australia.

Australian tax laws are complex. The summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. The precise implications of ownership or disposal of the Shares by Shareholders will depend upon each Shareholder's specific circumstances. It is strongly recommended that Shareholders obtain specialist taxation advice on the consequences of acquiring, holding or disposing of the Shares, taking into account their own specific circumstances.

DIVIDENDS PAID ON SHARES

Australian resident individuals and complying superannuation entities Dividends paid by the Company will constitute assessable income of an Australian tax resident Shareholder.

Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is received, together with any franking credit attached to that dividend. Such Shareholders should be entitled to a tax offset equal to the franking credit attached to the dividend. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, the Shareholder should be entitled to a tax refund.

CORPORATE SHAREHOLDERS

Corporate Shareholders are also required to include both the dividend and the associated franking credit in their assessable income, and are entitled to a tax offset equal to the franking credit. The franking credit is also credited to the Corporate Shareholder's franking account.

Excess franking credits received by Corporate Shareholders cannot give rise to a refund, however may be converted into carry forward tax losses.

TRUSTS AND PARTNERSHIPS

Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend and associated franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a proportionate share of any tax offset arising due to the franking credit, based on the beneficiary's or partner's share of the net income of the trust or partnership.

SHARES HELD AT RISK

The benefit of franking credits can be denied where the Shareholder is not a 'qualified person' in which case the Shareholder will not be entitled to a tax offset for franking credits. Broadly, to be a 'qualified person', the holding period rule and, if necessary, the related payment rule must be satisfied. To be a qualified person, a Shareholder must satisfy the 'holding period' rule and 'related payments' rule. This requires that a Shareholder hold the Shares "at risk" for a continuous period of not less than 45 days (excluding the days of acquisition and disposal) and that the benefit of the dividend is not passed on within 45 days. This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000.

DIVIDEND WASHING

The Australian Government has enacted a specific integrity rule in the tax law to address 'dividend washing' arrangements. Under a dividend washing arrangement a shareholder in a company holds a parcel of shares which they sell on the ordinary market on an ex-dividend basis then purchases a substantially identical parcel of shares on a special market, which include the rights to receive a dividend. The acquirer may be either the shareholder or a related party. For franked distributions made on or after 1 July 2013 under a dividend washing arrangement, the tax offset associated with the distribution on the acquired share will not be available, and will not be included in the purchaser's assessable income.

The integrity rule does not apply to individuals who receive $5,000 or less in franking credits in the relevant income year, although general anti-avoidance rules may still apply. Shareholders should seek professional advice to determine if the aforementioned rules apply.

DISPOSAL OF SHARES

The disposal of a Share by a Shareholder is a capital gains tax ("CGT") event. A capital gain will arise where the capital proceeds received on disposal exceeds the CGT cost base of the shares. The CGT cost base of the share is broadly the amount paid to acquire the share plus any transaction/incidental costs.

The CGT discount may be available on the capital gain for Shareholders that are individuals, trustees, partners (based on their share) or complying superannuation entitles provided the particular Shares are held for more than 12 months prior to sale. Any current year or carry forward capital losses should offset the capital gain first before the CGT discount can be applied.

The CGT discount for individuals and trusts is 50% and for complying superannuation entities is 33⅓%. In relation to trusts, the rules are complex, but the benefit of this discount may be passed on to beneficiaries of the trust that become entitled to the capital gain.

A company is not entitled to a CGT discount.

A capital loss will be realised where the capital proceeds on disposal are less than the CGT reduced cost base of the Shares. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

TAX FILE NUMBERS

A Shareholder is not required to provide their tax file number ("TFN") to the Company. However, if TFN or exemption details are not provided, Australian tax may be required to be deducted by the Company from distributions at the top marginal tax rate plus the Medicare levy.

A Shareholder that holds Shares as part of an enterprise may quote its Australian Business Number rather than its TFN.

AUSTRALIAN GOODS AND SERVICES TAX ("GST")

No GST should be payable by Shareholders in respect of their acquisition of Shares. An Australian resident Shareholder that is registered for GST will not generally be entitled to claim full input tax credits in respect of GST on expenses they incur that related to the acquisition or disposal of the Shares (e.g. lawyers', accountants' and brokerage fees).

Shareholders should seek their own advice on the impact of GST in their own particular circumstances.

STAMP DUTY

No stamp duty should be payable by Shareholders on the acquisition of Shares.

9.11 INTERNATIONAL OFFER RESTRICTIONS

This Prospectus does not constitute an offer of Shares in any jurisdiction in which it would be unlawful. Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

[9.11.1] HONG KONG

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

[9.11.2] NEW ZEALAND

This Prospectus has not been registered with, filed with, or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (NZ). The Shares are not being offered or sold to the public in New Zealand, or allotted with a view to being offered for sale to the public in New Zealand, and no person other than the following in New Zealand may accept a placement of Shares:

[a] persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or

[b] persons who are each required to:

  [i] pay a minimum subscription price of at least NZ$500,000 for Shares under the Offer before allotment; or

  [ii] have previously paid a minimum subscription price of at least NZ$500,000 prior to the date of the Prospectus for Shares (Initial Shares) in a single transaction before the allotment of the Initial Shares provided that, the Offer made pursuant to this Prospectus is made by the issuer of the Initial Shares, and such allotment was not more than 18 months prior to the date of the Prospectus.

[9.11.3] SINGAPORE

This document and any other materials relating to the Offer Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA. This document has been given to you on the basis that you are [i] an existing holder of the Company's shares, [ii] an "institutional investor" (as defined in the SFA) or [iii] a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Offer Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

[9.11.4] SWITZERLAND

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under Articles. 652a of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under Articles 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Company or the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA) and the offer of Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (CISA). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Shares.

This Prospectus is personal to the recipient only and not for general circulation in Switzerland.

[9.11.5] UNITED KINGDOM

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the Offer Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the Offer Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the Offer Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons [i] who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), [ii] who fall within the categories of persons referred to in Article 49(2)[a] to [d] (high net worth companies, unincorporated associations, etc.) of the FPO or [iii] to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

[9.11.6] UNITED STATES

This Prospectus has been prepared for publication in Australia and may not be released or distributed in the United States. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States.

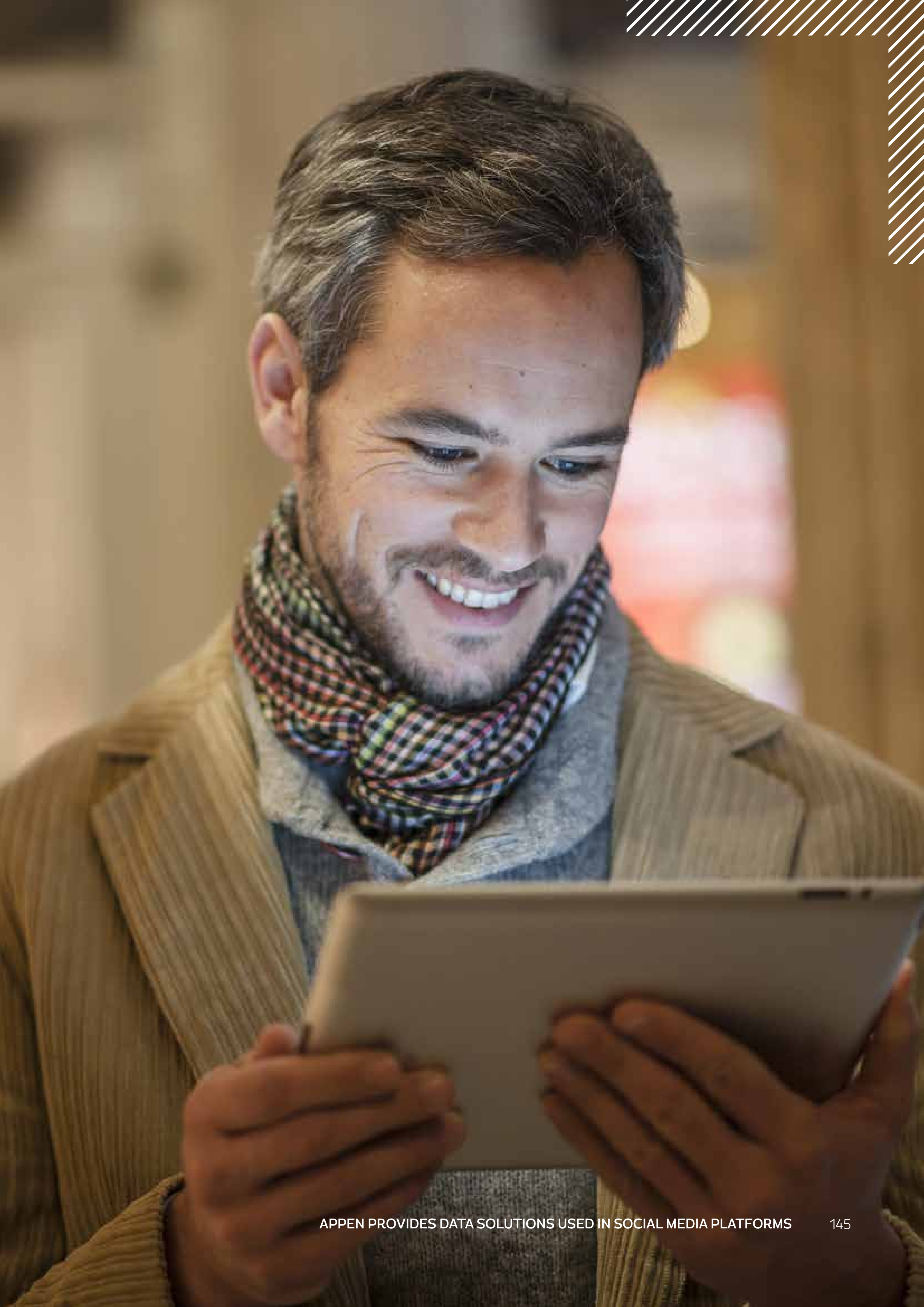
Any securities described in this Prospectus have not been, and will not be, registered under the US Securities Act and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

9.12 GOVERNING LAW

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the laws applicable in New South Wales and each Applicant and bidder submits to the non-exclusive jurisdiction of the courts of New South Wales.

9.13 STATEMENT OF DIRECTORS

The issue of this Prospectus has been authorised by each Director of Appen and SaleCo. Each Director of Appen and SaleCo has consented to the lodgement and issue of this Prospectus and has not withdrawn that consent.



SECTION 10

SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES RELEVANT TO THE FINANCIAL INFORMATION

The following significant accounting policies have been adopted in the preparation of the Financial Information included in Section 5.

[A] PRINCIPLES OF CONSOLIDATION

The consolidated statements incorporate the assets and liabilities of the Company and its subsidiaries, which together are referred to in these financial statements as the 'Group'.

[i] Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

[ii] Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

[iii] Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation.

[B] FOREIGN CURRENCY

[i] Foreign currency transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

[ii] Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian dollars at exchange rates at the dates of the transactions. Foreign currency differences arising from the transaction of foreign operations are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

[C] FINANCIAL INSTRUMENTS

[i] Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following categories of non-derivative financial assets: loans and receivables.

LOANS AND RECEIVABLES

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents and trade and other receivables (excluding prepayments).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

[ii] Non-derivative financial liabilities

Financial liabilities are recognised initially on the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

[iii] Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

[iv] Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group does not hedge account.

[D] PROPERTY, PLANT AND EQUIPMENT

[i] Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gains and losses on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

[ii] Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

[iii] Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

The estimated useful lives for the current period are as follows:

- IT and audio equipment **1 - 4 years**
- Leasehold improvements **7 - 10 years**
- Fixtures and fittings **3 - 13 years**

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

[E] INTANGIBLE ASSETS AND GOODWILL

[i] Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

[ii] Licence and database

Licence and database products are capitalised at the direct cost.

The capitalised costs of licence and database products include direct costs of internal staff, services purchased from overseas' field partners, and supporting software acquired from a third party supplier.

[iii] Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

[iv] Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

[v] Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the diminishing value method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

- Contracts **3 years**
- License and database products **5 years**

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

[F] IMPAIRMENT

[i] Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, and economic conditions that correlate with defaults. The Group considers evidence of impairment for these assets measured at both an individual asset and a collective level. All individually significant assets are individually assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

[ii] Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

[G] EMPLOYEE BENEFITS

[i] Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

[ii] Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods including related on-costs.

[iii] Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

[iv] Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as a share based payment expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

(H) REVENUE

[i] Rendering of services

Revenue from rendering of services represents the sale of contract service or licence products and database. Revenue is recognised in profit or loss progressively as the projects are completed and validated or approved by the customers. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of disputes on service quality or there is continuing management involvement with the products.

[I] LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(J) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested and net foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

(K) INCOME TAX

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

[i] Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

[ii] Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that could follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

[iii] Tax exposure

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

[iv] Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The Company is the head entity within the tax-consolidated group.

APPEN'S DATA SOLUTIONS ARE USED IN MOBILE DEVICES

SECTION 11
GLOSSARY

GLOSSARY

TERMS	DESCRIPTION
$ or A$	Australian dollars
1H	First half
2H	Second half
ABN	Australian Business Number
Anacacia	Anacacia Partnership I LP
Anacacia Capital	Anacacia Capital Pty Limited, the fund manager of Anacacia
Appen	Appen Limited ABN 60 138 878 298
Applicant	A person who submits an Application
Application(s)	An application made to subscribe for Shares offered under this Prospectus
Application Form	The application form attached to or accompanying this Prospectus (including the electronic form)
Application Monies or Application Amount	The amount accompanying an Application Form submitted by an Applicant
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ABN 98 008 624 691 or the financial market operated by it, as the context requires
ASX Listing Rules	The listing rules of ASX, as may be amended or supplemented from time to time
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
ASX Settlement Operating Rules	The rules of ASX Settlement Pty Ltd ABN 49 008 504 532
ATO	Australian Tax Office
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board
Bell Potter	Bell Potter Securities Limited ABN 25 006 390 772
Board or Board of Directors	The board of directors of Appen
Broker Firm Offer	The Offer of Shares under this Prospectus to Australian resident investors who are not Institutional Investors and have received a firm allocation from their Broker, as described in section 7.9.
CAGR	Compound annual growth rate
CFO	Chief Financial Officer
Chairman	Chairman of the Board of Directors
CHESS	Clearing House Electronic Sub-register System, operated in accordance with the Corporations Act

TERMS	DESCRIPTION
Closing Date	The date by which Applications must be lodged for the Offer, being 16 December 2014, subject to variation by Appen and the Lead Manager, without prior notice
Cognitive Computing	Systems that learn and interact naturally with people to extend what either humans or machines could do on their own
Company	Appen Limited ACN 138 878 298
Completion of the Offer	The date on which Shares are transferred or issued to successful Applicants in accordance with the terms of the Offer
Constitution	The constitution of Appen from the date of Listing
Content Relevance	Data annotation for improving relevance and accuracy of search results for search engines which include web, e-commerce and social engagement technologies
Corporations Act	Corporations Act 2001 (Cth)
Deloitte	The Investigating Accountant
Director	A member of the Board
DPS	Dividends per Share
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per Share
EV	Enterprise value
Existing Shares	The Shares held by the Existing Owners
Existing Owners	The Shareholders of Appen who have agreed to sell a portion of their Shares to SaleCo for sale by SaleCo under this Prospectus
Forecast Financial Information	Has the same meaning given to that term in section 5.1
Forecast Period	The period from the date of admission of the Company to the Official List until the date on which the Company releases to the market its financial results for FY15
FY	Financial year or year ended 31 December. For example FY14 would be the financial year ended 31 December 2014
GST	Goods and services or similar tax imposed in Australia
Historical Financial Information	The financial information described as Historical Financial Information in section 5.1
Institutional Investor	An investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which Appen is willing to comply with), including in Australia persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act and in New Zealand, persons to whom offers and invitations can be made without the need for a registered prospectus under section 3(2)(a) of the Securities Act 1978 NZ

TERMS	DESCRIPTION
Institutional Offer	The invitation to Institutional Investors under this Prospectus to acquire Shares, as described in section 7.1.0
Investigating Accountant	Deloitte Corporate Finance Pty Limited ACN 19 003 833 127
IPO	Initial public offering
IT	Information technology
Lead Manager	Bell Potter
Listing	Admission of Appen to the official list of ASX and quotation of the Shares on the ASX
Listing Date	The date on which the Company is admitted to the Official List of ASX and quotation of the Shares commences
M	Millions
Major Shareholders	Anacacia, related entities of Chris Vonwiller and William Pulver, and Lisa Braden-Harder
Management Shareholders	Six Appen executives who are not the Major Shareholders
Management	The Managing Director, Finance Director and senior management team of Appen
Market Capitalisation	Total market value of Appen on ASX on the Listing Date
Master Vendor Agreement	Contractual framework which governs Appen and its clients
New Shares	The new Shares to be issued by Appen
Norton Rose Fulbright	Norton Rose Fulbright Australia ABN 32 720 868 049
NPAT	Net profit after tax
Offer	The offer of Shares under this Prospectus
Offer Documents	The documents issued or published by or on behalf of Appen in respect of or relating to the Offer including a pathfinder prospectus, this Prospectus, the Application Form, the confirmation letters to institutional investors and any investor presentation.
Offer Period	The period from the date on which the Broker Firm Offer opens on 10 December 2014 until the Closing Date
Offer Price	$0.50 per Share
Offer Shares	The million Shares being offered under this Prospectus
Option	An option entitling the holder the right to subscribe for a Share
Optionholder	A holder of Options
Other Existing Shareholders	Existing Owners who are not a Major Shareholder or Management Shareholder
PF	Pro forma
Pro Forma Financial Information	Has the same meaning given to that term in section 5.1

TERMS	DESCRIPTION
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement Prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus is lodged with ASIC, being 1 December 2014
Sale Deed	The Sale Deed between the Existing Owners, the existing holders of options, SaleCo and the Company dated on or about the Prospectus Date.
SaleCo	Appen (SaleCo) Pty Limited ACN 602 703 604
Share	A fully paid ordinary share in the capital of Appen
Shareholder	A holder of Shares
Share Registry	Link Market Services Limited ABN 54 083 214 537
SMEs	Small to Medium sized Enterprises
Speech and Data Collection	Provides training data for computer algorithms to develop products including speech recognisers, machine translation an speech synthesisers for use in internet-connected devices, in-car automotive and consumer electronics

APPEN'S RANGE OF CAPABILITIES IS USED ACROSS SEARCH ENGINES, E-COMMERCE AND SOCIAL NETWORK SITES.

SECTION 12

CORPORATE DIRECTORY

CORPORATE DIRECTORY

ISSUER'S REGISTERED OFFICE
Appen Limited
Level 6
9 Help Street
Chatswood NSW 2067

SALECO'S REGISTERED OFFICE
Appen (SaleCo) Pty Limited
c/- Level 6
9 Help Street
Chatswood NSW 2067

LEAD MANAGER AND UNDERWRITER
Bell Potter Securities Limited
Level 38, Aurora Place
88 Phillip Street
Sydney NSW 2000

AUSTRALIAN LEGAL ADVISER
Norton Rose Fulbright Australia
Level 18, Grosvenor Place
225 George Street
Sydney NSW 2000

INVESTIGATING ACCOUNTANT
Deloitte Corporate Finance Pty Limited
Grosvenor Place
225 George Street
Sydney NSW 2000

AUDITOR
KPMG
10 Shelley Street
Sydney NSW 2000

SHARE REGISTRY
Link Market Services Limited
Level 12
680 George Street
Sydney South NSW 2000

APPEN OFFER INFORMATION LINE
Within Australia: 1800 500 095
(toll free within Australia)
Outside Australia: +61 1800 500 095
Hours of operation: 8:30am to 5:30pm
(Sydney, Australia time) Monday to Friday

APPEN OFFER WEBSITE
www.appen.com

appen™

ABN 60 138 878 298

Broker Code

Adviser Code

Broker Firm Offer Application Form

This is an Application Form for Shares in Appen Limited under the Broker Firm Offer on the terms set out in the Prospectus dated 1 December 2014. Defined terms used in this Application Form have the meaning given to them in the Prospectus. You may apply for a minimum of $2,000 worth of Shares. This Application Form and your cheque or bank draft must be received by your Broker by the deadline set out in their offer to you.

If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus contains information relevant to a decision to invest in Shares and you should read the entire Prospectus carefully before applying for Shares.

A Shares applied for , , at Price per Share **A$0.50**

(minimum of $2,000 worth of Shares)

B Application Monies **A$** , , .

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

C Applicant #1

Surname/Company Name

Title First Name Middle Name

Joint Applicant #2

Surname

Title First Name Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

D TFN/ABN/Exemption Code

First Applicant Joint Applicant #2 Joint Applicant #3

TFN/ABN type – if NOT an individual, please mark the appropriate box Company Partnership Trust Super Fund

E **PLEASE COMPLETE ADDRESS DETAILS**

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

Unit Number/Level Street Number Street Name

Suburb/City or Town State Postcode

Email address (only for purpose of electronic communication of shareholder information)

F CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)

X

Please note: that if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your Application will be deemed to be made without the CHESS HIN and any Shares issued as a result of the Offer will be held on the issuer sponsored sub-register.

G Telephone Number where you can be contacted during Business Hours ( ) Contact Name (PRINT)

Cheques or bank drafts should be drawn up according to the instructions given by your Broker.

H Cheque or Bank Draft Number BSB - Account Number

Total Amount **A$** , , .

LODGEMENT INSTRUCTIONS

You must return your application so it is received by your Broker by the deadline set out in their offer to you.

APX BRO001

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are fully paid shares in Appen Limited (ACN 138 878 298) ("Appen"). Further details about the Shares are contained in the Prospectus dated 1 December 2014 issued by Appen Limited. The Prospectus will expire 13 months after the Prospectus Date.

The Australian Securities and Investment Commission requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

A Insert the number of Shares you wish to apply for. The Application must be for a minimum of $2,000 worth of Shares. You may be issued all of the Shares applied for or a lesser number.

B Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the issue price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.

C Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.

D Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Appen will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

E Please enter your postal address for all correspondence. All communications to you from Appen and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

F If you are already a CHESS participant or sponsored by a CHESS participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHESS for this HIN is different to the details given on this form, your Shares will be issued to Appen's issuer sponsored subregister.

G Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.

H Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.

If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

[www.appen.com]