



Annual Report 2018



Appen is a global leader in the development of high-quality, human-annotated datasets for machine learning and artificial intelligence. Appen brings over 20 years of experience capturing and enriching a wide variety of data types including speech, text, image and video. With deep expertise in more than 180 languages and access to a global crowd of over 1,000,000 skilled contractors, Appen partners with technology, automotive and eCommerce companies – as well as governments worldwide – to help them develop, enhance and use products that rely on natural languages and machine learning.

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Appen helps leading **search and social media** companies deliver relevant content and news to their users.



Appen creates **training datasets** that enable chatbots to interact with humans.



Appen provides **image and video data collection and annotation at scale**, supporting industry-leading solutions for computer vision, image recognition and more.



Appen helps the world's leading vehicle makers develop **hands-free, voice-activated systems** for safer driving.



Appen helps major eCommerce vendors **improve search accuracy** to make shopping easier, improve conversion rates and grow businesses.



Appen's work underpins **speech recognition technologies** for government and commercial applications such as Skype Translator which connects friends and businesses around the globe.

Chairman's Report

Chris Vonwiller



We have made excellent progress in 2018, both financially and strategically.

Dear Shareholders

We have made excellent progress in 2018, both financially and strategically. Appen is well positioned to build upon this for further growth.

Financial Performance

Our financial results for 2018 were very pleasing:

- Revenue increased by 119% to \$364.3M
- Underlying EBITDA grew from \$28.1M to \$71.3M, a growth of 153%. Statutory EBITDA was \$68.1M, 206% up from 2017
- Underlying NPAT increased from \$19.7M to \$49.0M, 148% up on the prior year. Statutory NPAT was \$41.7M, a 192% increase on 2017

The full year financial performance has allowed the board to declare a final dividend of 4 cents per share. Together with the interim dividend of 4 cents per share paid last September, the total dividend for 2018 is 8 cents per share. This final dividend will be paid on 25 March 2018.

The continued growth in Appen's market capitalisation led to our inclusion in the ASX200 index during the first half of 2018.

Late in 2017 we completed the acquisition of Leapforce and throughout 2018 we have implemented a detailed plan to integrate the Leapforce and Appen teams and assets. Although this work continues into the first quarter of 2019, we have already cemented the underlying structure to allow us to harvest many benefits which underpinned the strategic rationale of the purchase. The Leapforce software now forms the centrepiece of our highly automated Appen Connect platform. We are benefiting from increased scale and scope, and this is yielding a lower cost structure and improved margins, as well as improved responsiveness and value for our customers.

Strategy and Outlook

Appen provides large volumes of annotated data for training machine learning and artificial intelligence (AI) applications. The data we supply includes speech, text, image and video, and our customers are the world's largest and most sophisticated IT companies.

In previous reports the board has highlighted our strategic imperative of investing in new technology to reduce costs, improve margins and sharpen responsiveness to evolving customer requirements. We also stressed the objective of broadening our base of customers and establishing a presence in China to participate in the dramatic growth of artificial intelligence and machine learning take-up in that country. In 2018, we have made good progress in all these identified priorities.

We continue to be optimistic about the ongoing growth potential in the broader AI space, and consequently for Appen. In addition to our established positions in the technology, automotive and government sectors, there are attractive opportunities in the medium term for machine learning applications in financial services and industrial sector. Success here will consolidate our existing leadership position.

Management and Employees

Under our CEO Mark Brayan's leadership, the management team and staff have responded in outstanding fashion to the challenges and stress of continuing growth. During the year, we strengthened our top management with two significant hires - Tom Sharkey as SVP, Content Relevance in Client Services and Wilson Pang as Chief Technology Officer. We are investing in greater software development resources to enhance our competitive offering and position, and we have commenced recruitment in China to build our team.

Total Revenue
up **119%** on FY2017

\$364.3m

EBITDA
up **153%** on FY2017

\$71.3m

NPAT
up **148%** on FY2017

\$49.0m



Overall, our workforce grew to 513 employees by the end of 2018, up from 374 at the end of 2017. The board is deeply appreciative of our employees' sustained contributions throughout the year.

We aim to pay management fairly and provide appropriate short-term and long-term incentives. The skills we require are sought after globally in one of the fastest growing business domains. The board is careful to design employee reward structures which are aligned with long-term shareholder wealth.

Appen has a richly diverse employee base, with a blend of gender, nationalities, ethnicities and religion which we believe would be among the best of Australian enterprises.

However, at the most senior management levels, and despite ongoing efforts, we have yet to achieve an acceptable balance of gender. The board has committed itself to remedy this, and we have implemented plans to progressively achieve an optimal and balanced outcome in this dimension.

The board is active and engaged in oversight of the company and its strategy. Among the directors, there is a strong combination of industry expertise, finance, strategy formulation, governance and operations. We regularly review board effectiveness to ensure we can meet the challenges of the fast-moving and innovative industry in which we operate. I thank my fellow directors for their engagement and contributions.

We appreciate your loyalty and trust as shareholders. Above all, we are conscious of our obligations to you for the future successful performance of our company.

Sincerely

Chris Vonwiller
Chairman

CEO's Report

Mark Brayon



The growth in AI is driving the demand for high quality training data.

Dear Shareholders

We're very pleased to report that Appen's strong growth continues.

We delivered strong financial results in 2018, with growth in revenue and earnings as well as margin expansion. Growth resulted from the accelerating AI market and the strong demand for high quality training data. Our existing customers were the major contributors to growth, through current and new projects, and we added new customers as more companies develop AI and need quality data.

Content Relevance played its role as the Company's growth engine with year on year revenue growth of 148%, from \$126.2M to \$312.8M, made up of strong organic growth and the integration of Leapforce, acquired in late 2017. The division expanded its operating margins from 17.6% to 23.9% due to Leapforce and economies of scale.

Our Language Resources team delivered a very strong second half that resulted in a record revenue year for the division of \$51.4M, up 27% on the prior year. While margins were off historic peaks due to the mix of work and less complex government work, our strategic focus on the technology sector proved worthwhile with a number of new projects contributing to the result.

We delivered on a number of initiatives that supported growth in 2018.

The integration of Leapforce is all but complete with roughly half the projects migrated onto the enhanced Leapforce system, now known as Appen Connect, between December 2018 and now, with the balance to be migrated by end of April. The Company's secure facilities, all operable with multiple clients, are a source of competitive advantage for Appen. We achieved ISO 27001 certification for information security for our Manila facility, increasing its attractiveness to security-aware customers and prospects.

The growth in AI, fuelled by a growing range of use cases, the availability of enabling infrastructure and the need for businesses to harness its benefits to compete, is driving the demand for high quality training data.

The performance of AI improves with the volume of data and its currency requires regular refresh, both of which contribute further to the demand for quality data.

While Appen's highly scalable crowd-sourced delivery model is proven and aligns well with our customers' needs, our ability to deliver a step change in volume and quality depends on enabling technology that enhances the productivity of our crowd.



The addition of our new CTO, Wilson Pang, and our growing engineering team will improve our existing products and add new products that will enable delivery of higher volumes of high-quality data at speed and cement our competitive advantage. We have identified circa \$6M of efficiency gains from the integration with Leapforce and will redeploy these savings as investments in engineering in 2019.

Along with technology, our plans for 2019 include two key initiatives.

Effective January 2019, we unified our Language Resources and Content Relevance teams to provide greater customer focus and to optimize the customer experience. We now have a single global Sales team and a combined Client Services division.

The unified Sales team will provide greater sales focus and growth and the single Client Services team will improve customer engagement, satisfaction and data quality.

We'll continue to report by data type, but our new structure places our customers at the centre of our attention.

China remains an attractive market for us and we are investing judiciously to participate in this opportunity with a new office and staff in Shanghai that bring us closer to customers.

While we benefit from a strong and well-earned position in a high growth market, our results are only possible through the hard work and dedication of our global staff. I thank all of them for their work and I enjoy working alongside them to deliver great quality outcomes for our customers and shareholders.

We also commend the work of our global crowd of over 1 million in more than 130 countries worldwide. They provide the necessary human touch that delivers high quality data to our customers.

Thank you for your valuable and ongoing support.

Sincerely

Mark Brayan
Managing Director
and Chief Executive Officer

Environmental, Social and Governance Summary

Appen is a truly global company, with over 1 million skilled contractors worldwide. We celebrate our diversity, as do our customers who value this as a core differentiator. Our work from home model provides a source of income to individuals that may otherwise find this difficult, including the disabled.

Appen's ESG (Environmental, Social, Governance) priorities are focussed on diversity of our workforce, social responsibility, environmental footprint, corporate governance and risk management.



Diversity

Appen is proud of the cultural and ethnic diversity in our workforce, with crowd workers in 130 countries who speak 180 languages and dialects. Appen has a broadly-based diversity policy. https://appen.com/wp-content/uploads/2017/08/Appen-Diversity-Policy-final24069684_6.pdf.

Appen celebrates that our employee population is 61% female and 39% male. We are launching a new initiative in 2019 to further develop female leaders. The new initiatives will have both long- and short-term objectives and will include elements for all levels within the organization. We will focus on inclusion and career development to improve diversity among our workforce. Appen's Board and CEO are committed to enhancing the gender diversity of our senior leadership team.

Appen is an active supporter of people with disabilities. Through our Philippines operations we initially onboarded over 50 people with partial or full hearing impairment to support image annotation work, and have now expanded this group to over 200 people.



Social responsibility

Appen has an active Corporate Social Responsibility (CSR) program that supports those in need in the countries that we operate. Participation is encouraged, and community projects are publicised and celebrated via our intranet. On several occasions Appen has raised funds to support employees in need, with Appen matching all money raised. Appen also supports research, and has provided technical and linguistic resources to further research and community projects (<https://appen.com/empowering-community-enabling-linguistic-research/>).

Appen's corporate approach to CSR includes partnerships with organizations such as Translators without Borders and the National Council of Disability Affairs in Manila, Philippines. Employees also have a voice and are able to raise awareness around a need by contacting the CSR committee and asking for it to be a focus for employees around the globe. Funds raised are matched by the Company.

Appen strives to ensure that crowd workers have sustainable conditions, with responsible remuneration at or above local minimum wage.



Environment

Appen is a professional, knowledge-based workplace with minimal environmental footprint. Each of Appen's offices includes recycling facilities and the Company encourages thoughtful use of resources.

Appen has a low carbon footprint with the exception of air travel, which is necessary for some executives given the global nature of our business. Appen uses video and phone conferencing to reduce the extent of travel, and the travel budget is managed and monitored.

Our million plus crowd workers work from home using internet-based tools, with minimal carbon impact. As a result, Appen rates reliance on carbon as low risk.

Currently, there is no mandatory external reporting on carbon risk, but Appen will comply with any incoming legislation, regulation or best practice principles (such as ASX corporate governance principles) which require carbon reporting.



Corporate Governance

Appen has a number of Board endorsed policies and statements which focus on company culture including corporate governance statement, code of conduct and diversity policy. Appen does not tolerate behaviours which are at odds with the Company's culture and has taken action to address such behaviours, on the rare occasions that it is needed.

Appen's Corporate Governance Statement sets out how we meet or exceed the requirements of ASX Corporate Governance Council's Principles and Recommendations.

The Board and the Board Audit and Risk Committee spend time on ESG issues which include employee and crowd pay rates, privacy, community projects and, generally, the sustainability of the Appen businesses and business model.

Appen tests its culture through employee annual surveys and root cause analysis of incidents or breaches.



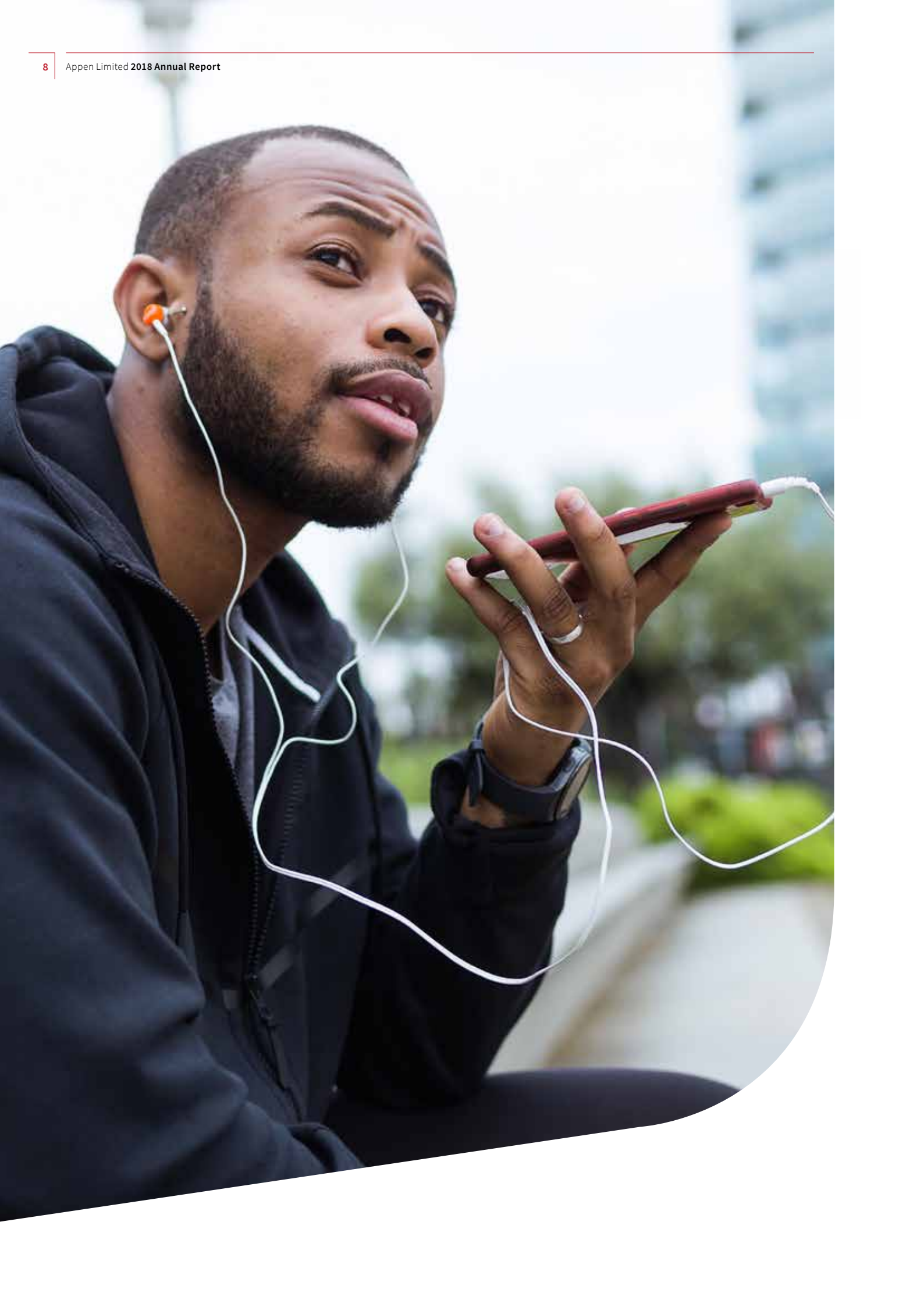
Risks

Economic risks – the business is exposed to general economic conditions. Specifically, there is a material risk in customer concentration, however these customers are active with several separate projects across the business;

Environmental risks – there is no current material exposure to environmental risks, however the Board monitors these risks and notes initiatives to lower the Company's carbon footprint where possible by using video and phone conferencing to reduce the extent of travel, and has a million plus crowd workers that work from home using internet-based tools; and

Social sustainability – there is risk associated with the engagement and conditions of crowd and remote workers to the extent that these workers may be incorrectly classified as employees and thus entitled to employee benefits. Appen has adopted a Modern Slavery policy in the UK and is in the process of codifying a global policy which incorporates our current practice of monitoring crowd and remote worker payment levels.

The Board notes that part of the Company's business is in the area of artificial intelligence and as such, it continues to monitor the social, ethical and political context in which the Company operates.



Directors' Report

for the year ended 31 December 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Appen Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2018.

Directors

The following persons were directors of Appen Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Christopher Charles Vonwiller – Chairman
 Mark Ronald Brayan
 Stephen John Hasker
 Robin Jane Low
 William Robert Pulver
 Deena Robyn Shiff

Principal activities

During the financial year the principal continuing activities of the Group consisted of the provision of quality data solutions and services for machine learning and artificial intelligence applications for global technology companies, auto manufacturers and government agencies.

Appen operates through two operating divisions:

- Content Relevance which provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and ecommerce; and
- Language Resources which provides annotated speech, natural language and image data used in speech and image recognisers, machine translation, speech synthesisers and other machine-learning technologies resulting in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics.

Supporting both divisions is a global on-demand crowd workforce providing customers with very flexible in-country linguistic and cultural expertise in support of 130 global markets.

Appen was founded in 1996 and listed on the Australian Securities Exchange on 7 January 2015.

Dividends

Dividends paid during the financial year to the shareholders of Appen Limited were as follows:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Final dividend paid out of the profits reserve for the year ended 31 December 2017 of 3.0 cents per ordinary share (2017: 31 December 2016 of 3.0 cents)	3,174	2,928
Interim dividend paid out of the profits reserve for the year ended 31 December 2018 of 4.0 cents per ordinary share (2017: 31 December 2017 of 3.0 cents)	4,258	2,933
	7,432	5,861

Dividend declared

On 25 February 2019, the Company declared a final dividend for the year ended 31 December 2018 of 4.0 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 1 March 2019. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2018 and will be recognised in subsequent financial periods.

Directors' Report

continued

Review of operations

The profit for the Group after providing for income tax amounted to \$41,728k (31 December 2017: \$14,282k).

Financial performance

	2018 \$'000	2017 \$'000	Change %	Percentage change constant currency %
Content Relevance	312,846	126,160	148%	140%
Language Resources	51,361	40,397	27%	25%
Other	82	14	–	–
Total revenue from principal activities	364,289	166,571	119%	112%
Underlying net profit after tax ('NPAT')	49,028	19,749	148%	133%
<i>Less: underlying adjustments (net of tax)</i>				
Transaction costs	(1,055)	(5,467)		
Acquisition related share-based payments	(1,666)	–		
Amortisation of acquisition related identifiable intangible assets	(4,579)	–		
Statutory NPAT	41,728	14,282	192%	173%
Add: tax	14,226	6,093		
Add: net interest expense/(income)	3,185	3		
EBIT*	59,139	20,378	190%	173%
Add: Depreciation and amortisation	8,941	1,863		
Statutory EBITDA**	68,080	22,241	206%	190%
<i>Add: underlying adjustments</i>				
Transaction costs	1,507	5,877		
Acquisition related share-based payments	1,666	–		
Underlying EBITDA	71,253	28,118	153%	141%
Statutory diluted earnings per share (cents)	38.55	14.36		
Underlying diluted earnings per share (cents)	45.29	19.86		
% Statutory EBITDA/Sales	18.7%	13.4%		
% Underlying EBITDA/Sales	19.6%	16.9%		
<i>% Segment Profit/Sales:</i>				
Language Resources	21.8%	30.1%		
Content Relevance	23.9%	17.6%		

* EBIT is defined as earnings before interest and tax.

** EBITDA is EBIT before depreciation and amortisation.

Total revenue for the financial year ended 31 December 2018 was \$364,289k compared to 2017 revenue of \$166,571k. The drivers behind this change in revenue were:

- The Language Resources division recorded a 27% (constant currency: 25%) increase in revenue over the prior year, driven mainly by increased volumes from the technology sector, particularly in the second half of the year; and
- The Content Relevance division delivered a 148% (constant currency: 140%) increase in revenue over the prior year. This was driven both by the Leapforce acquisition and significant increases in scope and volume from major customers as well as revenue from new customers. For the full year it is not possible to split out the revenue contribution from Leapforce as it has been combined with Appen, however Leapforce contributed 82% of the 146% revenue growth for the half year as compared to the previous corresponding period.

Directors' Report

continued

The Company reported statutory EBITDA of \$68,080k representing a 206% (constant currency: 190%) increase over 2017. This result included transaction costs of \$1,507k and share based payment expenses of \$1,666k relating to the Leapforce acquisition. Excluding these costs, underlying EBITDA was \$71,253k, representing a 153% (constant currency: 141%) increase over the prior year. This was driven by the Leapforce acquisition and significant organic revenue increase and operating cost efficiency through scalability of operations. This is evidenced by operating expenses (expenses excluding services purchased, depreciation, impairment, transaction costs and finance costs) for 2018 comprising 17% of revenue as compared to 24% in 2017. The underlying EBITDA margin of 19.6% as compared to the prior year margin of 16.9% underpins the scalable and successful delivery of the top line growth. This does not reflect any synergies from the Leapforce acquisition, which are expected to flow in 2019. The Company plans to reinvest these synergy savings back into the business in the form of engineering infrastructure and capability, to build platforms and tools to further enhance Appen's competitive positioning as a world leader in the provision of data annotation services and products.

The Language Resources division return on sales decreased to 21.8% as compared to 30.1% in the prior year, as the customer mix was adversely impacted by a significant reduction in complex, value added government work. The reduction in the operating margin is seen as a timing issue, not structural. However, as flagged at the half year, the planned strategic focus on expanding the sales pipeline in the technology sector was successful, resulting in a significant increase in revenue and earnings in the second half.

The Content Relevance division return on sales of 23.9% was significantly higher than the 2017 return of 17.6%, due to continued improved gross margin, achieved through operating scale efficiencies and economies, and contribution from Leapforce earnings. For the full year it is not possible to split out the earnings contribution from Leapforce as it has been combined with Appen, however Leapforce contributed 129% of the 217% EBITDA growth for the half year as compared to the previous corresponding period.

The impact of foreign exchange on revenue and EBITDA resulted in reported growth being higher than real growth. Growth over the prior year in constant currency amounted to 7% less revenue growth and 12% less underlying EBITDA growth as compared to reported revenue.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group will continue to pursue its strategy to grow profitability in Content Relevance and Language Resources across a wider customer base.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State Law. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they may apply to the Group during the period covered by this report.

Directors' Report

continued

Information on directors

Name:	Christopher Charles Vonwiller
Title:	Non-Executive Chairman
Qualifications:	BSc, BE (Hons), MBA, FIE (Aust.), FTSE
Experience and expertise:	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. 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.
Special responsibilities:	Chair of the Board
Interests in shares:	11,060,083 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None
Name:	Mark Ronald Brayan
Title:	Managing Director and Chief Executive Officer
Qualifications:	MBA, BSurv (Hons)
Experience and expertise:	Mark joined Appen in July 2015 as CEO and is responsible for the company's leadership, strategy and culture. Mark has over twenty-five years' experience in technology and services. Prior to joining Appen, Mark was CEO of MST Global, a provider of technology solutions to the resources sector. Before that he was the CEO of Integrated Research Limited (ASX:IRI), an international software company listed on the Australian Stock exchange. Mark was also COO of the HR outsourcing company Talent2 (ASX:TWO) and CEO of Concept Systems (ASX:CSI) before its merger with Talent2. Mark has an MBA from the Australian Graduate School of Management and Bachelor of Surveying with 1st Class Honours from the University of NSW.
Special responsibilities:	None
Interests in shares:	358,676 ordinary shares (directly/indirectly)
Interests in options:	None
Interests in rights:	378,118 performance rights
Name:	William Robert Pulver
Title:	Non-Executive Director
Qualifications:	BCom (Marketing)
Experience and expertise:	William (Bill) has been a non-executive director of Appen since 31 January 2013. He is also a non-executive director of Smartpay Holdings Limited (ASX: SMP). Bill was the CEO of the Australian Rugby Union from 2013-2018 having formerly served as Appen CEO from 2010-2012. Previously he was the President and CEO of NetRatings, Inc., a NASDAQ-listed company (NTRT), specializing in Internet media and market research. Prior to this Bill held leadership roles at ACNielsen with eRatings.com, Pacific region and Australia. Bill holds a Bachelor of Commerce degree, with a major in marketing, from the University of New South Wales, Australia.
Special responsibilities:	Chair of Nominations and Remuneration Committee
Interests in shares:	1,000,000 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None

Directors' Report

continued

Name:	Robin Jane Low
Title:	Independent Non-Executive Director
Qualifications:	BCom, FCA, GAICD
Experience and expertise:	Robin has been a non-executive director of Appen since 30 October 2014. Her other listed company directorships include AUB Group Limited (ASX: AUB), CSG Limited (ASX: CSV) and IPH Limited (ASX: IPH). Robin is also on the board of Australian Reinsurance Pool Corporation and she is the Deputy Chair of the Auditing and Assurance Standards Board. Previously Robin had a 28 year career at PricewaterhouseCoopers where she was a partner specialising in assurance and risk, mainly in financial services. Robin is also involved with not-for-profit organizations and serves on the boards of Public Education Foundation, Primary Ethics and Sydney Medical School Foundation. Robin has a Bachelor of Commerce from the University of New South Wales and is a Fellow of the Institute of Chartered Accountants Australia and New Zealand.
Special responsibilities:	Chair of the Audit and Risk Committee
Interests in shares:	172,743 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None
Name:	Stephen John Hasker
Title:	Non-Executive Director
Qualifications:	B.Com, MBA, MIA, ACAA
Experience and expertise:	Steve has been a non-executive director of Appen since 7 April 2015. Steve is Chief Executive Officer of Creative Artists Agency Global, based in Los Angeles where he oversees CAA's commercial activities. Prior to joining CAA in January 2018, Steve was Global President and COO of Nielsen, based in New York, responsible for Nielsen's commercial and product activities across all of its media and consumer businesses. Prior to joining Nielsen in 2009, he was a partner at McKinsey & Company's Global Media, Entertainment and Information practice in New York. Before joining McKinsey, Steve spent five years in several financial roles in the U.S., Russia and Australia. Steve holds an undergraduate economics degree from the University of Melbourne and has an MBA and a master's in international affairs, both with honours, from Columbia University. He is also a non-executive director of Global Eagle, and is a member of Institute of Chartered Accountants Australia and New Zealand.
Special responsibilities:	None
Interests in shares:	50,000 ordinary shares
Interests in options:	None
Interests in rights:	None
Name:	Deena Robyn Shiff
Title:	Non-Executive Director
Qualifications:	B.Sc. (Econ); B.A. (Law)
Experience and expertise:	Deena has been a Non-Executive Director since May 2015. Deena has enjoyed a distinguished business career covering senior roles in the legal profession and in corporate positions. She was a partner in the leading law firm Mallesons Stephen Jaques before rejoining Telstra Corporation where she rose to Group Managing Director. She holds several other non-executive director roles, including Chair of Marley Spoon AG (ASX: MMM), Chair of BAI Communications and director on the board of Infrastructure Australia. She was previously a director of the Citadel Group Limited (ASX:CGL). Deena holds a degree in law from Cambridge University and a degree in economics from the London School of Economics, both with honours. She is a Fellow of the Australian Institute of Company Directors.
Special responsibilities:	None
Interests in shares:	50,229 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None

Directors' Report

continued

Company secretary

Carl Middlehurst was appointed as Company Secretary on 8 February 2019. Carl was admitted to practice as a solicitor in NSW in 1988. In addition, he is also a member of the California bar. He was an adjunct professor at Santa Clara University Law School where he taught internet, ecommerce and privacy law in the late nineties. He has worked in Australia and United States and has held the position of General Counsel for various companies and been Company Secretary for an unlisted public company and private companies in Australia.

Leanne Ralph resigned as Company Secretary on 8 February 2019.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2018, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Management Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Christopher Vonwiller	14	14	4	4	-	-
William Pulver	14	14	-	-	2	2
Mark Brayan	14	14	-	-	-	-
Deena Shiff	14	14	4	4	-	-
Stephen Hasker	14	14	-	-	2	2
Robin Low	14	14	4	4	2	2

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

This report outlines the remuneration arrangements in place for key management personnel ('KMP') of the Company in connection with the management of the affairs of the entity and its subsidiaries during the year to 31 December 2018 ('**Remuneration Report**').

KMP have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including Directors of the Company and other executives. KMP comprise the Directors of the Company and executives of the Company and the consolidated entity.

This Remuneration Report has been audited and an opinion provided as required by section 308(3C) of the *Corporations Act 2001* (Cth).

The Remuneration Report is set out under the following main headings:

1. Remuneration Philosophy – Governance & Principles
2. Nomination and Remuneration Committee
3. Audit and Risk Management Committee
4. Non-Executive Director Remuneration and Shareholding
5. Executive Remuneration
6. Executive Shareholdings and Performance Rights

The figures are in Australian Dollars unless otherwise noted.

Directors' Report

continued

Details of KMP for 2018

C Vonwiller	Non-Executive Chairman
S Hasker	Independent Non-Executive Director
R Low	Independent Non-Executive Director
W Pulver	Independent Non-Executive Director
D Shiff	Independent Non-Executive Director
And the following persons:	
M Brayan	Managing Director and Chief Executive Officer
K Levine	Chief Financial Officer
T Sharkey	Senior Vice-President, Content Relevance

1. Remuneration Philosophy – Governance & Principles

The Company's objective is to provide the maximum benefit to shareholders. The Board believes that the Company will achieve this objective by retaining a high-quality Board and executive team remunerated fairly and appropriately.

The Company's remuneration philosophy is to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration should be linked to performance and appropriate for the results delivered. The Company's policies are designed to attract and maintain talented and motivated Directors and employees, thereby raising the level of performance of the Company and enhancing shareholder value.

The Company's remuneration policy is to:

- implement remuneration structures designed to attract and retain high quality directors and be globally competitive and continually benchmarked to attract, retain and motivate senior executives with the expertise to enhance the performance and growth of the Company and create value for shareholders;
- ensure that:
 - executive directors and senior executives are encouraged to pursue the growth and success of the Company (both in the short-term and over the longer term), without taking undue risks; and
 - non-executive directors' remuneration is consistent with their obligation to bring an independent judgement to matters before the Board;
- review the employment conditions of Appen's employees on an ongoing basis to ensure the Company remains competitive in terms of remuneration and other incentives; and
- review employee incentive plans from time to time with a view to further aligning management and employees' interests with those of the Company and shareholders.

In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

2. Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee, which provides advice, recommendations and assistance to the Board in relation to compensation arrangements for Directors and executives.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and executive team. It is intended that any schemes or other structures chosen will be optimal for the recipient without creating undue cost for the Company.

The members of the Nomination and Remuneration Committee during the reporting period were:

William Pulver, Committee Chair;
Robin Low; and
Stephen Hasker.

The number of meetings of the Nomination and Remuneration Committee held during the reporting period, and attendance by the Nomination and Remuneration Committee members, is set out in the 'Meetings of directors' section of the Directors' Report.

Further information about the Nomination and Remuneration Committee is set out in the Company's Corporate Governance Statement, which is available at <https://appen.com/investors/corporate-governance/>.

Directors' Report

continued

3. Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee to assist the Board in fulfilling its statutory, corporate governance, risk management and compliance practices and responsibilities.

The Audit and Risk Management Committee monitors and reviews the integrity of the Company's internal financial reporting and external financial statements, the effectiveness of internal financial controls, the independence, objectivity and performance of external auditors, the policies on risk oversight and management and makes recommendations to the Board in relation to the appointment of external auditors and approves the remuneration and terms of their engagement.

The members of the Audit and Risk Management Committee during the reporting period were:

Robin Low, Committee Chair;
Chris Vonwiller; and
Deena Shiff.

The number of meetings of the Audit and Risk Committee held during the reporting period, and attendance by the Nomination and Remuneration Committee members, is set out in the 'Meetings of directors' section of the Directors' Report.

Further information about the Audit and Risk Management Committee is set out in the Company's Corporate Governance Statement, which is available at <https://appen.com/investors/corporate-governance/>.

4. Non-Executive Director Remuneration and Shareholdings

Remuneration

Non-Executive Directors are remunerated by way of Board and Committee fees that were set prior to the Company's listing on the ASX. The current fee structure for Non-Executive Directors (effective 1 May 2018) is as follows:

Role	Fee*
Board Chair	\$125,000
Non-Executive Director	\$85,000
Audit and Risk Committee Chair	\$15,000
Nomination and Remuneration Committee Chair	\$15,000

* All fees are inclusive of statutory superannuation.

The Non-Executive Directors are remunerated from the maximum aggregate amount approved by shareholders. The current fee pool limit of \$800,000 was approved by shareholders at the annual general meeting in 2018. Details of fees paid to directors in 2018 and 2017 are outlined below:

Amounts paid to Non-Executive Directors

Director	2018			2017		
	Fees \$	Superannuation \$	Total \$	Fees \$	Superannuation \$	Total \$
C Vonwiller	113,333	2,969	116,302	60,750	33,000	93,750
W Pulver	82,002	7,790	89,792	63,356	6,019	69,375
R Low	87,563	3,687	91,250	67,352	6,398	73,750
J Samuel*	–	–	–	9,167	–	9,167
D Shiff	69,635	6,615	76,250	53,653	5,097	58,750
S Hasker	76,250	–	76,250	58,750	–	58,750
	428,783	21,061	449,844	313,028	50,514	363,542

* Jeremy Samuel resigned as Non-Executive Director on 29 November 2016.

Directors' Report

continued

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned among Directors will be reviewed annually. The Board seeks to set aggregate Director remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, while incurring a cost that is acceptable to shareholders. The Board will consider fees paid to Non-Executive Directors of comparable companies when undertaking the annual review, as well as any additional time commitment of Directors who serve on one or more Committees, and any other assistance to the Company in respect of specific projects or transactions.

The remuneration packages of Non-Executive Directors are fee-based. Non-Executive Directors do not participate in the schemes designed for the remuneration of executives, or performance-based schemes or awards such as options or bonus payments. Non-Executive Directors are not entitled to any retirement benefits other than statutory superannuation.

Non-Executive Director Shareholdings

The Company does not currently have a formal minimum shareholding requirement for Non-Executive Directors, however Non-Executive Directors are encouraged by the Board to hold shares purchased on-market in accordance with the Company's Securities Dealing Policy. The Board considers that by holding shares in the Company, Directors align themselves with the interests of the shareholders as a whole.

As at the date of this Remuneration Report the Directors held the following shareholdings in the Company:

Director	Number of shares			
	1 January 2018 No.	Purchased/ vested during the year No.	Sold during the year No.	31 December 2018 No.
C Vonwiller	13,060,083	–	(2,000,000)	11,060,083
W Pulver	1,800,495	–	(800,495)	1,000,000
M Brayan	194,908	192,768	(29,000)	358,676
R Low	172,743	–	–	172,743
D Shiff	50,229	–	–	50,229
S Hasker	50,000	–	–	50,000
	15,328,458	192,768	(2,829,495)	12,691,731

5. Executive Remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives by reference to both company and individual performance;
- align the interests of executives with those of shareholders;
- encourage retention of executives and other employees;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Directors' Report

continued

In considering the Group's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee considered the following metrics over the last five years:

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Net profit after tax	41,728	14,282	10,489	8,308	1,616
Underlying net profit after tax*	49,028	19,749	10,620	8,308	1,616
Underlying EBITDA**	71,253	28,118	17,312	13,822	6,674
Dividends	7,432	5,861	4,851	1,155	1,188
Basic earnings per share - cents per share	39.25	14.55	10.81	8.67	2.15
Basic underlying earnings per share - cents per share*	46.11	20.12	10.95	8.67	2.15

* Before amortisation of identifiable assets (tax adjusted).

** Earnings before interest, tax, depreciation, amortisation, change in fair value of contingent consideration, transaction costs and excise tax refund.

Executive remuneration comprises of:

- fixed remuneration;
- short term incentives; and
- long term incentives through equity based compensation.

Service Contracts

Remuneration and other terms of employment for KMP are formalised in service contracts. All executive KMP service contracts provide for immediate termination in the event of serious misconduct.

Details of other key terms are summarised below:

Executive	Role	Contract Term	Annual Salary Review	Notice Period by either party
M Brayan	Managing Director	No fixed term	1 March	6 months
K Levine	CFO	No fixed term	1 March	3 months
T Sharkey	SVP, Content Relevance	No fixed term	1 March	90 days

Fixed Remuneration

Fixed remuneration consists of base pay, superannuation and other non-monetary benefits and is designed to reward for:

- the scope of the executive's role;
- the executive's skills, experience and qualifications; and
- individual performance.

Executives are offered a competitive base pay. Reference is made to industry benchmarks to ensure that the base pay is set to reflect the market for a comparable role. Base pay is reviewed annually by reference to both the individual's and the consolidated entity's performance, and alignment with market remuneration levels. There are no guaranteed base pay increases included in any executive contracts.

Short Term Incentives

Executive service contracts recognise the potential for the award of short term incentives linked to specific performance criteria.

The Company operates an executive bonus plan that entitles certain executives of the Company to a cash bonus ranging from 0% to 150% of a target bonus, which is typically a percentage of the relevant executive's annual salary.

Directors' Report

continued

Key performance measures for payment of a bonus and the typical percentage weighting for each measure are as follows:

Performance Measure

	2018 Weighting	2017 Weighting
Revenue	33%	33%
EBITDA	67%	67%

The bonus is calculated based on the combined result of all the performance measures.

Therefore, if the Company achieves 50% of the revenue target and 100% of the EBITDA target, the overall score for the purposes of the calculation of any bonus ('Financial Metric') that may be awarded would be 83.5% of the relevant executive's on-target bonus.

Any actual bonus that may be awarded is calculated on a sliding scale between 0% and 150% - for example:

Financial Metric	Potential Bonus amount – % of target bonus
Below 80%	Nil
80%	64%
90%	81%
122.25% or more	150%

Using the performance measures and personal performance objectives assessed against key performance indicators ('KPIs'), the Company ensures variable rewards are only paid when the relevant KMP have met or exceeded their agreed individual work plan objectives, financial metrics have been achieved and value has been created for shareholders.

The Board reviews the Financial Metric on an annual basis. Any bonus payment is at the discretion of the Board and is subject to Board approval.

Performance and Remuneration Outcomes

At the end of the financial year, the Remuneration and Nomination Committee reviewed the performance against each of the metrics to determine a recommended short-term incentive ('STI') payment for the relevant executive KMPs. This recommendation was subsequently reviewed and approved by the Board. The tables below outline the performance results against these metrics and the final STI payment made to the executives.

2018 Results and STI Payments

	Target	Actual	% Actual/ Target	% Payout*
Revenue	\$274,933,515	\$364,207,316	132%	150%
Underlying EBITDA	\$51,553,054	\$71,253,243	138%	150%

* Payout capped at 150%.

Directors' Report

continued

Weighted average performance payout is 150%

Executive	Currency	Fixed remuneration* \$	STI Target %	Performance Payout % (max 150%) %	Total STI Payout \$	Total STI Payout (AUD) \$
M Brayan	AUD	500,000	50%	150.0%	375,000	375,000
K Levine	AUD	350,000	30%	150.0%	157,500	157,500
P Hall ^(a)	AUD	67,798	30%	–	–	–
T Garves ^(b)	USD	107,003	30%	–	–	–
T Sharkey ^(c)	USD	167,346	40%	150.0%	100,408	134,193

* Includes superannuation for Australian-based executives.

(a) Retired 29 March 2018.

(b) Exited 4 May 2018.

(c) Commenced 9 July 2018.

Certain executives have a divisional metric in addition to the metrics detailed above.

2017 Results and STI Payments

	Target	Actual	% Actual/ Target	% Payout*
Revenue**	\$132,724,000	\$160,546,995	121%	146%
EBITDA**	\$21,401,000	\$26,574,323	124%	150%

* Payout capped at 150%.

** Excludes contribution from Leapforce and transaction costs.

Weighted average performance payout is 149%

Executive	Currency	Fixed remuneration* \$	STI Target %	Performance Payout % (max 150%) %	Total STI Payout \$	Total STI Payout (AUD) \$
M Brayan	AUD	475,000	50%	149.0%	353,850	353,850
K Levine	AUD	325,000	30%	149.0%	145,265	145,265
P Hall	AUD	261,500	30%	122.8%	96,337	96,337
T Garves	USD	256,053	30%	149.0%	114,447	149,250
T White ^(a)	USD	94,789	30%	–	–	–

* Includes superannuation for only Australian-based executives.

(a) Exited 17 May 2017.

Long Term Incentives

Long-term incentives to the Managing Director, other executive KMP and employees are provided by the Company's long-term incentive plan, which is designed to align the interests of management and shareholders and assist the Company in the attraction, motivation and retention of executives.

The Appen Long Term Incentive Plan ('LTIP') is intended as the primary vehicle for aligning the interests of the Company's senior management and shareholders, and for the retention of key executives. It is intended that the LTIP will be used to deliver awards to employees in all countries, subject to variations to meet specific legal or tax requirements.

Directors' Report

continued

Current LTI Plans

Performance Rights Plan

The Company developed a long-term incentive plan that incorporates performance conditions and was effective from 1 January 2015.

The long-term incentive plan provides for annual grants of performance rights to senior management and are subject to an employment condition and annual performance hurdles (refer table below for further detail on how achievement is measured and assessed). Vesting of performance rights aligns with local practices, and as such, performance rights vest as follows:

- Performance rights issued to executives in Australia - vest at the end of 3 years from grant date.; and
- Performance rights issued to executives in United States - vest evenly on an annual basis over a 3 year period from the grant date.

The performance rights will only vest subject to:

- achievement of an underlying Basic Earnings Per Share ('EPS') performance condition for the three consecutive years applicable to the grant, tested annually and measured on the performance for that period. If a performance condition is missed in a particular year it can be caught up in subsequent years; and
- continuation of employment until the beginning of the calendar year in which the performance rights are subject to vesting.

Shareholder alignment is achieved through senior management being incentivised to grow the share price through the three year vesting period, to maximise the value of any award.

If a recipient leaves before the performance rights vest (and despite one or multiple EPS conditions being met), the rights lapse. The plan also acts as a retention tool.

Vested performance rights will convert to ordinary shares in the Company on a one-for-one basis for nil financial consideration.

The Board has adopted an EPS performance condition for the LTIP, using a consistent EPS growth method that applies each year. Under this calculation method, an annual EPS growth target is set at the beginning of each performance period.

A key factor in the Board's considerations is that the LTIP should be both simple to understand and provide both a performance and retention element for participants. The Board considers that a consistent EPS growth method is best aligned to these principles and best provides a long term EPS growth element that is predicated on the maximisation of shareholder value.

Directors' Report

continued

Overview of Performance Rights and Conditions

Plan	Grant date	Expiry date ¹	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved ²	Vesting condition	Vesting date	Value per right at grant date
2016	1 Mar 2016	N/A	N/A	1	EPS	10.0%	End 2016	Yes	Employed at 1 Jan 2019	1 Jan 2019	\$1.41
2016	1 Mar 2016	N/A	N/A	2	EPS	10.0%	End 2017	Yes	Employed at 1 Jan 2019	1 Jan 2019	\$1.41
2016	1 Mar 2016	N/A	N/A	3	EPS	10.0%	End 2018	Yes	Employed at 1 Jan 2019	Release of 2018 results	\$1.41
2017	1 Mar 2017	N/A	N/A	1	EPS	10.0%	End 2017	Yes	Employed at 1 Jan 2020	1 Jan 2020	\$2.58
2017	1 Mar 2017	N/A	N/A	2	EPS	10.0%	End 2018	Yes	Employed at 1 Jan 2020	1 Jan 2020	\$2.58
2017	1 Mar 2017	N/A	N/A	3	EPS	10.0%	End 2019	Pending	Employed at 1 Jan 2020	Release of 2019 results	\$2.58
2018	20 Feb 2018	N/A	N/A	1	EPS	10.0%	End 2018	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018	20 Feb 2018	N/A	N/A	2	EPS	10.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018	20 Feb 2018	N/A	N/A	3	EPS	10.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	\$8.15
2018 STI	20 Feb 2018	N/A	N/A	1	Completion of Leapforce acquisition	N/A	Completion date	Yes	N/A	20 Feb 2018*	\$8.15
2018 Special	20 Feb 2018	N/A	N/A	1	EPS	20.0%	End 2018	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018 Special	20 Feb 2018	N/A	N/A	2	EPS	20.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018 Special	20 Feb 2018	N/A	N/A	3	EPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	\$8.15

* The equity-settled performance rights for the successful completion of the Leapforce acquisition on 7 December 2017 were vested immediately on grant date of 20 February 2018.

1 Rights are automatically converted to shares on the vesting dates, assuming all the performance conditions of the plan and the employment condition are met.

2 Target achievement table:

EPS Target Achieved	% Performance Rights Allocated
100% or more of EPS Target	100%
90-99% of EPS Target*	50-80%
Less than 90%	Nil

* At the board's discretion.

Directors' Report

continued

The number of performance rights allocated to executives at the end of the year are:

Plan	M Brayan No.	K Levine No.	T Sharkey No.
2016	95,535	63,690	–
2017	59,430	35,022	–
2018	23,153	12,155	8,518
2018 Special	150,000	100,000	–
Total	328,118	210,867	8,518

The movement during the reporting period of performance rights owned by executive KMP are outlined in the table below:

Executive	Plan	Held at 1 January 2018	Granted during the year	Exercised during the year*	Forfeited during the year	Held at 31 December 2018	Vested during the year	Vested and exercisable at 31 December 2018
M Brayan	2015	142,768	–	(142,768)	–	–	142,768	–
	2016	95,535	–	–	–	95,535	–	–
	2017	59,430	–	–	–	59,430	–	–
	2018	–	23,153	–	–	23,153	–	–
	2018 STI	–	50,000	(50,000)	–	–	50,000	–
	2018 Special	–	150,000	–	–	150,000	–	–
		297,733	223,153	(192,768)	–	328,118	192,768	–
K Levine	2016	63,690	–	–	–	63,690	–	–
	2017	35,022	–	–	–	35,022	–	–
	2018	–	12,155	–	–	12,155	–	–
	2018 STI	–	33,334	(33,334)	–	–	33,334	–
	2018 Special	–	100,000	–	–	100,000	–	–
		98,712	145,489	(33,334)	–	210,867	33,334	–
T Sharkey	2018	–	8,518	–	–	8,518	–	–
		–	8,518	–	–	8,518	–	–

* Details of the performance rights exercised are detailed in the table below:

Executive	Number of rights exercised	Value of rights at grant date	Value of rights at exercisable date
M Brayan	192,768	\$506,010	\$1,434,002
K Levine	33,334	\$271,672	\$271,672

Directors' Report

continued

Summary of Executive Remuneration

Details of the remuneration of the KMP of the Group are set out in the tables below:

31 Dec 2018	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		Total \$
	Cash salary \$	STI \$	Super-annuation* \$	Termination payments \$	Leave entitlements \$	Equity-settled Rights \$	Cash-settled \$	
M Brayan	484,960	375,000	15,041	–	28,698	828,921	–	1,732,620
K Levine	332,791	157,500	17,209	–	6,744	544,078	–	1,058,322
P Hall ^(a)	62,785	–	5,012	–	–	–	–	67,797
T Garves ^(b)	143,007	–	21,554	–	–	–	–	164,561
T Sharkey ^(c)	223,654	134,193	20,949	–	18,688	18,377	–	415,861
	1,247,197	666,693	79,765	–	54,130	1,391,376	–	3,439,161

* Includes discretionary company contributions to an approved 401k pension fund and insurance contributions in US.

(a) Retired 29 March 2018.

(b) Exited 4 May 2018.

(c) Commenced 9 July 2018.

31 Dec 2017	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		Total \$
	Cash salary \$	STI \$	Super-annuation* \$	Termination payments \$	Leave entitlements \$	Equity-settled Rights \$	Cash-settled \$	
M Brayan	459,631	353,850	15,369	–	38,354	66,671	–	933,875
K Levine	305,294	145,265	19,707	–	24,928	34,914	–	530,108
P Hall	238,813	96,337	22,687	–	36,888	36,401	–	431,126
T Garves	333,916	149,250	38,210	–	34,483	50,867	–	606,726
T White ^(a)	123,613	–	30,385	–	25,659	–	–	179,657
	1,461,267	744,702	126,358	–	160,312	188,853	–	2,681,492

* Includes discretionary company contributions to an approved 401k pension fund and insurance contributions in US.

(a) Exited 17 May 2017.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Proportion of remuneration performance related		Value of equity as proportion of remuneration	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
M Brayan	69%	45%	48%	7%
K Levine	66%	34%	51%	7%
P Hall	–	31%	–	8%
T Garves	–	33%	–	8%
T Sharkey	37%	–	4%	–

Directors' Report

continued

6. Executive Shareholdings and Performance Rights

The table below outlines the current shares and performance rights held by the executive KMP as at 31 December 2018:

Executive	Number of ordinary shares currently held (direct and indirect)	Security	Number
M Brayan	172,743	Rights	328,118
K Levine	109,916	Rights	210,867
T Sharkey	–	Rights	8,518

It is company policy that Directors and KMP must not enter into transactions in associated products that operate to limit the economic risk of security holdings in the Company. A copy of the Company's Securities Dealing Policy is available at <https://appen.com/investors/corporate-governance/>.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of the Company under option at the date of this Remuneration Report are as follows:

Expiry date	Exercise price	Number of options
1 March 2019	\$0.494	40,900

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Appen Limited under performance rights at the date of this report are as follows:

Plan	Number of rights
2016	303,273
2017	252,327
2018	113,914
2018 Special	464,718
	1,134,232

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

During the year, 67,463 ordinary shares of the Company were issued and fully paid for on the exercise of options during the year ended 31 December 2018 and up to the date of this Remuneration Report as outlined below (there are no amounts unpaid on the shares issued).

Shares issued on the exercise of performance rights

During the year, 603,374 ordinary shares of the Company were issued on the exercise of performance rights during the year ended 31 December 2018 and up to the date of this Remuneration Report.

Directors' Report

continued

Indemnity and insurance of officers

The Company has indemnified the current and former directors and executives of the Company and its controlled entities for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the current and former directors and executives of the Company and its controlled entities against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Executives include all the key management personnel as defined in the remuneration report as well as their direct reports.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditor independence and non-audit services

The directors received an independence declaration from KPMG as required under section 307C of the *Corporations Act 2001*. It is set out immediately after the Directors' report.

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. These relate to transfer pricing, employee share scheme, transaction assistance and taxation services, including US excise services. Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Auditor

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191 (Rounding Instrument), issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



Christopher Vonwiller

Director

25 February 2019

Sydney

Auditor's Independence Declaration

to the directors of Appen Limited



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Appen Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Appen Limited for the financial year ended 31 December 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Nimac

Partner

Sydney

25 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	Group	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Revenue	6	364,273	166,561
Interest income calculated using the effective interest method		16	10
Net foreign exchange gain		-	969
Expenses			
Services purchased - data collection		(228,338)	(99,816)
Employee benefits expense	7	(43,813)	(29,117)
Share-based payments expense		(4,017)	(410)
Depreciation and amortisation expense	7	(8,941)	(1,863)
Impairment of receivables		(100)	-
Travel expense		(1,503)	(1,064)
Professional fees		(3,787)	(1,920)
Rental expense		(1,915)	(894)
Communication expense		(911)	(337)
Transaction costs		(1,507)	(5,877)
Net foreign exchange loss		(116)	-
Other expenses		(10,186)	(5,854)
Finance costs	7	(3,201)	(13)
Profit before income tax expense		55,954	20,375
Income tax expense	8	(14,226)	(6,093)
Profit after income tax expense for the year attributable to the owners of Appen Limited	23	41,728	14,282
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		7,643	(882)
Other comprehensive income/(loss) for the year, net of tax		7,643	(882)
Total comprehensive income for the year attributable to the owners of Appen Limited		49,371	13,400
		Cents	Cents
Basic earnings per share	38	39.25	14.55
Diluted earnings per share	38	38.55	14.36

Refer to Note 4 for detailed information on Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	Group	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000 Restated
Assets			
Current assets			
Cash and cash equivalents	9	40,045	24,015
Trade and other receivables	10	60,469	31,638
Contract assets	11	10,354	11,270
Derivative financial instruments	12	–	123
Income tax refund due		588	–
Prepayments		2,859	1,121
Total current assets		114,315	68,167
Non-current assets			
Property, plant and equipment		4,906	1,762
Intangibles	13	119,144	116,253
Other non-current assets		37	1,866
Total non-current assets		124,087	119,881
Total assets		238,402	188,048
Liabilities			
Current liabilities			
Trade and other payables	14	37,015	21,173
Contract liabilities	15	1,535	1,237
Derivative financial instruments	16	249	46
Income tax		–	1,303
Provisions	17	1,529	1,151
Total current liabilities		40,328	24,910
Non-current liabilities			
Borrowings	18	56,330	67,885
Deferred tax	19	1,965	1,369
Provisions	20	379	473
Total non-current liabilities		58,674	69,727
Total liabilities		99,002	94,637
Net assets		139,400	93,411
Equity			
Issued capital	21	69,602	69,569
Reserves	22	73,668	27,712
Accumulated losses	23	(3,870)	(3,870)
Total equity		139,400	93,411

Refer to Note 4 for detailed information on Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'.

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2017	19,510	19,763	(3,870)	35,403
Profit after income tax expense for the year	-	-	14,282	14,282
Other comprehensive loss for the year, net of tax	-	(882)	-	(882)
Total comprehensive income/(loss) for the year	-	(882)	14,282	13,400
Transfer between reserves	-	14,282	(14,282)	-
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary shares, net of transaction costs (Note 21)	50,059	-	-	50,059
Share-based payments	-	410	-	410
Dividends paid (Note 24)	-	(5,861)	-	(5,861)
Balance at 31 December 2017	69,569	27,712	(3,870)	93,411

Refer to Note 4 for detailed information on Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'.

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2018	69,569	27,712	(3,870)	93,411
Profit after income tax expense for the year	-	-	41,728	41,728
Other comprehensive income for the year, net of tax	-	7,643	-	7,643
Total comprehensive income for the year	-	7,643	41,728	49,371
Transfer between reserves	-	41,728	(41,728)	-
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary shares, net of transaction costs (Note 21)	33	-	-	33
Share-based payments	-	4,017	-	4,017
Dividends paid (Note 24)	-	(7,432)	-	(7,432)
Balance at 31 December 2018	69,602	73,668	(3,870)	139,400

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	Group	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		340,353	157,706
Payments to suppliers and employees (inclusive of GST)		(274,974)	(136,772)
		65,379	20,934
Interest received		16	10
Interest paid		(2,994)	(13)
Income taxes paid		(15,602)	(7,547)
Net cash from operating activities	36	46,799	13,384
Cash flows from investing activities			
Payments for acquisition	33	(1,308)	(93,127)
Cash acquired on acquisition	33	-	4,915
Transaction costs paid for acquisition		(2,300)	(3,577)
Payments for property, plant and equipment		(2,826)	(3,174)
Payments for intangibles		(1,162)	(2,628)
Net cash used in investing activities		(7,596)	(97,591)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs	21	33	29,428
Proceeds from borrowings		-	69,241
Repayment of borrowings		(17,830)	-
Dividends paid	24	(7,432)	(5,861)
Net cash from/(used in) financing activities		(25,229)	92,808
Net increase in cash and cash equivalents		13,974	8,601
Cash and cash equivalents at the beginning of the financial year		24,015	16,471
Effects of exchange rate changes on cash and cash equivalents		2,056	(1,057)
Cash and cash equivalents at the end of the financial year	9	40,045	24,015

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

1. General information

The financial statements cover Appen Limited as a Group consisting of Appen Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Appen Limited's functional and presentation currency.

Appen Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6
9 Help Street
Chatswood NSW 2067

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 February 2019.

2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Initial adoption of AASB 15 'Revenue from contracts with customers'

The Group has adopted AASB 15 from 1 January 2018 and has elected to use the full retrospective transition method and applies the practical expedient on the completed contracts, and will record any transition adjustments only for contracts not considered complete at the beginning of the earliest period presented. Under AASB 15, revenue is recognised to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those annotated and/or collected data as per customer requirement. The standard

introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period. Determining the timing of the transfer of promised goods and services at either a point in time or over time requires judgement. No customer acquisition costs have been capitalised up to the reporting date.

Type of service

Content Relevance

Content Relevance provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and e-commerce.

Language Resources

Language Resources provides annotated speech, natural language and image data used in speech recognisers, machine translation, speech synthesisers and other machine-learning technologies resulting in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics.

Timing of satisfaction of performance obligations and significant payment terms

The Group has determined that for both Content Relevance and Language Resources services, the customer obtains control of the data as the services are being performed. This is because under those contracts, the services are provided to a customer's specification and if a contract is terminated by a customer, then the Group is entitled to the payment for services performed to date, calculated via cost or cost plus method as agreed with customer. Therefore, revenue from these contracts and the associated costs are recognised over time i.e. before the date of delivery to the customer.

Under AASB 15, the total consideration in the contract is allocated to each service based on the stand alone selling prices. Invoices are issued according to contractual terms and are payable with varying payment terms. Uninvoiced amounts are presented as contract assets. Amounts invoiced in advance of the service are presented as contract liabilities.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Nature of change in accounting policy

AASB 15 did not have a significant impact on the Group's accounting policy. In 2017, under AASB 118, un invoiced amounts were presented as work in progress. Under AASB 15, as control passes to the customer over time, un invoiced amounts are presented as contract assets. On transition to AASB 15, other liabilities were reclassified as contract liabilities.

There was no impact of transition to AASB 15 on the opening balance of retained earnings.

Initial adoption of AASB 9 'Financial Instruments'

The Group has adopted AASB 9 from 1 January 2018. There was no impact of transition to AASB 9 on the opening balance of retained earnings. The details of new significant accounting policies are set out below.

AASB 9 sets out the requirements to recognise and measure financial assets and financial liabilities. This standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied AASB 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017.

Financial assets

Under AASB 9, on initial recognition, a financial asset is classified at amortised cost or fair value through profit or loss ('FVTPL'). The classification under AASB 9 is based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost only if: (i) it is

held within a business model whose objective is to hold assets in order to collect contractual cash flows; (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest, and (iii) is not designated as at FVTPL.

All financial assets not measured at amortised cost as described above are measured at FVTPL. This includes all derivative assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting misstatement that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains or losses, including interest or dividend income are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see impairment of financial assets).

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The following table and accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Original classification	New classification	Change in carrying amount
Trade and other receivables	Loans and receivables	Amortised cost	There was no impact on the carrying amount from the transition to AASB 9
Cash and cash equivalents	Loans and receivables	Amortised cost	
Forward foreign exchange contract Held-for-trading (derivative financial instruments)		FVTPL	

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Impairment of financial assets

The AASB 9 impairment model is based on an expected credit loss ('ECL') methodology instead of the incurred loss methodology of AASB 139.

Impairment of receivables

The adoption of AASB 9 has changed the Group's accounting for impairment loss for trade and other receivables by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss ('ECL') approach. AASB 9 required the Group to record an allowance for ECLs for trade and other receivables not held at fair value through profit or loss ('FVPL'). For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group historical credit loss experience over the past five years, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group has determined that the application of AASB 9's impairment requirement at 1 January 2018 did not result in any change to the impairment allowance.

Basis of preparation

Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment, derivative financial instruments and share-based payments, which are measured at fair value.

Critical accounting estimates

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

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Appen Limited ('Company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. Appen Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Segment results that are reported to the Group's CEO (the Chief Operating Decision Maker ('CODM')) includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Appen Limited's functional and presentation currency.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring annotated and/or collected data as per customer requirement. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the data required.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Services

Revenue from services represents the sale of contract service or licence products and database. Revenue is recognised in profit or loss progressively as the annotated and/or collected data is completed and validated or approved by the customers. Stage of completion of transactions involving the rendering of services is determined by reference to the services performed to date as a percentage of total services to be performed on cost to cost basis. No revenue is recognised if there are either 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.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Appen Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Contract assets, for the year 2017, includes those projects fully completed or significantly completed by year-end, but invoices have been issued after year-end, due to the milestones for invoicing yet to be reached, or customers' approval procedure being delayed.

Other receivables are recognised at amortised cost, less any provision for impairment.

Contract assets

Contract assets are recognised when the Group has transferred goods or services to the customer but where the Group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. Under AASB 139, all gain and loss arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under AASB 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into initial carrying amounts of the non-financial assets. Therefore, upon adoption of AASB 9, the gain or loss on cash flow hedge is recognised in other comprehensive income, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	Over the lease term
Fixtures and fittings	3 - 13 years
Computer equipment	1 - 4 years
Audio equipment	1 - 4 years
Make good	Over the lease term

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method of amortisation and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and it is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Systems implementation

Significant costs associated with systems implementation are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 7 years.

Platform development

Platform development costs are capitalised at the direct costs incurred and amortised on a straight-line basis over the period of their expected benefit being their finite life from 3 to 7 years. Amortisation starts at the time that the technology is activated and is used by both internal and external customers. The capitalised costs of platform technology include the direct costs of internal staff and any supporting software acquired from a third party.

Leapforce platform development costs acquired are capitalised and amortised on a straight-line base over the period of their expected benefit, being their finite life of 7 years.

Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 7 years.

Crowd database

Crowd database products are capitalised at the direct costs incurred. The capitalised costs of database products include direct costs of internal staff, services purchased from overseas field partners, and supporting software acquired from a third-party supplier.

Crowd database costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of up to one year.

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Other intangibles

Costs in relation to other intangibles are capitalised as an asset and amortised on a straight-line basis over the period of their expected benefit being 3 to 5 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Refund liabilities

Refund liabilities are recognised where the Group receives consideration from a customer and expects to refund some, or all, of that consideration to the customer. A refund liability is measured at the amount of consideration received or receivable for which the Group does not expect to be entitled and is updated at the end of each reporting period for changes in circumstances. Historical data is used across product lines to estimate such returns at the time of sale based on an expected value methodology.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend

yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

All changes in the liability of the employee benefits are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance

with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Appen Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, representing its rights to use the underlying assets. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 January 2019. Management has commenced a project to understand the

impact of the new accounting standard. Based on the work performed to date, the management team expects the new accounting standard to have the following impact:

- increase in total assets of \$9,490,000
- increase in total liabilities of \$9,929,000
- increase in earnings before interest, tax, depreciation and amortisation of \$1,508,000.

3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. Performance rights are valued on a discounted dividend stream method. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Determination of variable consideration

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the Group where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Notes to the Consolidated Financial Statements

continued

3. Critical accounting judgements, estimates and assumptions (continued)

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Business combinations

As discussed in Note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

4. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'

Adoption of AASB 9 'Financial Instruments'

The Group has adopted AASB 9 from 1 January 2018, using the full retrospective approach of adoption (with the exemption of hedge accounting) and comparatives have been restated.

The investment classifications 'Available-for-sale financial assets' and 'Held-to-maturity investments' are no longer used and 'Financial assets at fair value through other comprehensive income' was introduced. There were no investments held in these categories as at 31 December 2017.

Notes to the Consolidated Financial Statements

continued

4. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' (continued)

'Interest revenue' is no longer included in the 'Revenue' note and is now shown separately on the face of the statement of profit or loss and other comprehensive income, resulting in a reclassification of \$10,000 for the year ended 31 December 2017.

The consolidated entity has applied the simplified approach to measuring expected credit losses, resulting in an additional impairment expense of \$nil (and a total impairment expense of \$75,000) for the year ended 31 December 2017 and an additional allowance for expected credit losses of \$nil and an additional deferred tax asset of \$nil as at 31 December 2017.

Adoption of AASB 15 'Revenue from Contracts with Customers'

The consolidated entity has adopted AASB 15 from 1 January 2018, using the full retrospective transition method showing no impact on the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and resulting in the restatement of comparatives for the statement of financial position as at 31 December 2017.

The impact on the statement of profit or loss and other comprehensive income and statement of financial position is as follows:

Statement of profit or loss and other comprehensive income

	Group		
	31 Dec 2017 \$'000 Reported	\$'000 Adjustment	31 Dec 2017 \$'000 Restated
Revenue	166,571	(10)	166,561
Interest income calculated using the effective interest method	–	10	10
Net foreign exchange gain	969	–	969
Expenses			
Services purchased - data collection	(99,816)	–	(99,816)
Employee benefits expense	(29,117)	–	(29,117)
Share-based payments expense	(410)	–	(410)
Depreciation and amortisation expense	(1,863)	–	(1,863)
Travel expense	(1,064)	–	(1,064)
Professional fees	(1,920)	–	(1,920)
Rental expense	(894)	–	(894)
Communication expense	(337)	–	(337)
Transaction costs	(5,877)	–	(5,877)
Other expenses	(5,854)	–	(5,854)
Finance costs	(13)	–	(13)
Profit before income tax expense	20,375	–	20,375
Income tax expense	(6,093)	–	(6,093)
Profit after income tax expense for the year attributable to the owners of Appen Limited	14,282	–	14,282
Other comprehensive loss			
Foreign currency translation	(882)	–	(882)
Other comprehensive loss for the year, net of tax	(882)	–	(882)
Total comprehensive income for the year attributable to the owners of Appen Limited	13,400	–	13,400
	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	14.55	–	14.55
Diluted earnings per share	14.36	–	14.36

Notes to the Consolidated Financial Statements

continued

4. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' (continued)

Statement of financial position at the beginning of the earliest comparative period

	Group		
	1 Jan 2017 \$'000 Reported	\$'000 Adjustment	1 Jan 2017 \$'000 Restated
Assets			
Current assets			
Cash and cash equivalents	16,471	-	16,471
Trade and other receivables	21,861	(7,184)	14,677
Contract assets	-	7,184	7,184
Prepayments	415	-	415
Total current assets	38,747	-	38,747
Non-current assets			
Property, plant and equipment	725	-	725
Intangibles	14,543	-	14,543
Other non-current assets	12	-	12
Total non-current assets	15,280	-	15,280
Total assets	54,027	-	54,027
Liabilities			
Current liabilities			
Trade and other payables	12,177	-	12,177
Contract liabilities	-	716	716
Derivative financial instruments	199	-	199
Income tax	1,447	-	1,447
Provisions	884	-	884
Revenue received in advance	716	(716)	-
Total current liabilities	15,423	-	15,423
Non-current liabilities			
Borrowings	6	-	6
Deferred tax	2,778	-	2,778
Provisions	417	-	417
Total non-current liabilities	3,201	-	3,201
Total liabilities	18,624	-	18,624
Net assets	35,403	-	35,403
Equity			
Issued capital	19,510	-	19,510
Reserves	19,763	-	19,763
Accumulated losses	(3,870)	-	(3,870)
Total equity	35,403	-	35,403

Notes to the Consolidated Financial Statements

continued

4. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' (continued)

Statement of financial position at the end of the earliest comparative period

	Group		
	31 Dec 2017 \$'000 Reported	\$'000 Adjustment	31 Dec 2017 \$'000 Restated
Assets			
Current assets			
Cash and cash equivalents	24,015	–	24,015
Trade and other receivables	42,908	(11,270)	31,638
Contract assets	–	11,270	11,270
Derivative financial instruments	123	–	123
Prepayments	1,121	–	1,121
Total current assets	68,167	–	68,167
Non-current assets			
Property, plant and equipment	1,762	–	1,762
Intangibles	116,253	–	116,253
Other non-current assets	1,866	–	1,866
Total non-current assets	119,881	–	119,881
Total assets	188,048	–	188,048
Liabilities			
Current liabilities			
Trade and other payables	21,173	–	21,173
Contract liabilities	–	1,237	1,237
Derivative financial instruments	46	–	46
Income tax	1,303	–	1,303
Provisions	1,151	–	1,151
Revenue received in advance	1,237	(1,237)	–
Total current liabilities	24,910	–	24,910
Non-current liabilities			
Borrowings	67,885	–	67,885
Deferred tax	1,369	–	1,369
Provisions	473	–	473
Total non-current liabilities	69,727	–	69,727
Total liabilities	94,637	–	94,637
Net assets	93,411	–	93,411
Equity			
Issued capital	69,569	–	69,569
Reserves	27,712	–	27,712
Accumulated losses	(3,870)	–	(3,870)
Total equity	93,411	–	93,411

Notes to the Consolidated Financial Statements

continued

5. Operating segments

Identification of reportable operating segments

The Group is organised into two operating segments based on differences in products and services provided: Content Relevance and Language Resources. These operating segments are based on the internal reports that are reviewed and used by the Group's Chief Executive Officer ('CEO'), who is identified as the Chief Operating Decision Maker, in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CEO reviews a set of financial reports which covers EBITDA (earnings before interest, tax, depreciation and amortisation), revenue and operating segment reports on a monthly basis. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

Types of products and services

The principal products and services of each of these operating segments are as follows:

- | | |
|--------------------|---|
| Content Relevance | Content Relevance provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and e-commerce. |
| Language Resources | Language Resources provides annotated speech, natural language and image data used in speech recognisers, machine translation, speech synthesisers and other machine-learning technologies resulting in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics. |

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 31 December 2018 approximately 89.1% (2017: 86%) of the Group's external revenue was derived from sales to five major customers.

Notes to the Consolidated Financial Statements

continued

5. Operating segments (continued)

Operating segment information

Group - 31 Dec 2018	Content Relevance \$'000	Language Resources \$'000	Other segments \$'000	Total \$'000
Revenue				
Services revenue	312,846	51,361	–	364,207
Interest	–	–	16	16
Other income	–	–	66	66
Total revenue	312,846	51,361	82	364,289
Segment result	74,800	11,177	66	86,043
Corporate overhead				(11,056)
Marketing expenses				(1,479)
Net foreign exchange loss				112
Share-based payment - employees				(2,351)
Share-based payment - Leapforce				(1,666)
Transaction costs				(1,507)
Depreciation and amortisation				(8,941)
Interest				(3,201)
Profit before income tax expense				55,954
Income tax expense				(14,226)
Profit after income tax expense				41,728

Notes to the Consolidated Financial Statements

continued

5. Operating segments (continued)

Group - 31 Dec 2017	Content Relevance \$'000	Language Resources \$'000	Other segments \$'000	Total \$'000
Revenue				
Services revenue	126,160	40,397	–	166,557
Interest	–	–	10	10
Other income	–	–	4	4
Total revenue	126,160	40,397	14	166,571
Segment result				
	22,147	12,176	(256)	34,067
Corporate overhead				(5,557)
Marketing expenses				(919)
Net foreign exchange gain				937
Share-based payments - employees				(410)
Transaction costs				(5,877)
Depreciation and amortisation*				(1,863)
Interest				(3)
Profit before income tax expense				20,375
Income tax expense				(6,093)
Profit after income tax expense				14,282

* Amortisation expense includes AUD\$572,719 for the disposal of ERP system purchased in March 2014, since there is no probable future economic benefits.

Geographical information

	Services revenue		Geographical non-current assets	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Australia	40,583	40,393	1,250	1,106
US	316,480	126,164	117,143	114,035
Other countries	7,144	–	6,175	4,740
	364,207	166,557	124,568	119,881

Notes to the Consolidated Financial Statements

continued

6. Revenue

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<i>Revenue from contracts with customers</i>		
Services revenue	364,207	166,557
<i>Other income</i>		
Other income	66	4
Revenue	364,273	166,561

Disaggregation of services revenue

Services revenue is disaggregated by type of service and primary geographical country as follows:

Group - 31 Dec 2018	Content Relevance \$'000	Language Resources \$'000	Total \$'000
<i>Geographical regions</i>			
Australia	–	40,583	40,583
US	312,846	3,634	316,480
Other countries	–	7,144	7,144
	312,846	51,361	364,207

Group - 31 Dec 2017	Content Relevance \$'000	Language Resources \$'000	Total \$'000
<i>Geographical regions</i>			
Australia	–	40,393	40,393
US	126,160	4	126,164
	126,160	40,397	166,557

Notes to the Consolidated Financial Statements

continued

7. Expenses

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	570	120
Fixtures and fittings	124	43
Computer equipment	801	207
Audio equipment	16	17
Make good	–	5
Total depreciation	1,511	392
<i>Amortisation</i>		
Systems implementation*	476	930
Platform development	782	460
Customer relationships	5,005	–
Crowd database	1,067	–
Customer contracts	70	67
Other intangibles	30	14
Total amortisation	7,430	1,471
Total depreciation and amortisation	8,941	1,863
<i>Finance costs</i>		
Interest and finance charges paid/payable	3,201	13
<i>Employee benefits expense</i>		
Defined contribution superannuation expense	1,817	1,194
Employee benefits expense	41,996	27,923
Total employee benefits expense	43,813	29,117

* Amortisation expense in 2017 includes \$572,719 for the disposal of ERP system purchased in March 2014, since there is no probable future economic benefits.

Notes to the Consolidated Financial Statements

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8. Income tax expense

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<i>Income tax expense</i>		
Current tax	13,630	7,502
Deferred tax - origination and reversal of temporary differences	596	(1,409)
Aggregate income tax expense	14,226	6,093
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (Note 19)	596	(1,409)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	55,954	20,375
Tax at the statutory tax rate of 30%	16,786	6,113
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation of intangibles	93	60
Depreciation of property, plant and equipment	371	12
Entertainment expenses	5	5
Share-based payment expense	4,017	(123)
Year end accruals deductible in future years	(5,735)	159
	15,537	6,226
Difference in overseas tax rates	(1,311)	(133)
Income tax expense	14,226	6,093

9. Current assets - cash and cash equivalents

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash on hand	2	3
Cash at bank	40,043	24,012
	40,045	24,015

10. Current assets - trade and other receivables

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Trade receivables	59,628	30,923
Less: Allowance for expected credit losses	(184)	(75)
	59,444	30,848
Other receivables	908	498
GST receivable	117	292
	60,469	31,638

Notes to the Consolidated Financial Statements

continued

10. Current assets - trade and other receivables (continued)

Allowance for expected credit losses

The Group has recognised an additional provision of \$100,000 (2017: \$nil) in profit or loss in respect of impairment of receivables for the year ended 31 December 2018.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Group	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	31 Dec 2018 %	31 Dec 2017 %	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Not overdue	-	-	51,648	27,130	-	-
0 to 3 months overdue	-	-	7,796	3,701	-	-
3 to 6 months overdue	100%	-	184	60	184	-
Over 6 months overdue	-	100%	-	32	-	32
			59,628	30,923	184	32

Movements in the allowance for expected credit losses are as follows:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Opening balance	75	81
Additional provisions recognised	100	-
Foreign currency revaluation on opening balance	9	(6)
Closing balance	184	75

11. Current assets - contract assets

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Contract assets	10,354	11,270
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	11,270	7,184
Additions	44,272	11,659
Transfer to trade receivables	(46,713)	(7,811)
Revaluation	1,525	238
Closing balance	10,354	11,270

Notes to the Consolidated Financial Statements

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12. Current assets - derivative financial instruments

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Forward foreign exchange contracts - cash flow hedges	–	123

Refer to Note 26 for further information on fair value measurement.

13. Non-current assets - intangibles

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000 Restated
Goodwill - at cost	81,055	71,615
Systems implementation - at cost	5,284	4,732
Less: Accumulated amortisation	(2,498)	(1,802)
	2,786	2,930
Platform development - at cost	5,137	4,162
Less: Accumulated amortisation	(1,892)	(968)
	3,245	3,194
Customer relationships - at cost	36,994	36,994
Less: Accumulated amortisation	(5,285)	–
	31,709	36,994
Crowd database - at cost	1,134	1,134
Less: Accumulated amortisation	(1,134)	–
	–	1,134
Customer contracts - at cost	3,337	3,035
Less: Accumulated amortisation	(3,126)	(2,765)
	211	270
Other intangibles - at cost	529	467
Less: Accumulated amortisation	(391)	(351)
	138	116
	119,144	116,253

Notes to the Consolidated Financial Statements

continued

13. Non-current assets - intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Goodwill** \$'000	Systems implement- ation \$'000	Platform development \$'000	Customer relationships \$'000	Crowd database \$'000	Customer contracts \$'000	Other intangibles \$'000	Total \$'000
Balance at 1 January 2017	11,463	1,967	1,090	-	-	-	23	14,543
Additions	-	2,022	502	-	-	-	104	2,628
Additions through business combinations (Note 33) - Restated	60,485	-	2,126	36,994	1,134	-	-	101,739
Reclassifications	(333)	(107)	107	-	-	333	-	-
Exchange differences	-	(22)	(171)	-	-	4	3	(186)
Amortisation expense*	-	(930)	(460)	-	-	(67)	(14)	(1,471)
Balance at 31 December 2017 - Restated***	71,615	2,930	3,194	36,994	1,134	270	116	116,253
Additions	-	227	886	-	-	-	49	1,162
Additions through business combinations (Note 33)	1,308	-	-	-	-	-	-	1,308
Disposals	-	-	-	-	-	-	(1)	(1)
Exchange differences	8,132	105	(53)	(281)	(67)	11	5	7,852
Amortisation expense	-	(476)	(782)	(5,004)	(1,067)	(70)	(31)	(7,430)
Balance at 31 December 2018	81,055	2,786	3,245	31,709	-	211	138	119,144

* Amortisation expense includes \$572,719 for the disposal of ERP system purchased in March 2014, since there is no probable future economic benefits.

** Goodwill has been adjusted to recognise the separately identifiable intangible assets associated with the Leapforce acquisition.

*** 31 December 2017 balances have been restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances. Refer to Note 33.

Valuations

For the purposes of impairment testing, identifiable intangible assets have been valued according to the following valuation methodologies:

Customer relationships	Customer relationships were valued on an excess earnings basis. The excess earnings method is predicated on the basis that the value of an intangible asset is the present value of the earnings it generates, net of a reasonable return on other assets also contributing to that stream of earnings.
Crowd database	Crowd database was valued on a replacement cost basis. Under the replacement cost-based methodology, the value of an intangible asset is estimated by reference to the costs that would have to be expended in order to recreate the asset or the cost historically incurred to create the asset.
Platform development	Platform development was valued on a replacement cost basis. Under the replacement cost-based methodology, the value of an intangible asset is estimated by reference to the costs that would have to be expended in order to recreate the asset or the cost historically incurred to create the asset. This was cross checked to the relief from royalty methodology. The relief from royalty methodology involves estimating the amount of hypothetical royalty that would be paid if the identifiable intangible asset was licensed from an independent third party owner. The fair value of the identifiable intangible asset is the net present value of the prospective stream of hypothetical royalty savings that would be generated over the expected useful life of the intangible asset.

Notes to the Consolidated Financial Statements

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13. Non-current assets - intangibles (continued)

Impairment of intangible assets

Goodwill relates to the acquisition of Butler Hill, Inc., Leapforce, Inc. and Raterlabs, Inc. in the United States, and Mendip Media Group Limited 'MMG') in the United Kingdom. The recoverable amount of this business, at balance date, was estimated based on its value in use.

Butler Hill, Inc., Leapforce, Inc. and Raterlabs, Inc.

Value in use for the Content Relevance cash-generating unit ('CGU') was determined by discounting the future cashflows to be generated from the Content Relevance division and is based on the following key assumptions:

- Cashflows were projected based on forecast operating results over a 5 year period.
- Average annual revenue growth rates of 8% for 2019 to 2023 were used for revenue projections. This growth was referenced against the average annual historical growth rates over the past 4 years and the long-term growth rate of the industry. All future years of the model use a constant rate of 3%; and
- A pre-tax discount of 15.4% based on the weighted average cost of capital.

The Goodwill carrying value of \$79,045,000 has been allocated to the Content Relevance CGU.

Mendip Media Group Limited

Value in use for the Language Resources CGU was determined by discounting the future cash flows to be generated from the Language Resources division and is based on the following key assumptions:

- Cashflows were projected based on forecast operating results over a 5 year period.
- Average annual revenue growth rates of 10% for 2019 to 2023 were used for revenue projections. This growth was referenced against average annual historical growth rates over the past 4 years and the long-term growth rate of the industry. All future years of the model use a constant rate of 3%; and
- A pre-tax discount of 16.4% based on the weighted average cost of capital.

The Goodwill carrying value of \$2,010,000 has been allocated to the Language Resources CGU.

14. Current liabilities - trade and other payables

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Trade payables	20,709	9,240
Other payables and accrued expenses	16,306	11,933
	37,015	21,173

Refer to Note 25 for further information on financial instruments.

Notes to the Consolidated Financial Statements

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15. Current liabilities - contract liabilities

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Invoices issued/deposits received in advance	1,535	1,237
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	1,237	716
Payments received in advance	802	990
Transfer to revenue	(566)	(443)
Revaluation	62	(26)
Closing balance	1,535	1,237

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$1,535,000 as at 31 December 2018 (\$1,237,000 as at 31 December 2017) and is expected to be recognised as revenue in future periods as follows:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Less than 3 months	1,048	421
Over 3 months	487	816
	1,535	1,237

16. Current liabilities - derivative financial instruments

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Forward foreign exchange contracts	249	–
Foreign exchange contracts - Collars	–	46
	249	46

Refer to Note 25 for further information on financial instruments.

Refer to Note 26 for further information on fair value measurement.

Notes to the Consolidated Financial Statements

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17. Current liabilities - provisions

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Annual leave	1,429	1,051
Lease make-good	100	100
	1,529	1,151

Lease make-good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Group - 31 Dec 2018	Lease make-good \$'000
Carrying amount at the start of the year	100
Carrying amount at the end of the year	100

18. Non-current liabilities - borrowings

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Facility A (Senior debt)	56,330	50,843
Facility B (Working capital)	–	17,038
Lease liability	–	4
	56,330	67,885

Refer to Note 25 for further information on financial instruments.

Facility A

The facility was established in December 2017 with a limit of US\$40 million. This facility has a three year term with a bullet repayment at the end of the term and is not subject to annual review. Mandatory prepayment of 7.5% of the outstanding principal balance of the facility is required if certain metrics are triggered, measured at each six monthly reporting period ending on or after 30 June 2018. The facility was used to fund the Leapforce acquisition and is fully drawn. This facility attracts interest at a margin over bank reference rates, based on the net leverage ratio. The value disclosed above is net of borrowing costs of \$365,000 (2017: \$394,000).

Facility B

The facility was established in December 2017 with a limit of A\$20 million. This facility has a three year term and is not subject to annual review. Technically, each drawing under this facility is required to be rolled over at the end of its interest period and available for automatic re-draw if no default is existing. The facility is used to fund working capital in connection with the Leapforce acquisition and general working capital requirements. This facility attracts interest at a margin over bank reference rates, based on the net leverage ratio. The facility B of \$17,038,000 was fully repaid in 2018.

Notes to the Consolidated Financial Statements

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18. Non-current liabilities - borrowings (continued)

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Facility A (Senior debt)	56,330	50,843
Facility B (Working capital)	–	17,038
Lease liability	–	4
	56,330	67,885

Assets pledged as security

The bank loans are secured by a fixed charge over the assets of the Group.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Total facilities		
Facility A (Senior debt)*	56,695	51,237
Facility B (Working capital)	20,000	20,000
	76,695	71,237
Used at the reporting date		
Facility A (Senior debt)*	56,695	51,237
Facility B (Working capital)	–	17,038
	56,695	68,275
Unused at the reporting date		
Facility A (Senior debt)*	–	–
Facility B (Working capital)	20,000	2,962
	20,000	2,962

* Balance excludes borrowing cost of \$365,000 (2017: \$394,000).

Notes to the Consolidated Financial Statements

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19. Non-current liabilities - deferred tax

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
<i>Amounts recognised in profit or loss:</i>		
Platform development costs	337	298
Impairment of receivables	(45)	(20)
Property, plant and equipment	(302)	62
Intangible assets	1,949	929
Employee benefits	(1,132)	(893)
Accrued expenses	(327)	(955)
Contract assets	2,845	1,962
Foreign currency revaluation and other expense	(1,360)	(14)
Deferred tax liability	1,965	1,369
<i>Movements:</i>		
Opening balance	1,369	2,778
Charged/(credited) to profit or loss (Note 8)	596	(1,409)
Closing balance	1,965	1,369

The Corporate Federal tax rate for company registered in United States changed to 21% effective from 1 January 2018. The deferred tax reported has been computed with the new Federal tax rate.

20. Non-current liabilities - provisions

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Long service leave	379	473

Notes to the Consolidated Financial Statements

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21. Equity - issued capital

	Group			
	31 Dec 2018 Shares	31 Dec 2017 Shares	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Ordinary shares - fully paid	106,599,647	105,804,907	69,602	69,569

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2017	97,180,407		19,510
Issue of shares on exercise of options	1 March 2017	318,750	\$0.500	159
Issue of shares on exercise of options	1 March 2017	20,450	\$0.489	10
Issue of shares on exercise of options	1 March 2017	20,450	\$0.432	9
Issue of shares on exercise of options	3 March 2017	53,125	\$0.500	27
Issue of shares on exercise of options	9 March 2017	106,250	\$0.500	53
Issue of shares on exercise of performance rights	10 April 2017	9,398		-
Issue of shares on exercise of options	16 June 2017	53,125	\$0.500	27
Issue of shares on exercise of options	8 November 2017	40,900	\$0.412	17
Issue of shares on exercise of options	22 November 2017	40,900	\$0.412	17
Issue of shares as consideration of acquisition of Leapforce, Inc and RaterLabs, Inc.	6 December 2017	4,310,345	\$5.800	25,000
Issue of shares as consideration of acquisition of Leapforce, Inc and RaterLabs, Inc.	7 December 2017	2,787,826	\$7.400	20,630
Shares issued under Share Purchase plan	21 December 2017	862,981	\$5.800	5,005
Share issue transaction costs				(895)
Balance	31 December 2017	105,804,907		69,569
Issue of shares on exercise of performance rights	1 March 2018	520,040	\$10.600	-
Issue of shares on exercise of performance rights	4 June 2018	83,334	\$10.210	-
Issue of shares on exercise of options	28 June 2018	40,900	\$0.494	20
Issue of shares on exercise of options	27 September 2018	26,563	\$0.500	13
Issue of contingent Leapforce shares	7 December 2018	123,903		-
Balance	31 December 2018	106,599,647		69,602

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

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continued

21. Equity - issued capital (continued)

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 31 December 2017 Annual Report.

22. Equity - reserves

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Common control reserve	(1,416)	(1,416)
Foreign currency translation reserve	10,433	2,790
Share-based payments reserve	5,996	1,979
Profits reserve	56,796	22,500
Other reserves	1,859	1,859
	73,668	27,712

Common control reserve

The reserve represents the difference between the consideration transferred by the Company for the acquisition of commonly controlled entities and the existing book value of those entities immediately prior to the acquisition.

Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Profits reserve

The Profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit so as to quarantine from being appropriated against prior year accumulated losses. Such profits are available to enable payment of franked dividends in the future should the directors declare so by resolution.

Other reserves

This reserve represents the equity settled portion of contingent consideration together with any capital raising expenses that are allocated to equity, in connection with the acquisition of Butler Hill, Inc.

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continued

22. Equity - reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Group	Common control \$'000	Foreign currency translation \$'000	Share-based payments \$'000	Profits \$'000	Other \$'000	Total \$'000
Balance at 1 January 2017	(1,416)	3,672	1,569	14,079	1,859	19,763
Foreign currency translation	-	(882)	-	-	-	(882)
Share-based payments	-	-	410	-	-	410
Transfer from accumulated losses	-	-	-	14,282	-	14,282
Dividends paid	-	-	-	(5,861)	-	(5,861)
Balance at 31 December 2017	(1,416)	2,790	1,979	22,500	1,859	27,712
Foreign currency translation	-	7,643	-	-	-	7,643
Share-based payments	-	-	4,017	-	-	4,017
Transfer from accumulated losses	-	-	-	41,728	-	41,728
Dividends paid	-	-	-	(7,432)	-	(7,432)
Balance at 31 December 2018	(1,416)	10,433	5,996	56,796	1,859	73,668

23. Equity - accumulated losses

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Accumulated losses at the beginning of the financial year	(3,870)	(3,870)
Profit after income tax expense for the year	41,728	14,282
Transfer to Profits reserve	(41,728)	(14,282)
Accumulated losses at the end of the financial year	(3,870)	(3,870)

24. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Final dividend paid out of the profits reserve for the year ended 31 December 2017 of 3.0 cents per ordinary share (2017: 31 December 2016 of 3.0 cents)	3,174	2,928
Interim dividend paid out of the profits reserve for the year ended 31 December 2018 of 4.0 cents per ordinary share (2017: 31 December 2017 of 3.0 cents)	4,258	2,933
	7,432	5,861

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24. Equity - dividends (continued)

Dividend declared

On 25 February 2019, the Company declared a final dividend for the year ended 31 December 2018 of 4.0 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 1 March 2019. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2018 and will be recognised in subsequent financial periods.

Franking credits

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	1,326	3,446

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

25. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain foreign currency risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

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25. Financial instruments (continued)

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecast cash flows for the ensuing financial year. Appen's policy is to hedge at least 80% of its US denominated revenues generated by its Language Resources division for the subsequent 12 months.

The maturity, settlement amounts and the average contractual exchange rates of the Group's outstanding forward foreign exchange contracts and foreign exchange - collars at the reporting date were as follows:

	Buy Australian dollars		Average exchange rates	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018	31 Dec 2017
Sell United States dollars				
Foreign exchange forward contract maturity:				
0 - 3 months	13,260	7,180	0.7164	0.7591
3 - 6 months	2,784	3,247	0.7185	0.7700

	Buy Australian dollars		Average exchange rates	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018	31 Dec 2017
Sell United States dollars				
Foreign exchange option contract maturity:				
0 - 3 months	–	1,300	–	0.7690
3 - 6 months	–	3,247	–	0.7687

The average exchange rates and reporting date exchange rates applied were as follows:

	Average exchange rates		Reporting date exchange rates	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Australian dollars				
United States Dollars	0.7450	0.7692	0.7055	0.7809
European Economic and Monetary Union Euro	0.5596	0.5930	0.6164	0.5787
United Kingdom Pound Sterling	0.6317	0.6773	0.5540	0.6517
Hong Kong Dollars	5.8368	5.9946	5.5230	6.0994
Philippine Pesos	39.2972	39.8340	37.1044	39.0305
Chinese Yuan	4.9333	–	4.8497	–

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25. Financial instruments (continued)

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Group	Assets		Liabilities	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
United States Dollars	95,610	47,283	78,048	58,431
European Economic and Monetary Union Euro	2,228	1,313	–	–
United Kingdom Pound Sterling	533	351	85	81
Hong Kong Dollars	1	1	–	–
Philippine Pesos	1,011	913	297	177
Chinese Yuan	205	–	–	–
	99,588	49,861	78,430	58,689

The Group had net assets denominated in foreign currencies of \$21,158,000 (assets \$99,588,000 less liabilities \$78,430,000) as at 31 December 2018 (2017: net liabilities of \$8,828,000 (assets \$49,861,000 less liabilities \$58,689,000)).

Based on this exposure, had the Australian dollar weakened by 5% or strengthened by 5% (2017: weakened by 5% or strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year based on the assets dominated in foreign currency, excluding the translation difference for consolidated reporting purpose, and the Group's equity would have been lower or higher by the following:

Group - 31 Dec 2018	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax \$'000	Effect on equity \$'000	% change	Effect on profit before tax \$'000	Effect on equity \$'000
United States Dollars	5%	2,278	(3,476)	5%	(2,278)	3,476
European Economic and Monetary Union Euro	5%	(111)	–	5%	111	–
United Kingdom Pound Sterling	5%	(12)	(21)	5%	12	21
Hong Kong Dollars	5%	–	–	5%	–	–
Philippine Pesos	5%	–	(36)	5%	–	36
Chinese Yuan	5%	–	(10)	5%	–	10
		2,155	(3,543)		(2,155)	3,543

Notes to the Consolidated Financial Statements

continued

25. Financial instruments (continued)

Group - 31 Dec 2017	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax \$'000	Effect on equity \$'000	% change	Effect on profit before tax \$'000	Effect on equity \$'000
United States Dollars	5%	2,343	(1,929)	5%	(2,343)	1,929
European Economic and Monetary Union Euro	5%	(66)	-	5%	66	-
United Kingdom Pound Sterling	5%	(10)	(11)	5%	10	11
Hong Kong Dollars	5%	(3)	(8)	5%	3	8
Philippine Pesos	5%	-	(37)	5%	-	37
		2,264	(1,985)		(2,264)	1,985

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk.

As at the reporting date, the Group had the following variable rate borrowings:

Group	31 Dec 2018 Balance \$'000	31 Dec 2017 Balance \$'000
Facility A	56,695	51,237
Facility B	-	17,038
Net exposure to cash flow interest rate risk	56,695	68,275

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

For the Group the net exposure to interest rate risk totalled \$56,695,000 (2017: \$68,275,000).

Notes to the Consolidated Financial Statements

continued

25. Financial instruments (continued)

Cash flow sensitivity analysis for variable-rate instruments

A reasonable possible change of 100 base points in interest rates at the reporting date would have increased or decreased equity and profit or loss by the amounts below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Group - 31 Dec 2018	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000
Facility A	100	(567)	(567)	100	567	567
Facility B	100	-	-	100	-	-
		(567)	(567)		567	567

Group - 31 Dec 2017	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000
Facility A	100	(512)	(512)	100	512	512
Facility B	100	(170)	(170)	100	170	170
		(682)	(682)		682	682

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Liquidity risk requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Consolidated Financial Statements

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25. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Facility B (Working capital)	20,000	2,962

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Group - 31 Dec 2018	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	20,709	-	-	-	20,709
Other payables	-	16,306	-	-	-	16,306
<i>Interest-bearing - variable</i>						
Facility A - Senior debt	-	1,106	1,106	57,801	-	60,013
Total non-derivatives		38,121	1,106	57,801	-	97,028
Derivatives						
Forward foreign exchange contracts net settled	-	249	-	-	-	249
Total derivatives		249	-	-	-	249

Group - 31 Dec 2017	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	9,240	-	-	-	9,240
Other payables	-	681	-	-	-	681
<i>Interest-bearing - variable</i>						
Facility A - Senior debt	-	999	999	52,237	-	54,235
Facility B - Working capital	-	332	332	17,370	-	18,034
Lease liability	-	-	4	-	-	4
Total non-derivatives		11,252	1,335	69,607	-	82,194
Derivatives						
Foreign exchange contracts - Collars	-	46	-	-	-	46
Total derivatives		46	-	-	-	46

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Notes to the Consolidated Financial Statements

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26. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Group - 31 Dec 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Forward foreign exchange contracts	–	249	–	249
Total liabilities	–	249	–	249

Group - 31 Dec 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Forward foreign exchange contracts	–	123	–	123
Total assets	–	123	–	123
<i>Liabilities</i>				
Foreign exchange contracts - Collars	–	46	–	46
Total liabilities	–	46	–	46

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 2

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Notes to the Consolidated Financial Statements

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27. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Group	
	31 Dec 2018 \$	31 Dec 2017 \$
Short-term employee benefits	2,342,673	2,518,996
Post-employment benefits	100,826	176,873
Long-term benefits	54,130	160,312
Share-based payments	1,391,376	188,852
	3,889,005	3,045,033

28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	Group	
	31 Dec 2018 \$	31 Dec 2017 \$
<i>Audit services - KPMG</i>		
Audit or review of the financial statements	210,770	212,534
<i>Other services - KPMG</i>		
Taxation and compliance services - Australia	256,802	72,514
Other services	–	153,750
	256,802	226,264
	467,572	438,798
<i>Audit services - network firms</i>		
Audit or review of the financial statements	47,762	33,197
<i>Other services - network firms</i>		
Taxation and compliance services - USA	463,269	85,793
Other services	–	42,561
	463,269	128,354
	511,031	161,551

29. Contingent liabilities

The Group has given bank guarantees as at 31 December 2018 of \$133,000 (2017: \$133,000) in satisfaction of its performance obligations with respect to rental premises.

Notes to the Consolidated Financial Statements

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30. Commitments

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,608	1,505
One to five years	3,524	4,519
More than five years	207	–
	5,339	6,024

Operating lease commitments includes a contracted amount for an office under a non-cancellable operating lease expiring within 5 years with an option to extend. The leases have various escalation clauses. On renewal, the terms of the lease are renegotiated.

31. Related party transactions

Parent entity

Appen Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 34.

Key management personnel

Disclosures relating to key management personnel are set out in Note 27 and the remuneration report included in the directors' report.

Transactions with related parties

There were no transactions with related parties during the current financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

32. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Company	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Profit after income tax	6,653	3,183
Total comprehensive income	6,653	3,183

Notes to the Consolidated Financial Statements

continued

32. Parent entity information (continued)

Statement of financial position

	Company	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Total current assets	66,543	68,705
Total assets	80,731	80,712
Total current liabilities	380	3,991
Total liabilities	1,050	4,337
Equity		
Issued capital	69,602	69,569
Share-based payments reserve	5,997	1,980
Profits reserve	7,828	8,572
Other reserves	1,859	1,859
Accumulated losses	(5,605)	(5,605)
Total equity	79,681	76,375

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had a deed of cross guarantee in relation to the debts of its subsidiaries as at 31 December 2018 and 31 December 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2018 and 31 December 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018 and 31 December 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

33. Business combinations

2018

An additional amount of \$1,308,000 was paid in 2018 for the Leapforce acquisition in 2017.

There were no business combinations in the year to 31 December 2018.

Notes to the Consolidated Financial Statements

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33. Business combinations (continued)

2017

On 7 December 2017, Appen Limited acquired 100% of the ordinary shares of Leapforce Inc. and RaterLabs Inc. ('Leapforce') for the total consideration of USD\$80,000,000 plus working capital. Leapforce is a leading provider of search relevance services in the United States of America. This was a strategic acquisition to secure the services of Leapforce to enable Appen to grow its position as a global leader of high quality data provision for machine learning and artificial intelligence.

The goodwill of \$61,793,000 represents the difference in the fair value of assets acquired to consideration paid. The values identified in relation to the acquisition of Leapforce are final as at 31 December 2018.

Details of the acquisition are as follows:

	Provisional amount disclosed at 31 Dec 2017 Fair value \$'000	Acquisition adjustments Fair value \$'000	Restated balance at 31 Dec 2017 Fair value \$'000
Cash and cash equivalents	4,915	–	4,915
Trade receivables	12,548	–	12,548
Prepayments	32	–	32
Fixtures and fittings	102	–	102
Customer relationships	–	2,126	2,126
Other intangible assets	–	36,994	36,994
Crowd database	–	1,134	1,134
Trade payables	(4,348)	–	(4,348)
Employee benefits	(112)	–	(112)
Accrued expenses	(156)	–	(156)
Share-based payment	5,260	–	5,260
Working capital adjustment	37	–	37
Net assets acquired	18,278	40,254	58,532
Goodwill	100,739	(38,946)	61,793
Acquisition-date fair value of the total consideration transferred	119,017	1,308	120,325
Representing:			
Cash paid or payable to vendor	84,155	1,308	85,463
Cash paid to vendor for working capital	8,972	–	8,972
Appen Limited shares issued to vendor	20,630	–	20,630
Contingent consideration	5,260	–	5,260
	119,017	1,308	120,325
Acquisition costs expensed to profit or loss	5,877	–	5,877
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	119,017	1,308	120,325
Less: cash and cash equivalents	(4,915)	–	(4,915)
Less: shares issued by Company as part of consideration	(20,630)	–	(20,630)
Less: contingent consideration	(5,260)	–	(5,260)
Net cash used	88,212	1,308	89,520

Notes to the Consolidated Financial Statements

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34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		31 Dec 2018 %	31 Dec 2017 %
Appen Butler Hill Pty Limited	Australia	100%	100%
Appen Butler Hill Inc.*	United States of America	100%	100%
Appen (Europe) Limited*	United Kingdom	100%	100%
Mendip Media Group Limited	United Kingdom	100%	100%
Appen (Hong Kong) Limited*	Hong Kong	100%	100%
Beijing Appen Technology Co., Ltd*	China	100%	100%
Leapforce Inc.	United States of America	100%	100%
RaterLabs Inc.	United States of America	100%	100%
Appen Financial Services Pty Ltd	Australia	100%	100%

* Wholly-owned subsidiaries of Appen Butler Hill Pty Limited.

35. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Appen Limited

Appen Butler Hill Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Appen Limited, they also represent the 'Extended Closed Group'.

Notes to the Consolidated Financial Statements

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35. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

Statement of profit or loss and other comprehensive income	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Revenue	56,195	42,082
Services purchased - data collection	(6,629)	(7,844)
Employee benefits expense	(25,621)	(14,141)
Depreciation and amortisation expense	(1,393)	(339)
Travel expense	(700)	(575)
Professional fees	(1,661)	(994)
Rental expense	(1,180)	(504)
Communication expense	(1,546)	(748)
Transaction costs	547	(3,873)
Other expenses	(3,608)	(1,599)
Finance costs	-	(1)
Profit before income tax (expense)/benefit	14,404	11,464
Income tax (expense)/benefit	417	(2,871)
Profit after income tax (expense)/benefit	14,821	8,593
Other comprehensive income/(loss)		
Foreign currency translation	(17)	66
Other comprehensive income/(loss) for the year, net of tax	(17)	66
Total comprehensive income for the year	14,804	8,659

Equity - retained profits	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Retained profits at the beginning of the financial year	-	-
Profit after income tax (expense)/benefit	14,821	8,593
Transfer to Profits reserve	(14,821)	(8,593)
Retained profits at the end of the financial year	-	-

Notes to the Consolidated Financial Statements

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35. Deed of cross guarantee (continued)

Statement of financial position	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Current assets		
Cash and cash equivalents	11,412	10,025
Trade and other receivables	14,296	9,783
Derivative financial instruments	–	123
Income tax refund due	46	–
Prepayments	1,783	437
	27,537	20,368
Non-current assets		
Investments accounted for using the equity method	6,593	6,337
Property, plant and equipment	4,310	1,363
Intangibles	265	328
Deferred tax	2,212	–
Intercompany loan	54,914	55,070
Other non-current assets	159	1,866
	68,453	64,964
Total assets	95,990	85,332
Current liabilities		
Trade and other payables	4,639	5,888
Derivative financial instruments	249	46
Income tax	752	1,584
Provisions	756	606
Revenue received in advance	1,274	473
	7,670	8,597
Non-current liabilities		
Borrowings	–	4
Deferred tax	670	343
Provisions	379	473
	1,049	820
Total liabilities	8,719	9,417
Net assets	87,271	75,915
Equity		
Issued capital	69,602	69,569
Reserves	17,669	6,346
Total equity	87,271	75,915

Notes to the Consolidated Financial Statements

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36. Reconciliation of profit after income tax to net cash from operating activities

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Profit after income tax expense for the year	41,728	14,282
Adjustments for:		
Depreciation and amortisation	8,941	1,863
Net loss on disposal of property, plant and equipment	3	–
Share-based payments	4,017	410
Foreign exchange differences	5,246	(975)
Transaction costs paid for acquisition	1,507	3,577
Change in operating assets and liabilities:		
Increase in trade and other receivables	(29,652)	(9,166)
Increase/(decrease) in trade and other payables	12,228	(773)
Increase in employee benefits and provisions	3,778	5,198
Increase in contract liabilities	298	521
Decrease in provision for income tax	(1,891)	(144)
Increase/(decrease) in deferred tax liabilities	596	(1,409)
Net cash from operating activities	46,799	13,384

37. Changes in liabilities arising from financing activities

Group	Facility A \$'000	Facility B \$'000	Lease \$'000	Total \$'000
Balance at 1 January 2017	–	–	6	6
Net cash from/(used in) financing activities	51,808	16,861	(2)	68,667
Other changes	(1,360)	–	–	(1,360)
Balance at 31 December 2017	50,448	16,861	4	67,313
Net cash used in financing activities	–	(17,830)	–	(17,830)
Revaluation	5,882	969	–	6,851
Other changes	–	–	(4)	(4)
Balance at 31 December 2018	56,330	–	–	56,330

Notes to the Consolidated Financial Statements

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38. Earnings per share

	Group	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Profit after income tax attributable to the owners of Appen Limited	41,728	14,282
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	106,324,919	98,150,474
Adjustments for calculation of diluted earnings per share:		
Options and rights over ordinary shares	1,932,042	1,275,102
Weighted average number of ordinary shares used in calculating diluted earnings per share	108,256,961	99,425,576
	Cents	Cents
Basic earnings per share	39.25	14.55
Diluted earnings per share	38.55	14.36

39. Share-based payments

Performance rights

Long-term incentive plan

The Company has developed a long term incentive plan ('LTIP') which incorporates performance conditions and was effective from 1 January 2015.

The long term incentive plan provides for awards of Performance Rights to senior management, vesting at the end of a three year period and subject to an annual earnings per share non-market performance condition tested over each year within the three year period. Even if the EPS target is satisfied, the Performance Rights will continue, but will lapse if an employee ceases employment with the Company. Details are outlined in the table below.

The fair value of the performance rights has been measured based on the share price at the date of the grant less the present value of the future dividend stream. The dividend stream has been based on a payout ratio of 30% - 46%, discounted at a discount rate of 2.25%.

Notes to the Consolidated Financial Statements

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39. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

31 Dec 2018

Plan	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
2015	520,040	–	(520,040)	–	–
2016	423,160	–	–	(119,887)	303,273
2017	315,390	–	–	(63,063)	252,327
2018	–	113,914	–	–	113,914
2018 Special	–	464,718	–	–	464,718
2018 STI	–	83,334	(83,334)	–	–
	1,258,590	661,966	(603,374)	(182,950)	1,134,232

31 Dec 2017

Plan	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
2015	820,648	–	(9,398)	(291,210)	520,040
2016	544,575	–	–	(121,415)	423,160
2017	–	315,390	–	–	315,390
	1,365,223	315,390	(9,398)	(412,625)	1,258,590

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.16 years (2017: 1.00 years).

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39. Share-based payments (continued)

Overview of Performance Rights and Conditions

Plan	Grant date	Expiry date ¹	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved ²	Vesting condition	Vesting date	Value per right at grant date
2016	1 Mar 2016	N/A	N/A	1	EPS	10.0%	End 2016	Yes	Employed at 1 Jan 2019	1 Jan 2019	\$1.41
2016	1 Mar 2016	N/A	N/A	2	EPS	10.0%	End 2017	Yes	Employed at 1 Jan 2019	1 Jan 2019	\$1.41
2016	1 Mar 2016	N/A	N/A	3	EPS	10.0%	End 2018	Yes	Employed at 1 Jan 2019	Release of 2018 results	\$1.41
2017	1 Mar 2017	N/A	N/A	1	EPS	10.0%	End 2017	Yes	Employed at 1 Jan 2020	1 Jan 2020	\$2.58
2017	1 Mar 2017	N/A	N/A	2	EPS	10.0%	End 2018	Yes	Employed at 1 Jan 2020	1 Jan 2020	\$2.58
2017	1 Mar 2017	N/A	N/A	3	EPS	10.0%	End 2019	Pending	Employed at 1 Jan 2020	Release of 2019 results	\$2.58
2018	20 Feb 2018	N/A	N/A	1	EPS	10.0%	End 2018	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018	20 Feb 2018	N/A	N/A	2	EPS	10.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018	20 Feb 2018	N/A	N/A	3	EPS	10.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	\$8.15
2018 STI	20 Feb 2018	N/A	N/A	1	Completion of Leapforce acquisition	N/A	Completion date	Yes	N/A	20 Feb 2018*	\$8.15
2018 Special	20 Feb 2018	N/A	N/A	1	EPS	20.0%	End 2018	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018 Special	20 Feb 2018	N/A	N/A	2	EPS	20.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	\$8.15
2018 Special	20 Feb 2018	N/A	N/A	3	EPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	\$8.15

* The equity-settled performance rights for the successful completion of the Leapforce acquisition on 7 December 2017 were vested immediately on grant date of 20 February 2018.

1 Rights are automatically converted to shares on the vesting dates, assuming all the performance conditions of the plan and the employment condition are met.

2 Target achievement table:

EPS Target Achieved	% Performance Rights Allocated
100% or more of EPS Target	100%
90-99% of EPS Target*	50-80%
Less than 90%	Nil

* At the board's discretion.

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39. Share-based payments (continued)

The number of performance rights allocated to executives are:

Plan	M Brayan No.	K Levine No.	T Sharkey No.
2016	95,535	63,690	–
2017	59,430	35,022	–
2018	23,153	12,155	8,518
2018 STI	50,000	33,334	–
2018 Special	150,000	100,000	–
Total	378,118	244,201	8,518

Options

Subscription deeds

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.

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.

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.

Employee Share Option Plan

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

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.

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.

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.

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

Notes to the Consolidated Financial Statements

continued

39. Share-based payments (continued)

Set out below are summaries of Options granted under the plans:

31 Dec 2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited*	Balance at the end of the year
31/08/2013	01/03/2019	\$0.494	81,800	–	(40,900)	–	40,900
24/12/2014	01/03/2020	\$0.500	13,281	–	(13,281)	–	–
24/12/2014	01/03/2021	\$0.500	13,281	–	(13,281)	–	–
			108,362	–	(67,462)	–	40,900
Weighted average exercise price			\$0.495	\$0.000	\$0.496	\$0.000	\$0.494

* Options forfeited due to participants leaving Appen.

All options above were granted under the terms of the Employee Share Option Plan.

31 Dec 2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited*	Balance at the end of the year
31/08/2013	01/03/2018	\$0.412	81,800	–	(81,800)	–	–
31/08/2013	01/03/2019	\$0.494	81,800	–	–	–	81,800
31/03/2014	01/03/2018	\$0.432	20,450	–	(20,450)	–	–
31/03/2014	01/03/2019	\$0.489	20,450	–	(20,450)	–	–
24/12/2014	01/03/2020	\$0.500	119,531	–	(106,250)	–	13,281
24/12/2014	01/03/2021	\$0.500	438,281	–	(425,000)	–	13,281
			762,312	–	(653,950)	–	108,362
Weighted average exercise price			\$0.488	\$0.000	\$0.487	\$0.000	\$0.495

* Options forfeited due to participants leaving Appen.

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	31 Dec 2018 Number	31 Dec 2017 Number
31/08/2013	01/03/2019	40,900	81,800
24/12/2014	01/03/2020	–	13,281
24/12/2014	01/03/2021	–	13,281
		40,900	108,362

The weighted average share price during the financial year was \$11.645 (2017: \$4.872).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.17 years (2017: 1.54 years).

40. Events after the reporting period

Apart from the dividend declared as disclosed in Note 24, no other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 35 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Christopher Vonwiller

Director

25 February 2019

Sydney

Independent Auditor's Report

to the members of Appen Limited



Independent Auditor's Report

To the shareholders of Appen Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Appen Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2018;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor’s Report

continued



Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue recognition (\$384.3m)	
Refer to Note 6 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>A substantial amount of the Group’s revenue relates to revenue from the rendering of services.</p> <p>We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the varied service revenue streams in the Group.</p> <p>Our audit attention focused on revenue recognition from the two largest service revenue streams:</p> <ul style="list-style-type: none"> • Revenue from the rendering of language resource services; and • Revenue from the rendering of content relevance services. <p>It is the Group’s policy to account for revenue generated from language resource services using contract accounting which is based on:</p> <ul style="list-style-type: none"> • The expected total time and costs to complete a customer project; and • The percentage completion of the project, which is typically a count of the number of lines or utterances completed compared to the total number of lines or utterances for the project as a whole. <p>These contracts are mainly short term in nature and similar amongst customers.</p> <p>A significant amount of contract assets related to revenue generated from language resource services and receivables are recognised on the balance sheet due to a high volume of projects spanning across year end, increasing the risk of</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We tested key controls in the Group’s revenue process including, management review and approval of sales invoices and the monthly project reporting. • We selected a statistical sample of language resource projects in progress at year end. For the sample selected, we: <ul style="list-style-type: none"> • compared the total time and costs budgeted to complete a customer project against the customer contract and project details provided by project managers; • recalculated the percentage completion by checking the number of lines or utterances translated at year end to underlying project records and compared this to the total number of lines or utterances to be translated for the project as a whole; and • checked the logged performance date of the above project work for allocation of work across financial years. • We assessed the accuracy of contract assets and receivables related to revenue from language resource services recognised on the balance sheet. We did this by matching underlying documentation of a sample of transaction activity subsequent to year end, such as records of completion and invoices raised, to relevant projects in contract assets and receivables at year end. • We analysed revenue from language resource and content relevance services by forming an

Independent Auditor's Report

continued



revenue recognised in the incorrect period.

Revenue generated from content relevance services involve a high volume of transactions with customers. It is the Group's policy to account for this revenue as services are completed and approved by the customer. We focussed on transactions, spanning across year end, which have a higher risk of revenue being recognised in the incorrect period.

Our audit effort reflects the volume of projects and transactions for these revenue types.

expectation of the Group's revenue for the year derived from cash receipts in the Group's bank statements and compared this expectation to revenue recognised by the Group.

- We tested a statistical sample of transactions from both service revenue streams to underlying records such as records of completion and customer acknowledgements, to check revenue was recognised in the period the service was provided.

Other Information

Other Information is financial and non-financial information in Appen Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

continued



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Appen Limited for the year ended 31 December 2018 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 14 to 25 of the Directors' report for the year ended 31 December 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Tony Nimac

Partner

Sydney

25 February 2019

Shareholder Information

31 December 2018

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 7 February 2019.

Distribution of shareholders

The distribution of issued capital is as follows:

	Number of shareholders	Ordinary shares	% of issued capital %
100,001 and over	34	78,623,683	73.76
10,001 to 100,000	408	9,332,637	8.75
5,001 to 10,000	670	4,697,297	4.41
1,001 to 5,000	4,545	10,572,509	9.92
1 to 1,000	8,352	3,373,521	3.16
Total	14,009	106,599,647	100.00

Distribution of optionholders

The distribution of unquoted options on issue are as follows:

	Number of optionholders	Unlisted options	% of total options %
100,001 and over	–	–	–
10,001 to 100,000	1	40,900	100.00
5,001 to 10,000	–	–	–
1,001 to 5,000	–	–	–
1 to 1,000	–	–	–
Total	1	40,900	100.00

The options on issue are unquoted and have been issued under an employee incentive scheme.

Distribution of performance right holders

The distribution of unquoted options on issue are as follows:

	Number of performance rights holders	Unlisted performance rights	% of total performance rights %
100,001 and over	3	723,982	63.82
10,001 to 100,000	10	234,214	20.65
5,001 to 10,000	13	88,309	7.79
1,001 to 5,000	36	84,687	7.47
1 to 1,000	6	3,040	0.27
Total	68	1,134,232	100.00

The performance rights on issue are unquoted and have been issued under an employee incentive scheme.

Less than marketable parcels of ordinary shares

There are 149 shareholders with unmarketable parcels totalling 584 shares.

Shareholder Information

continued

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	22,741,189	21.33
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	19,135,085	17.95
C & J VONWILLER PTY LIMITED	11,060,083	10.38
CITICORP NOMINEES PTY LIMITED	7,086,084	6.65
NATIONAL NOMINEES LIMITED	5,422,524	5.09
BNP PARIBAS NOMINEES PTY LTD	1,960,541	1.84
CITIBANK NA	1,672,696	1.57
NATIONAL NOMINEES LIMITED	1,390,100	1.30
DAREN JACKSON	1,115,130	1.05
NEW GREENWICH PTY LTD	1,000,000	0.94
BNP PARIBAS NOMS PTY LTD	870,003	0.82
GINGA PTY LTD	500,000	0.47
SIDMOUTH PTY LIMITED	400,000	0.38
AMP LIFE LIMITED	372,327	0.35
CITICORP NOMINEES PTY LIMITED	349,386	0.33
NAMAL (L) LTD	300,000	0.28
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	280,323	0.26
BNP PARIBAS NOMINEES PTY LTD	271,032	0.25
MR WILLIAM JOHN LAUKKA & MRS ELIZABETH ANNE LAUKKA	250,229	0.23
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	236,015	0.22
	76,412,747	71.69
	30,186,900	
Total number of ordinary shares on issue	106,599,647	

Unquoted equity securities

The Company had the following unquoted securities on issue as at 7 February 2019:

	Number on issue	Number of holders
Options over ordinary shares issued	40,900	1
Performance rights over ordinary shares issued	1,134,232	68

Shareholder Information

continued

Substantial Shareholders

The names of the Substantial Shareholders listed in the Company's Register as at 7 February 2019 as advised by notices lodged with ASX:

	Ordinary shares	
	Number held	% of total shares issued
C & J Vonwiller Pty Limited	11,060,083	10.38
Vinva Investment Management	5,393,221	5.06

Restricted securities

Class	Expiry date	Number of shares
Ordinary shares, in respect of the Leapforce acquisition	7 December 2019	1,115,130
	7 December 2020	557,566
		1,672,696

Voting rights

In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or in a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll.

Options and performance rights have no voting rights.

On-market buy-backs

There is no current on-market buy-back in relation to the Company's securities.

Corporate Directory

Directors

Christopher Charles Vonwiller – Chairman
Mark Ronald Brayan – Managing Director and Chief Executive Officer
Stephen John Hasker
Robin Jane Low
William Robert Pulver
Deena Robyn Shiff

Company secretary

Carl Middlehurst (appointed 8 February 2019)
Leanne Ralph (resigned 8 February 2019)

Registered office

Level 6
9 Help Street
Chatswood NSW 2067
Tel: 02 9468 6300

Share register

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000
Telephone: 1300 554 474
Facsimile: (02) 9287 0303

Auditor

KPMG
Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

Stock exchange listing

Appen Limited shares are listed on the
Australian Securities Exchange (ASX code: APX)

Website

www.appen.com

Corporate Governance Statement

<https://appen.com/investors/corporate-governance/>

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