Appen Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Appen Limited
ABN:	60 138 878 298
Reporting period:	For the half-year ended 30 June 2019
Previous period:	For the half-year ended 30 June 2018

2. Results for announcement to the market

The Group has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 30 June 2019 using the modified retrospective approach and as such the comparatives have not been restated.

				$'000
Revenues from ordinary activities	up	60.5%	to	245,119
Profit from ordinary activities after tax attributable to the owners of Appen Limited	up	32.5%	to	18,603
Profit for the half-year attributable to the owners of Appen Limited	up	32.5%	to	18,603

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2018	4.0	2.9

On 29 August 2019, the Company declared an interim dividend for the year ending 31 December 2019 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 4 September 2019. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2019 and will be recognised in subsequent financial periods.

Comments
The profit for the Group after providing for income tax amounted to $18,603,000 (30 June 2018: $14,036,000).

Refer to the 'Review of Operations' section in the Directors' report attached for further explanation of the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	43.71	19.00

4. Control gained over entities

Name of entities (or group of entities)	Figure Eight Technologies, Inc.
Date control gained	2 April 2019

	$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	(4,241)
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2018	4.0	2.9

On 29 August 2019, the Company declared an interim dividend for the year ending 31 December 2019 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 4 September 2019. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2019 and will be recognised in subsequent financial periods.

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2017	3.0	3.0

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

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11. Attachments

Details of attachments (if any):

The Interim Report of Appen Limited for the half-year ended 30 June 2019 is attached.

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12. Signed

Signed ______________________________ Date: 29 August 2019

Mark Brayan
Managing Director
Sydney

Appen Limited

ABN 60 138 878 298

Interim Report - 30 June 2019

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
Registered office and principal place of business	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
Solicitors	Norton Rose Fulbright Australia Level 18, Grosvenor Place 225 George Street Sydney NSW 2000
Stock exchange listing	Appen Limited shares are listed on the Australian Securities Exchange (ASX code: APX)
Website	www.appen.com

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Appen') 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 half-year ended 30 June 2019.

Directors

The following persons were directors of Appen Limited during the whole of the financial half-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 half-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:

- Relevance (formerly 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 e-commerce; and
- Speech & Image (formerly Language Resources) which provides annotated speech 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 140 global markets.

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

Dividends

Dividends paid during the financial half-year were as follows:

	Group	
	30 Jun 2019 $'000	30 Jun 2018 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2018 of 4.0 cents per ordinary share (2018: 3.0 cents)	4,264	3,174

On 29 August 2019, the Company declared an interim dividend for the year ending 31 December 2019 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 4 September 2019. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2019 and will be recognised in subsequent financial periods.

Review of operations

The underlying net profit after tax after adding back adjustments, including transaction costs and other adjustments (net of tax), was up 66.7% to $29,649,000 (30 June 2018: $17,782,000). The half-year statutory net profit after tax for the Group increased 32.5% to $18,603,000 (30 June 2018: $14,036,000).

As a result of AASB 16 'Leases' adjustment, the statutory and underlying EBITDA was increased by $1,862,000. This resulted in an increased depreciation and amortisation expense of $1,449,000 and increased finance costs of $413,000. As at 30 June 2019, net assets were reduced by $332,000 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

	HY2019 $'000	HY2018 $'000	Change %	Percentage change constant currency %
Relevance (formerly Content Relevance)*	204,930	131,167	56%	43%
Speech & Image (formerly Language Resources)	39,872	21,510	85%	73%
Other	317	78		
Total revenue from principal activities	**245,119**	**152,755**	**60%**	**47%**
Underlying net profit after tax	**29,649**	**17,782**	**67%**	**51%**
Less: underlying adjustments (net of tax)				
Transaction costs	(4,965)	(2,302)		
Acquisition related share-based payments	(3,268)	(833)		
Amortisation of acquisition related identifiable intangible assets	(2,009)	(611)		
Deemed interest on earn out liability	(804)	-		
Statutory net profit after tax ('NPAT')	**18,603**	**14,036**	**33%**	**16%**
Add: tax	7,315	3,765		
Add: deemed interest on earn out liability	1,116	-		
Add: net interest expense/(income)	1,542	1,561		
EBIT**	28,576	19,362	48%	32%
Depreciation and amortisation	6,708	4,520		
Statutory EBITDA* **	**35,284**	**23,882**	**48%**	**33%**
Add: underlying adjustments				
Transaction costs	7,093	873		
Acquisition related share-based payments	3,963	833		
Underlying EBITDA	**46,340**	**25,588**	**81%**	**63%**
Statutory diluted earnings per share (cents)	15.86	13.00		
Underlying diluted earnings per share (cents)	25.28	16.47		
% Statutory EBITDA / Sales	14.4%	15.6%		
% Underlying EBITDA / Sales	18.9%	16.8%		
% Underlying Segment EBITDA / Sales				
Relevance (formerly Content Relevance)*	21.5%	18.6%		
Speech & Image (formerly Language Resources)	36.8%	35.2%		

* Including Figure Eight
** EBIT is defined as earnings before interest and tax
*** EBITDA is EBIT before depreciation and amortisation

Total revenue for the period ended 30 June 2019 was up 60% to $245,119,000 compared to prior period revenue of $152,755,000. On a constant currency basis, the revenue growth was 47%. Excluding Figure Eight revenue for the period of $11,221,000, revenue was $233,898,000, representing organic revenue growth of 53%. The drivers behind this change in revenue were:

- The Speech & Image (formerly Language Resources) division recorded an 85% increase in revenue over the prior year, driven mainly by increased demand for data collection and speech and image annotation services for technology customers. On a constant currency basis, the revenue growth was 73%.
- The Relevance (formerly Content Relevance) division (including Figure Eight) delivered a 56% increase in revenue over the prior year of $131,167,000. This was mainly driven by the organic growth in demand for human annotated data, mainly from existing customers. Excluding Figure Eight, revenue was $193,709,000, representing organic revenue growth of 48% for the half year ended 30 June 2019. On a constant currency basis, the revenue growth for the division was 43%.

The Company reported statutory EBITDA of $35,284,000 for the half year period to 30 June 2019, representing a 48% increase over the prior corresponding period. After adding back underlying adjustments for transaction costs, share based payments in respect of the Leapforce and Figure Eight acquisitions (contingent on employment), amortisation of acquisition related identifiable intangible assets and deemed interest on the Figure Eight earn out liability, underlying EBITDA was $46,340,000 representing an 81% increase over the prior year. This resulted from strong revenue increase in both Speech & Image and Relevance and together with better operating margins resulted in increased EBITDA return of 18.9% as compared to 16.8% in the prior comparative period.

Figure Eight reported an EBITDA loss for the 3 months post acquisition of $2,638,000, while Relevance (excluding Figure Eight) reported a significant organic increase in EBITDA of 92% for the period driven by higher revenue and better operating margins achieved through efficiencies from the Leapforce acquisition as well as scale and improved process and efficiency. Relevance operating margins excluding Figure Eight increased to 24.1% from 18.6%.

EBITDA in the Speech & Image division increased significantly by 94% to $14,663,000 from $7,570,000 driven by strong demand from the technology sector as a result of the continued strategic focus on building this vertical and despite any significant contribution from government work. Operating margins improved slightly from 35.2% to 36.8%.

Operating expenses (expenses excluding services purchased, share based payment expense, depreciation, transaction costs, finance costs and foreign exchange) for the first half period comprised 20.2% of revenue as compared to 18.9% for the prior corresponding period due to acquisition of Figure Eight and investment mainly in engineering.

Significant changes in the state of affairs

On 11 March 2019, Appen entered into an agreement to acquire Figure Eight Technologies, Inc. for US$175m in upfront payment and an earn-out of up to a maximum of US$125m based on Figure Eight’s achievement of incremental FY19 subscription software revenue targets, payable in April 2020.

Figure Eight, headquartered in San Francisco with ~107 employees, is a best in class machine learning software platform which uses highly automated annotation tools to transform unstructured text, image, audio and video data into customised high quality AI training data.

The upfront consideration of US$175m was funded through a fully underwritten equity placement of A$285m at $21.50 per share. Appen also conducted a non-underwritten Share Purchase Plan to raise additional funds of A$15m. In addition, arrangements for up to US$125m of new debt facilities are available for draw down in April 2020 for the earn-out payment. The transaction was completed on 2 April, 2019.

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

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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Chris Vonwiller

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Christopher Vonwiller
Director

29 August 2019
Sydney

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 review of Appen Limited for the half-year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Tony Nimac
Partner

Sydney

29 August 2019

Appen Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2019

	Note	Group 30 Jun 2019 $'000	Group 30 Jun 2018 $'000
Revenue	4	244,800	152,743
Interest income calculated using the effective interest method		319	12
Recovery of impairment of assets		85	-
Net foreign exchange gain		808	-
Expenses			
Services purchased - data collection		(145,132)	(97,417)
Employee benefits expense		(33,722)	(20,446)
Share-based payments expense	5	(8,667)	(1,755)
Depreciation and amortisation expense	5	(6,708)	(4,520)
Travel expense		(1,421)	(711)
Professional fees		(4,873)	(1,514)
Rental expense		(369)	(883)
Communication expense		(481)	(417)
Transaction costs	5	(7,093)	(873)
Net foreign exchange loss		-	(1)
Other expenses		(8,651)	(4,844)
Deemed interest on earn-out liability		(1,116)	-
Finance costs	5	(1,861)	(1,573)
Profit before income tax expense		25,918	17,801
Income tax expense		(7,315)	(3,765)
Profit after income tax expense for the half-year attributable to the owners of Appen Limited		18,603	14,036
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		4,154	(201)
Other comprehensive income for the half-year, net of tax		4,154	(201)
Total comprehensive income for the half-year attributable to the owners of Appen Limited		22,757	13,835
		Cents	Cents
Basic earnings per share	14	16.20	13.22
Diluted earnings per share	14	15.86	13.00

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

Appen Limited
Consolidated statement of financial position
As at 30 June 2019

	Note	Group 30 Jun 2019 $'000	Group 31 Dec 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		70,825	40,045
Trade and other receivables	6	78,606	60,469
Contract assets		10,395	10,354
Derivative financial instruments		5	-
Income tax refund due		3,900	588
Prepayments		3,665	2,859
Total current assets		167,396	114,315
Non-current assets			
Property, plant and equipment		5,573	4,906
Right-of-use assets	2	22,209	-
Intangibles	7	405,830	119,144
Deferred tax		1,027	-
Other assets		38	37
Total non-current assets		434,677	124,087
Total assets		602,073	238,402
Liabilities			
Current liabilities			
Trade and other payables		48,611	37,015
Contract liabilities		21,856	1,535
Derivative financial instruments		-	249
Provisions		2,028	1,529
Other liabilities	8	35,205	-
Total current liabilities		107,700	40,328
Non-current liabilities			
Borrowings	9	11,581	56,330
Lease liabilities	2	22,541	-
Deferred tax		1,064	1,965
Provisions		483	379
Total non-current liabilities		35,669	58,674
Total liabilities		143,369	99,002
Net assets		458,704	139,400
Equity			
Issued capital	10	364,231	69,602
Reserves		98,343	73,668
Accumulated losses		(3,870)	(3,870)
Total equity		458,704	139,400

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

Appen Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2019

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 half-year	-	-	14,036	14,036
Other comprehensive income for the half-year, net of tax	-	(201)	-	(201)
Total comprehensive income for the half-year	-	(201)	14,036	13,835
Transactions with owners in their capacity as owners:				
Issue of ordinary shares (note 10)	20	-	-	20
Transfer between reserves	-	14,036	(14,036)	-
Share-based payments	-	1,755	-	1,755
Dividends paid (note 11)	-	(3,174)	-	(3,174)
Balance at 30 June 2018	69,589	40,128	(3,870)	105,847

Group	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2019	69,602	73,668	(3,870)	139,400
Profit after income tax expense for the half-year	-	-	18,603	18,603
Other comprehensive income for the half-year, net of tax	-	4,154	-	4,154
Total comprehensive income for the half-year	-	4,154	18,603	22,757
Transactions with owners in their capacity as owners:				
Issue of ordinary shares, net of share issue transaction costs (note 10)	294,629	-	-	294,629
Transfer between reserves	-	18,603	(18,603)	-
Share-based payments	-	6,182	-	6,182
Dividends paid (note 11)	-	(4,264)	-	(4,264)
Balance at 30 June 2019	364,231	98,343	(3,870)	458,704

	Note	Group 30 Jun 2019 $'000	Group 30 Jun 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		233,334	142,647
Payments to suppliers and employees (inclusive of GST)		(190,676)	(121,072)
		42,658	21,575
Interest received		319	12
Interest and other finance costs paid		(733)	(1,417)
Income taxes paid		(10,490)	(5,639)
Net cash from operating activities		31,754	14,531
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	13	(233,008)	-
Transaction costs paid on acquisition		(4,945)	(3,513)
Payments for property, plant and equipment		(882)	(1,946)
Payments for intangibles		(3,821)	(377)
Net cash used in investing activities		(242,656)	(5,836)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		292,536	20
Repayment of borrowings		(44,749)	(6,804)
Dividends paid	11	(4,264)	(3,174)
Repayment of lease liabilities		(1,681)	-
Net cash from/(used in) financing activities		241,842	(9,958)
Net increase/(decrease) in cash and cash equivalents		30,940	(1,263)
Cash and cash equivalents at the beginning of the financial half-year		40,045	24,015
Effects of exchange rate changes on cash and cash equivalents		(160)	837
Cash and cash equivalents at the end of the financial half-year		70,825	23,589

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

Note 1. General information

The financial statements cover Appen Limited as a Group consisting of Appen Limited (the 'Company') and the entities it controlled at the end of, or during, the half-year (collectively referred to as the 'Group'). 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

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2019.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the prior year annual report and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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.

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

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations adopted during the period are most relevant to the Group:

AASB 16 Leases
The Group has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Note 2. Significant accounting policies (continued)

Impact of adoption
AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

	1 January 2019 $'000
Right-of-use assets (AASB 16)	22,209
Lease liabilities - current (AASB 16)	(22,541)
Tax effect on the above adjustments	93
Reduction in opening retained profits as at 1 January 2019	(239)

Changes to accounting policies
Changes to accounting policies detailed in the 31 December 2018 Annual report as a result of the adoption of the new accounting standard are detailed as follows:

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 3. Operating segments

Identification of reportable operating segments
The Group is organised into two operating segments based on differences in products and services provided: Relevance (formerly Content Relevance) and Speech & Image (formerly 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.

Note 3. Operating segments (continued)

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:

Relevance (formerly Content Relevance)	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.
Speech & Image (formerly Language Resources)	Speech & Image provides annotated speech 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.

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 financial half-year ended 30 June 2019 approximately 91% (30 June 2018: 88%) of the Group's external revenue was derived from sales to five major customers.

Operating segment information

Group - 30 Jun 2019	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	204,914	39,872	-	244,786
Interest	16	-	303	319
Other income	-	-	14	14
Total revenue	204,930	39,872	317	245,119
Segment result	44,089	14,663	14	58,766
Corporate overhead				(6,522)
Marketing expenses				(881)
Share-based payment - employees				(4,704)
Share-based payment - acquisition related				(3,963)
Transaction costs				(7,093)
Depreciation and amortisation				(6,708)
Deemed interest on earn-out liability				(1,116)
Interest				(1,861)
Profit before income tax expense				25,918
Income tax expense				(7,315)
Profit after income tax expense				18,603

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. Therefore, the current and comparative EBITDA are not directly comparable.

Note 3. Operating segments (continued)

Group - 30 Jun 2018	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	131,167	21,510	-	152,677
Interest	-	-	12	12
Other income	-	-	66	66
Total revenue	131,167	21,510	78	152,755
Segment result	24,384	7,570	66	32,020
Corporate overhead				(4,784)
Marketing expenses				(714)
Share-based payment - employees				(922)
Share-based payment - Leapforce				(833)
Transaction costs				(873)
Depreciation and amortisation				(4,520)
Interest				(1,573)
Profit before income tax expense				17,801
Income tax expense				(3,765)
Profit after income tax expense				14,036

Segment result for Relevance and Speech & Image have been restated to reflect revised divisional allocation methodology effected in 2019. There is no change to total revenue and profit.

The revenue and segment result profit of Relevance includes the formly Content Relevance before acquisition of Figure Eight and contribution from Figure Eight after acquisition.

Geographical information

	Services revenue		Geographical non-current assets	
	30 Jun 2019 $'000	30 Jun 2018 $'000	30 Jun 2019 $'000	31 Dec 2018 $'000
Australia	35,650	17,007	2,741	1,250
US	205,429	134,918	417,321	117,143
Other countries	3,707	752	14,615	6,175
	244,786	152,677	434,677	124,568

Note 4. Revenue

	Group 30 Jun 2019 $'000	Group 30 Jun 2018 $'000
Revenue from contracts with customers		
Services revenue	244,786	152,677
Other income		
Other income	14	66
Revenue	244,800	152,743

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

Group - 30 Jun 2019	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Total $'000
Geographical regions			
Australia	-	35,650	35,650
US	204,914	515	205,429
Other countries	-	3,707	3,707
	204,914	39,872	244,786

Group - 30 Jun 2018	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Total $'000
Geographical regions			
Australia	-	17,007	17,007
US	131,167	3,751	134,918
Other countries	-	752	752
	131,167	21,510	152,677

Note 5. Expenses

	Group 30 Jun 2019 $'000	Group 30 Jun 2018 $'000
Profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Depreciation expense	977	688
Buildings right-of-use assets	1,449	-
Amortisation expense	4,282	3,832
Total depreciation and amortisation	6,708	4,520
Transaction costs		
Transaction costs	7,093	68
Post-acquisition integration cost	-	805
Total transaction costs	7,093	873
Finance costs		
Interest and finance charges paid/payable on borrowings	1,861	1,573
Share-based payments expense		
Share-based payment in respect of Appen performance rights	4,704	922
Share-based payment in respect of Leapforce vendor shares (contingent on employment)	833	833
Share-based payment in respect of Figure Eight shareholders (contingent on employment)	3,130	-
Total share-based payments expense	8,667	1,755

Note 6. Current assets - trade and other receivables

	Group 30 Jun 2019 $'000	Group 31 Dec 2018 $'000
Trade receivables	78,140	59,628
Less: Allowance for expected credit losses	(685)	(184)
	77,455	59,444
Other receivables	1,065	908
GST receivable	86	117
	78,606	60,469

Note 7. Non-current assets - intangibles

	Group 30 Jun 2019 $'000	Group 31 Dec 2018 $'000
Goodwill - at cost	367,167	81,055
Systems implementation - at cost	5,331	5,284
Less: Accumulated amortisation	(2,784)	(2,498)
	2,547	2,786
Platform development - at cost	10,294	5,137
Less: Accumulated amortisation	(3,794)	(1,892)
	6,500	3,245
Customer relationships - at cost	37,294	36,994
Less: Accumulated amortisation	(7,992)	(5,285)
	29,302	31,709
Crowd database - at cost	1,143	1,134
Less: Accumulated amortisation	(1,143)	(1,134)
	-	-
Customer contracts - at cost	3,363	3,337
Less: Accumulated amortisation	(3,186)	(3,126)
	177	211
Other intangibles - at cost	546	529
Less: Accumulated amortisation	(409)	(391)
	137	138
	405,830	119,144

Goodwill has been adjusted to recognise the separately identifiable intangible assets associated with the Leapforce acquisition. Goodwill includes a provisional goodwill value associated with the Figure Eight acquisition. This provisional goodwill value will be adjusted at year end to recognise the separately identifiable intangible assets.

Note 7. Non-current assets - intangibles (continued)

Valuations
These 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.

Note 8. Current liabilities - other liabilities

	Group	
	30 Jun 2019 $'000	31 Dec 2018 $'000
Earn-out liability in respect of Figure Eight	35,205	-

Note 9. Non-current liabilities - borrowings

	Group	
	30 Jun 2019 $'000	31 Dec 2018 $'000
Facility A (Senior debt)	11,581	56,330

Movements in borrowings during the current financial half-year are set out below:

	$'000
Balance at 31 December 2018	56,330
Repayment	(44,749)
Balance at 30 June 2019	11,581

Note 10. Equity - issued capital

	Group			
	30 Jun 2019 Shares	31 Dec 2018 Shares	30 Jun 2019 $'000	31 Dec 2018 $'000
Ordinary shares - fully paid	120,976,819	106,599,647	364,231	69,602

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2019	106,599,647		69,602
Issue of shares on exercise of options	11 March 2019	40,900	$0.494	20
Issue of shares on exercise of performance rights	11 March 2019	332,697		-
Issue of shares to fund acquisition of Figure Eight Technologies, Inc.	18 March 2019	13,255,814	$21.500	285,000
Issue of shares under Share Purchase Plan to fund acquisition of Figure Eight Technologies, Inc.	10 April 2019	697,761	$21.500	15,002
Issue of shares on exercise of performance rights	4 June 2019	50,000		-
Share issue transaction costs				(5,393)
Balance	30 June 2019	120,976,819		364,231

Note 11. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Group	
	30 Jun 2019 $'000	30 Jun 2018 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2018 of 4.0 cents per ordinary share (2018: 3.0 cents)	4,264	3,174

On 29 August 2019, the Company declared an interim dividend for the year ending 31 December 2019 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 4 September 2019. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2019 and will be recognised in subsequent financial periods.

Note 12. Contingent liabilities

The Group has given bank guarantees as at 30 June 2019 of $133,000 (31 December 2018: $133,000) to various landlords.

Note 13. Business combinations

Figure Eight Technologies, Inc.
On 2 April 2019, Appen Limited acquired 100% of the ordinary shares of Figure Eight Technologies, Inc. ('Figure Eight') for the total consideration of $274,923,000 including working capital and an earn out payment, estimated at $29,916,000. Figure Eight is a best in class machine learning software platform which uses highly automated annotation tools to transform unstructured text, image, audio and video data into customised high-quality artificial intelligence training data. This was a strategic acquisition to secure the services of Figure Eight 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 $281,091,000 represents the difference in the fair value of assets acquired to consideration paid.

Note 13. Business combinations (continued)

The acquired business contributed revenues of $11,221,000 and loss after tax of $4,241,000 to the Group for the period from date of acquisition to 30 June 2019. If the acquisition occurred on 1 January 2019, the full half-year contributions would have been revenues of $23,226,000 and loss after tax of $4,699,000.

The values identified in relation to the acquisition of Figure Eight are provisional as at 30 June 2019.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	11,999
Trade receivables	4,098
Prepayments	1,000
Other current assets	17
Plant and equipment	2,335
Deferred tax asset	4
Trade payables	(1,847)
Other payables	(10,892)
Accrued expenses	(4,517)
Deferred revenue	(8,365)
Net liabilities acquired	(6,168)
Goodwill	281,091
Acquisition-date fair value of the total consideration transferred	274,923
Representing:	
Cash paid or payable to vendor	245,007
Contingent consideration	29,916
	274,923
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	274,923
Less: cash and cash equivalents	(11,999)
Less: contingent consideration	(29,916)
Net cash used	233,008

Note 14. Earnings per share

	Group 30 Jun 2019 $'000	Group 30 Jun 2018 $'000
Profit after income tax attributable to the owners of Appen Limited	18,603	14,036
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	114,810,161	106,167,208
Adjustments for calculation of diluted earnings per share:		
Options and rights over ordinary shares	2,477,766	1,811,928
Weighted average number of ordinary shares used in calculating diluted earnings per share	117,287,927	107,979,136
	Cents	**Cents**
Basic earnings per share	16.20	13.22
Diluted earnings per share	15.86	13.00

Note 15. Events after the reporting period

Apart from the dividend declared as disclosed in note 11, no other matter or circumstance has arisen since 30 June 2019 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.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Chris Vonwiller

Christopher Vonwiller
Director

29 August 2019
Sydney

KPMG

Independent Auditor's Review Report

To the shareholders of Appen Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Appen Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Appen Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Appen Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Appen Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Tony Nimac
Partner

Sydney

29 August 2019