





**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.**



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



Appen works with gaming console providers for **voice activated commands** that enhance the player's experience.



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



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

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# Chairman's Report

## Dear Shareholders

Appen enjoyed another successful year in 2017. We have maintained a record of growth and profitability since our company commenced in 1996, but by any measure 2017 was truly outstanding.

The headlines for the year are set out below.

- Full year revenue was \$166.6 million, 50% up on the revenue in FY2016 of \$111.0 million
- The Underlying EBITDA (excluding the Leapforce transaction cost) was \$28.1 million, an increase of 62% on FY2016. After transaction costs of \$5.9 million, the Statutory EBITDA was \$22.2 million.
- Our Underlying EBITDA margins continued to improve, from 15.6% in 2016 to 16.9% in 2017
- The Underlying Net Profit After Tax (NPAT) reached \$19.7 million, 86% up on the FY2016 NPAT of \$10.6 million. Statutory NPAT (after transaction costs) was \$14.3 million.
- We have maintained a strong balance sheet, with end-year cash of \$24.0 million

After considering Appen's financial results, ongoing investments for growth, cash balances and projected cash flow, the directors have declared a final dividend for FY2017 of 3.0 cents per share. This dividend will be paid on 21 March 2018.

## Business environment

Appen's business environment is exciting. Artificial Intelligence is increasingly a theme in business, consumer and government applications, and is characterised by heavy levels of research, product investment and innovation. Alongside the well-known technology giants, we are witnessing the adoption of AI by many new enterprises and industries. A common thread in all of this is the need for data in various forms, and generally the more data the better.

We are experiencing demand for newer forms of data, beyond the traditional voice and text. Image and video are now important modalities.

The pace of our industry is accelerating and is influenced by strong leadership in the USA and China. New competitors are emerging and there is global demand for skilled personnel.

## Outlook

We are actively seeking attractive growth opportunities for Appen.

Our challenge is to maintain cost-competitiveness and to move quickly and with agility. Cost and performance pressures from major customers are unrelenting, but our scale will work favourably for us. The recent acquisition of Leapforce improves our operational performance and places Appen as one of the largest global data providers. We have expanded our global crowd workforce to over 1 million, and we are improving the level of automation in our operations. We are taking steps to further strengthen our resources in technology.

As AI applications expand into more industries, another imperative for the company is business development to expand into those verticals where we can gain competitive advantage. This will provide growth and customer diversity. Clearly the automotive sector is well-advanced in adoption of AI and we have an established position here. We are moving to build our position in other industries. During 2017 we invested in new facilities for the processing of large volumes of secure data, and this will open doors to new customers.

**Appen enjoyed another successful year in 2017. We have maintained a record of growth and profitability since our company commenced in 1996, but by any measure 2017 was truly outstanding.**



## Employees

The rate of growth in Appen has naturally placed a heavy workload on our company's leadership and staff. I am pleased to report that they have responded magnificently to this challenge, as demonstrated by the financial results. It is important to note however that the global demand for well-credentialed people in the disciplines related to AI is intense, and therefore we need to be competitive to recruit and retain talent. The board has sought to implement reward structures which are globally competitive but at the same time ensure that long term incentives are closely aligned with shareholder wealth creation.



**TOTAL REVENUE**

UP 50% ON FY2016

**\$166.6m**

**EBITDA**

UP 62% ON FY2016

**\$28.1m**

**NPAT**

UP 86% ON FY2016

**\$19.7m**

I place on record the board's appreciation for the exceptional contributions of Mark Brayan and his global team through 2017. Their sustained efforts have been outstanding and underpin our success. With the Leapforce acquisition, I am pleased to note that Daren Jackson and his team have further strengthened our human resources. I acknowledge also the global on-demand crowd-based workforce, which now includes the Leapforce crowd and makes Appen one of the largest and best resourced providers of data in our industry. We could not function without this resource, and the board is appreciative of their efforts.

Our board is active and engaged and collegiate. Among our directors we have a strong depth in industry knowledge, corporate governance, and strategic and operational experience. I value the contributions of my fellow directors.

Finally, I record my appreciation for your support and trust as shareholders. At all times, we are conscious of our obligations to you and our ongoing responsibilities for the future performance of our company.

Sincerely

**Chris Vonwiller**  
Chairman



# CEO's Report

## Dear Shareholders

2017 has been another tremendous year for Appen.

We delivered another year of high growth in revenue and earnings, we provided quality data and services to our customers, we added talented staff and crowd-based workers and improved our strong position in the accelerating markets of machine learning and artificial intelligence (AI).

The year's performance was predominantly due to the growing demand for data for machine learning and AI from our longstanding customers, along with continuing effective execution that saw EBITDA margins rise year on year.

2017 was made more notable, though, through some key achievements:

- The acquisition of Leapforce in December 2017 established us as the leader in our space. We welcomed Daren Jackson and his talented team to Appen along with their customers, technology and crowd of seasoned workers. The combination of Appen and Leapforce gives us bulk, scale and cost advantage to stay ahead of our competitors and continue to deliver for our customers. Leapforce's technology gives us a foundation for greater automation, efficiency and scalability.
- The investment in our secure data annotation facility is paying off. The facility is live and active with large scale customer projects. The facility, along with our security-accredited UK business acquired in 2016, gives us a competitive advantage in the growing need for secure work on highly confidential projects and/or confidential data.



- We secured a number of new projects and acquired several new customers in 2017, some with the potential to achieve significant scale. These add to our business and improve customer and project distribution.
- The increasing breadth of AI applications and the need for a great variety of data is providing opportunities for us in multiple data formats; text, audio, image and video. We've projects ongoing in these modalities that should grow substantially and other opportunities in the pipeline that will make us a richer and more capable business.

The AI market is incredibly buoyant. McKinsey estimate investment in AI of between \$26BN to \$39BN across many verticals. This drives the need for high quality data and requires our focus on two strategic imperatives in 2018:

- The ongoing development of productivity-enabling technologies that automate our operations for the seamless, highly scalable and rapid delivery of large volumes of quality, fit-for-purpose data off a low cost base to our customers. The integration of our core and acquired Leapforce technologies underpins this work, along with further investments in engineering to ensure scalability and cement our competitive advantage.



***Our achievements in 2017 were only possible with the dedication and hard work of our talented and growing team.***

Our achievements in 2017 were only possible with the dedication and hard work of our talented and growing team. Our 374 full time staff grew by almost 200 during the year, enabling us to

deliver on customer requirements and grow our capabilities for the future.

Appen's crowd of contract workers was bolstered by the addition of Leapforce's crowd and now numbers in excess of 1 million, giving us extraordinary scale and competitive advantage

and enabling our participation in more opportunities.

We appreciate your support, along with the support of our customers, and thank our talented team and crowd for everything they do for us. It's a privilege to be working with them.

Thank you for your continued support.

Sincerely

**Mark Brayan**  
Managing Director  
and Chief Executive Officer



- Further investments in sales and marketing to deepen penetration in our core customer cohort and grow into new verticals. We're well established in the technology market and have a strong presence in the automotive and government markets. Other verticals, such as financial services, retail, media and health care are investing in AI and will require high volumes of quality data.



# Directors' Report

for the year ended 31 December 2017

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 2017.

## 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 results and ad placements; and
- Language Resources which provides annotated data used in speech recognisers, machine translation, speech synthesisers, image recognisers 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 year, to the shareholders of Appen Limited, were as follows:

	Group	
	2017 \$'000	2016 \$'000
Final dividend paid out of the profits reserve for the year ended 31 December 2016 of 3.0 cents per ordinary share (2016: 31 December 2015 of 3.0 cents)	2,928	2,909
Interim dividend paid out of the profits reserve for the year ended 31 December 2017 of 3.0 cents per ordinary share (2016: 31 December 2016 of 2.0 cents)	2,933	1,942
	<b>5,861</b>	<b>4,851</b>

## Dividend declared

On 21 February 2018, the Company declared a final dividend for the year ended 31 December 2017 of 3.0 cents per share, fully franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 27 February 2018. The financial effect of these dividends has not been brought to account in the financial statements for the period ended 31 December 2017 and will be recognised in subsequent financial reports.

# Directors' Report

continued

## Review of operations

The profit for the Group after providing for income tax amounted to \$14,282k (31 December 2016: \$10,489k).

## Financial Performance

	2017 \$'000	2016 \$'000	Percentage change %	Percentage change constant currency %
Language resources	40,397	37,727	7%	11%
Content relevance	126,160	73,216	72%	78%
Other	14	60		
<b>Total revenue from principal activities</b>	<b>166,571</b>	<b>111,003</b>	<b>50%</b>	<b>55%</b>
Underlying net profit after tax (NPAT)	19,749	10,620	86%	87%
Transaction costs (net of tax)	5,467	131		
<b>Statutory NPAT</b>	<b>14,282</b>	<b>10,489</b>	<b>36%</b>	<b>51%</b>
Add tax	6,093	5,542		
Add net interest expense/(income)	3	(2)		
<b>EBIT*</b>	<b>20,378</b>	<b>16,029</b>	<b>27%</b>	<b>36%</b>
Depreciation and amortisation	1,863	1,153		
<b>Statutory EBITDA**</b>	<b>22,241</b>	<b>17,182</b>	<b>29%</b>	<b>38%</b>
<i>Add non-recurring items</i>				
Transaction costs	5,877	131		
<b>Underlying EBITDA</b>	<b>28,118</b>	<b>17,313</b>	<b>62%</b>	<b>73%</b>
<b>Statutory diluted earnings per share (cents)</b>	14.36	10.53		
<b>Underlying diluted earnings per share (cents)</b>	19.86	10.95		
% Statutory EBITDA/Sales	13.4%	15.5%		
% Underlying EBITDA/Sales	16.9%	15.6%		
% Segment Profit/Sales:				
Language Resources	30.1%	39.3%		
Content Relevance	17.6%	14.4%		

\* EBIT is defined as earnings before tax and interest.

\*\* EBITDA is EBIT before depreciation and amortisation.

Total revenue for the financial year ended 31 December 2017 was \$166,571k compared to 2016 revenue of \$111,003k. The drivers behind this change in revenue were:

- The Language Resources division recorded a 7% (constant currency: 11%) increase in revenue over the prior year, driven mainly by increased volumes across the technology sector; and
- The Content Relevance division delivered a 72% (constant currency: 78%) increase in revenue over the prior year. This was largely driven by significant increases in scope and volume from major customers as well as revenue from new customers. This includes \$6,008k revenue from Leapforce.

# Directors' Report

continued

The Company reported statutory EBITDA of \$22,241k representing a 29% (constant currency: 38%) increase over 2016, including \$1,532k from Leapforce. This result included transaction costs of \$5,877k relating to the Leapforce acquisition. Excluding these transaction costs, underlying EBITDA was \$28,118k, representing a 62% (constant currency: 73%) increase over the prior year. This was driven by the significant revenue increase, gross margin improvement and operating cost efficiency through scalability and continued globalisation of operations. Operating expenses (expenses excluding services purchased, depreciation, impairment, transaction costs and finance costs) for 2017 comprised 24% of revenue as compared to 28% in 2016.

The Language Resources division return on sales decreased to 30.1% as compared to 39.3% in the prior year, due to conclusion of a significant project in the second half, change in the mix of speech data requirements (with comparatively lower levels of higher margin data collection) and investment in people and operational expenses to support future secure processing applications. The Content Relevance division return of 17.6% was significantly higher than the 2016 return of 14.4%, due to improved gross margin management, operating scale efficiencies and economies and a small contribution from Leapforce operations.

The impact of foreign exchange on the translation of revenue and EBITDA resulted in real growth being higher than reported growth. Growth over the prior year in constant currency amounted to an additional 5% on top of reported revenue and an additional 11% on top of reported underlying EBITDA.

## Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the Group during the financial year, other than the Leapforce acquisition on 7 December 2017 and related equity and debt raisings.

## 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 2017 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.

## Information on directors

<b>Name:</b>	Christopher Charles Vonwiller
<b>Title:</b>	Non-Executive Chairman
<b>Age:</b>	75
<b>Qualifications:</b>	BSc, BE (Hons), MBA, FIE (Aust.), FTSE
<b>Experience and expertise:</b>	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.
<b>Special responsibilities:</b>	Chairman of the board
<b>Interests in shares:</b>	13,060,083 ordinary shares (indirectly)
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None

# Directors' Report

continued

<b>Name:</b>	<b>Mark Ronald Brayan</b>
<b>Title:</b>	Managing Director and Chief Executive Officer
<b>Age:</b>	54
<b>Qualifications:</b>	MBA, BSurv (Hons)
<b>Experience and expertise:</b>	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.
<b>Special responsibilities:</b>	None
<b>Interests in shares:</b>	194,908 ordinary shares (directly/indirectly)
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	297,733 performance rights

<b>Name:</b>	<b>William Robert Pulver</b>
<b>Title:</b>	Non-Executive Director
<b>Age:</b>	58
<b>Qualifications:</b>	BCom (Marketing)
<b>Experience and expertise:</b>	William (Bill) Pulver has been a non-executive director of Appen since 31 January 2013. 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.
<b>Special responsibilities:</b>	Chairman of Nominations and Remuneration Committee
<b>Interests in shares:</b>	1,800,495 ordinary shares (indirectly)
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None

<b>Name:</b>	<b>Robin Jane Low</b>
<b>Title:</b>	Independent Non-Executive Director
<b>Age:</b>	56
<b>Qualifications:</b>	BCom, FCA, GAICD
<b>Experience and expertise:</b>	Robin Low has been a non-executive director of Appen since 30 October 2014. Her other directorships include AUB Group Limited (AUB), CSG Limited (CSV), IPH Limited (IPH), Australian Reinsurance Pool Corporation and she is the deputy chairman 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.
<b>Other current directorships:</b>	Director of AUB Group Limited (ASX: AUB), CSG Limited (ASX: CSV) and IPH Limited (ASX: IPH)
<b>Special responsibilities:</b>	Chairman of the Audit and Risk Committee
<b>Interests in shares:</b>	172,743 ordinary shares (indirectly)
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None

# Directors' Report

continued

<b>Name:</b>	<b>Stephen John Hasker</b>
<b>Title:</b>	Non-Executive Director
<b>Age:</b>	48
<b>Qualifications:</b>	B.Com, MBA, MIA, ACAA
<b>Experience and expertise:</b>	Steve Hasker 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 the Australia and NZ Institute of Chartered Accountants.
<b>Special responsibilities:</b>	None
<b>Interests in shares:</b>	50,000 ordinary shares
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None

<b>Name:</b>	<b>Deena Robyn Shiff</b>
<b>Title:</b>	Non-Executive Director
<b>Age:</b>	63
<b>Qualifications:</b>	B.Sc. (Econ); B.A. (Law)
<b>Experience and expertise:</b>	Deena Shiff 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 Chairman 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.
<b>Special responsibilities:</b>	None
<b>Interests in shares:</b>	50,229 ordinary shares (indirectly)
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None

## Company secretary

Leanne Ralph was appointed as Company Secretary on 18 December 2014. Leanne brings a wealth of experience in company secretarial activities, holding the position of Company Secretary for a number of ASX listed companies. Leanne is a fellow of the Governance Institute of Australia and a graduate member of the Australian Institute of Company Directors.

# Directors' Report

continued

## 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 2017, 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	15	15	4	4	–	–
William Pulver	12	15	–	–	1	1
Mark Brayan	15	15	–	–	–	–
Deena Shiff	15	15	4	4	–	–
Stephen Hasker	12	15	–	–	1	1
Robin Low	15	15	4	4	1	1

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 2017 ('**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

The figures are in Australian Dollars unless otherwise noted.

### Details of key management personnel for 2017

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
P Hall	Senior Vice-President, Language Resources
T Garves	Senior Vice-President, Content Relevance

# Directors' Report

continued

## 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 Chairman;  
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; and the policies on risk oversight and management, and makes recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement.

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

Robin Low, Committee Chairman;  
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 July 2017) is as follows:

Role	Fee*
Board Chairman	\$105,000
Non-Executive Director	\$70,000
Audit and Risk Committee Chairman	\$15,000
Nomination and Remuneration Committee Chairman	\$12,500

\* 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 \$450,000 was approved by shareholders prior to the Company's listing on ASX. Details of fees paid to directors in 2016 and 2017 are outlined below:

### Amounts paid to Non-Executive Directors

Director	2017			2016		
	Fees \$	Superannuation \$	Total \$	Fees \$	Superannuation \$	Total \$
C Vonwiller	60,750	33,000	93,750	67,500	22,500	90,000
W Pulver	63,356	6,019	69,375	59,361	5,639	65,000
R Low	67,352	6,398	73,750	63,927	6,073	70,000
J Samuel*	9,167	–	9,167	50,417	–	50,417
D Shiff	53,653	5,097	58,750	50,228	4,772	55,000
S Hasker	58,750	–	58,750	55,000	–	55,000
	<b>313,028</b>	<b>50,514</b>	<b>363,542</b>	<b>346,433</b>	<b>38,984</b>	<b>385,417</b>

\* Jeremy Samuel resigned as Non-Executive Director on 29 November 2016. He waived his entitlement to directors' fees until the end of 31 December 2015.

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

Director	Number of Shares			31 December 2017
	1 January 2017	Purchased during the year	Sold during the year	
C Vonwiller	13,060,083	–	–	13,060,083
W Pulver	2,300,266	229	(500,000)	1,800,495
M Brayan	194,450	458	–	194,908
R Low	165,014	7,729	–	172,743
D Shiff	50,000	229	–	50,229
S Hasker	50,000	–	–	50,000
	<b>15,819,813</b>	<b>8,645</b>	<b>(500,000)</b>	<b>15,328,458</b>

## 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:

	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000
Net profit after tax	14,282	10,489	8,308	1,616	1,585
Underlying net profit after tax*	19,749	10,620	8,308	1,616	1,585
Underlying EBITDA**	28,118	17,312	13,822	6,674	6,999
Dividends	5,861	4,851	1,155	1,188	724
Basic earnings per share - cents per share	14.55	10.81	8.67	2.15	2.15
Basic underlying earnings per share – cents per share*	20.12	10.95	8.67	2.15	2.15

\* Before transaction costs (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
P Hall	SVP, Language Resources	No fixed term	1 March	13 weeks
T Garves	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

	2017 Weighting	2016 Weighting
Revenue	33%	33%
EBITDA	67%	67%

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.

## 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.

# Directors' Report

continued

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*	USD	94,789	30%	-%	-	-

\* Exited 17 May 2017.

\*\* Includes superannuation for only Australian based executives.

## 2016 Results and STI Payments

	Target	Actual	% Actual/ Target	% Payout
Revenue	\$95,360,000	\$110,944,075	116%	134%
EBITDA	\$15,550,000	\$17,313,850	111%	124%

Weighted average performance payout is 127.3%

Executive	Currency	Fixed Remuneration** \$	STI Target %	Performance Payout % (Max 150%) %	Total STI Payout \$	Total STI Payout (AUD) \$
M Brayan	AUD	450,000	50%	127.3%	286,425	286,425
K Levine*	AUD	297,692	30%	127.3%	113,688	113,688
P Hall	AUD	236,084	30%	137.0%	97,004	97,004
T Garves	USD	224,454	30%	137.0%	92,221	127,166
T White	USD	214,596	30%	86.6%	55,756	76,883

\* Started 4 January 2016.

\*\* Includes superannuation for only Australian based executives.

### 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.

### 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.

# Directors' Report

continued

The long term incentive plan provides for annual grants of Performance Rights to senior management, vesting three years after grant date, subject to an employment condition and annual performance hurdles (refer table below for further detail on how achievement is measured and assessed). The Performance Rights will only vest subject to:

- achievement of a Basic Earnings Per Share ('EPS') performance condition which is tested annually, measured on the performance for that period, for the three consecutive years applicable to the grant. 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, subject to Board discretion. 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, to be measured over a one year period, 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.

## Overview of Performance Rights and Conditions

Plan	Grant date	Expiry date*	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved***	Vesting condition	Vesting date
2015	25 Feb 2015	N/A	N/A	1	Basic EPS annual growth rate	4.3%**	End 2015	Yes	Employed at 1 Jan 2018	1 Mar 2018
2015	25 Feb 2015	N/A	N/A	2	Basic EPS annual growth rate	10.0%	End 2016	Yes	Employed at 1 Jan 2018	1 Mar 2018
2015	25 Feb 2015	N/A	N/A	3	Basic EPS annual growth rate	10.0%	End 2017	Yes	Employed at 1 Jan 2018	1 Mar 2018
2016	1 Mar 2016	N/A	N/A	1	Basic EPS annual growth rate	10.0%	End 2016	Yes	Employed at 1 Jan 2019	1 Mar 2019
2016	1 Mar 2016	N/A	N/A	2	Basic EPS annual growth rate	10.0%	End 2017	Yes	Employed at 1 Jan 2019	1 Mar 2019
2016	1 Mar 2016	N/A	N/A	3	Basic EPS annual growth rate	10.0%	End 2018	N/A	Employed at 1 Jan 2019	1 Mar 2019
2017	1 Mar 2017	N/A	N/A	1	Basic EPS annual growth rate	10.0%	End 2017	Yes	Employed at 1 Jan 2020	1 Mar 2020
2017	1 Mar 2017	N/A	N/A	2	Basic EPS annual growth rate	10.0%	End 2018	N/A	Employed at 1 Jan 2020	1 Mar 2020
2017	1 Mar 2017	N/A	N/A	3	Basic EPS annual growth rate	10.0%	End 2019	N/A	Employed at 1 Jan 2020	1 Mar 2020

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

\*\* Based off the adjusted net profit after tax for 2014, to align with prospectus forecast.

\*\*\* Target achievement table:

# Directors' Report

continued

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.

The number of performance rights allocated to executives are:

Plan	M Brayan	K Levine	P Hall	T Garves	Total
2015*	142,768	–	102,366	138,679	383,813
2016	95,535	63,690	50,952	73,470	283,647
2017	59,430	35,022	26,743	35,598	156,793
	<b>297,733</b>	<b>98,712</b>	<b>180,061</b>	<b>247,747</b>	<b>824,253</b>

\* These were granted on the 25 February 2015 for all executives other than Mark Brayan. His performance rights were granted following his commencement on 29 July 2015.

## Option Plans

At the time of listing on the ASX, the Company offered to buy back all options held by the relevant executives that vested out to 1 March 2015 through a cash settlement. Alternatively, executives were allowed to roll these options forward under similar conditions. As part of this process, the Company and option holders agreed to make some minor changes to the option plans to facilitate this. No fair value increment was recognised on modification date, as the liability for cash settlement recognised was less than the amount previously recognised in equity for these options.

For all options vesting in 2016 and 2017, which were lost, the Board agreed to replace these with another plan considering the share split with the same terms as those that were replaced. There was no incremental fair value created on the replaced options based on a replacement date fair value binomial option pricing model comparison. These options are not performance based and vest over two years at the listing price with similar vesting and expiry dates to the replaced options.

Details of this replacement option plan are noted below:

Executive	Number of Options	Grant date:	24 December 2014	24 December 2014
		Expiry:	1 March 2020	1 March 2021
		Vesting date:	1 January 2016	1 January 2017
		Exercise Price:	0.50 cents	0.50 cents
L Braden-Harder	425,000		212,500	212,500
M Byrne	212,500		106,250	106,250
P Hall	212,500		106,250	106,250
T Garves	212,500		106,250	106,250
T White	212,500		106,250	106,250
	<b>1,275,000</b>		<b>637,500</b>	<b>637,500</b>

# Directors' Report

continued

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

Executive	Held at 1 January 2017	Exercised*	Forfeited	Held at 31 December 2017	Vested during the year	Vested and exercisable at 31 December 2017
P Hall	106,250	(106,250)	–	–	–	–
T Garves	106,250	(106,250)	–	–	–	–
T White	253,400	(253,400)	–	–	–	–

\* Details of the options exercised are detailed in the table below.

Executive	Number of Options Exercised No	Amount paid on Options Exercised \$	Vested and Value of Options at Time of Exercise \$
P Hall	106,250	53,125	251,813
T Garves	106,250	53,125	274,125
T White	253,400	125,108	653,772

## Summary of Executive Remuneration

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

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 \$	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*	123,613	–	30,385	–	25,659	–	–	179,657
	<b>1,461,267</b>	<b>744,702</b>	<b>126,358</b>	–	<b>160,312</b>	<b>188,853</b>	–	<b>2,681,492</b>

\* Exited 17 May 2017.

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

# Directors' Report

continued

2016	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		Total \$
	Cash Salary \$	STI \$	***Super-annuation \$	Termination Payments \$	Leave Entitlements \$	Equity-Settled \$	Cash-Settled \$	
M Brayan	427,722	286,425	22,278	–	39,338	81,686	–	857,449
K Levine*	274,034	113,688	23,658	–	3,448	30,082	–	444,910
M Byrne**	19,026	–	11,582	–	34,086	7,517	–	72,211
P Hall	215,601	97,004	20,482	–	16,705	56,765	–	406,557
T Garves	309,506	127,166	38,470	–	969	75,963	–	552,074
T White	295,913	76,883	50,469	–	924	74,034	–	498,223
	<b>1,541,802</b>	<b>701,166</b>	<b>166,939</b>	<b>–</b>	<b>95,470</b>	<b>326,047</b>	<b>–</b>	<b>2,831,424</b>

\* Appointed on 4 January 2016.

\*\* Resigned on 29 January 2016.

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

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

Executive	Proportion of remuneration performance related		Value of equity as proportion of remuneration	
	2017	2016	2017	2016
M Brayan	38%	33%	7%	10%
K Levine	27%	26%	7%	7%
P Hall	22%	24%	8%	14%
T Garves	25%	23%	8%	14%
T White*	0%	15%	0%	15%

\* Exited 17 May 2017.

## 6. Executive Shareholdings

The table below outlines the current shares, rights and options held by the executive KMP as at 31 December 2017:

Executive	Number of ordinary shares currently held (direct and indirect)	Security	Plan	Number
M Brayan	194,908	Rights	2015	142,768
		Rights	2016	95,535
		Rights	2017	59,430
K Levine	76,582	Rights	2016	63,690
		Rights	2017	35,022
P Hall	212,729	Rights	2015	102,366
		Rights	2016	50,952
		Rights	2017	26,743
T Garves	12,725	Rights	2015	138,679
		Rights	2016	73,470
		Rights	2017	35,598

# Directors' Report

continued

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/>.

## Shares under option

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

<b>Expiry date</b>	<b>Exercise Price</b>	<b>Number of Options</b>
1 March 2019	\$0.494	81,800
1 March 2020	\$0.500	13,281
1 March 2021	\$0.500	13,281
		<b>108,362</b>

## Options and rights granted to directors and executives of the Company

There were no options or rights granted to the Non-Executive Directors during the year. During or since the end of the financial year, the Company granted rights to the following five, most highly remunerated officers of the Company as part of their remuneration:

<b>Executive</b>	<b>Number of Rights</b>
Mark Brayan	59,430
Kevin Levine	35,022
Philip Hall	26,743
Tammy Garves	35,598
	<b>156,793</b>

## Shares issued on the exercise of options

During the year, 653,950 ordinary shares of the Company were issued and fully paid for, on the exercise of options during the year ended 31 December 2017 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, 9,398 ordinary shares of the Company were issued on the exercise of performance rights during the year ended 31 December 2017 and up to the date of this Remuneration Report.

This concludes the remuneration report, which has been audited.

# 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

21 February 2018  
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 2017 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.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Tony Nimac'.

Tony Nimac

Partner

Sydney

21 February 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

	Note	Group	
		2017 \$'000	2016 \$'000
<b>Revenue</b>	5	166,571	111,003
Net foreign exchange gain		969	–
<b>Expenses</b>			
Services purchased - data collection		(99,816)	(62,273)
Employee benefits expense	6	(29,527)	(22,079)
Depreciation and amortisation expense	6	(1,863)	(1,153)
Impairment of assets	6	–	(63)
Travel expense		(1,064)	(1,197)
Professional fees		(1,920)	(1,515)
Rental expense		(894)	(524)
Communication expense		(337)	(347)
Transaction costs		(5,877)	(131)
Net foreign exchange loss		–	(299)
Other expenses		(5,854)	(5,384)
Finance costs	6	(13)	(7)
<b>Profit before income tax expense</b>		<b>20,375</b>	<b>16,031</b>
Income tax expense	7	(6,093)	(5,542)
<b>Profit after income tax expense for the year attributable to the owners of Appen Limited</b>	20	<b>14,282</b>	<b>10,489</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(882)	309
Other comprehensive income/(loss) for the year, net of tax		<b>(882)</b>	<b>309</b>
<b>Total comprehensive income for the year attributable to the owners of Appen Limited</b>		<b>13,400</b>	<b>10,798</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	34	14.55	10.81
Diluted earnings per share	34	14.36	10.53

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 2017

	Note	Group	
		2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	24,015	16,471
Trade and other receivables	9	42,908	21,861
Derivative financial instruments	10	123	-
Prepayments		1,121	415
<b>Total current assets</b>		<b>68,167</b>	<b>38,747</b>
<b>Non-current assets</b>			
Property, plant and equipment		1,762	725
Intangibles	11	116,253	14,543
Other non-current assets		1,866	12
<b>Total non-current assets</b>		<b>119,881</b>	<b>15,280</b>
<b>Total assets</b>		<b>188,048</b>	<b>54,027</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	21,173	12,177
Derivative financial instruments	13	46	199
Income tax		1,303	1,447
Provisions	14	1,151	884
Revenue received in advance		1,237	716
<b>Total current liabilities</b>		<b>24,910</b>	<b>15,423</b>
<b>Non-current liabilities</b>			
Borrowings	15	67,885	6
Deferred tax	16	1,369	2,778
Provisions	17	473	417
<b>Total non-current liabilities</b>		<b>69,727</b>	<b>3,201</b>
<b>Total liabilities</b>		<b>94,637</b>	<b>18,624</b>
<b>Net assets</b>		<b>93,411</b>	<b>35,403</b>
<b>Equity</b>			
Issued capital	18	69,569	19,510
Reserves	19	27,712	19,763
Accumulated losses	20	(3,870)	(3,870)
<b>Total equity</b>		<b>93,411</b>	<b>35,403</b>

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 2017

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2016	19,077	13,451	(3,870)	28,658
Profit after income tax expense for the year	-	-	10,489	10,489
Other comprehensive income for the year, net of tax	-	309	-	309
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>309</b>	<b>10,489</b>	<b>10,798</b>
<i>Transactions with owners in their capacity as owners:</i>				
Transfer between reserves	-	10,489	(10,489)	-
Issue of ordinary shares (Note 18)	433	-	-	433
Share-based payments	-	365	-	365
Dividends paid (Note 21)	-	(4,851)	-	(4,851)
<b>Balance at 31 December 2016</b>	<b>19,510</b>	<b>19,763</b>	<b>(3,870)</b>	<b>35,403</b>

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)
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>(882)</b>	<b>14,282</b>	<b>13,400</b>
<i>Transactions with owners in their capacity as owners:</i>				
Transfer between reserves	-	14,282	(14,282)	-
Issue of ordinary shares, net of transaction costs (Note 18)	50,059	-	-	50,059
Share-based payments	-	410	-	410
Dividends paid (Note 21)	-	(5,861)	-	(5,861)
<b>Balance at 31 December 2017</b>	<b>69,569</b>	<b>27,712</b>	<b>(3,870)</b>	<b>93,411</b>

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 2017

	Note	Group	
		2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		157,706	106,836
Payments to suppliers and employees (inclusive of GST)		(136,772)	(90,103)
		20,934	16,733
Interest received		10	8
Interest paid		(13)	(7)
Income taxes paid		(7,547)	(4,055)
<b>Net cash from operating activities</b>	<b>33</b>	<b>13,384</b>	<b>12,679</b>
<b>Cash flows from investing activities</b>			
Payments for acquisition	30	(93,127)	(2,525)
Cash acquired on acquisition	30	4,915	396
Transaction costs paid for acquisition		(3,577)	-
Payments for property, plant and equipment		(3,174)	(654)
Payments for intangibles		(2,628)	(1,808)
<b>Net cash used in investing activities</b>		<b>(97,591)</b>	<b>(4,591)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares, net of transaction costs	18	29,428	433
Proceeds from borrowings		69,241	-
Dividends paid	21	(5,861)	(4,851)
<b>Net cash from/(used in) financing activities</b>		<b>92,808</b>	<b>(4,418)</b>
Net increase in cash and cash equivalents		8,601	3,670
Cash and cash equivalents at the beginning of the financial year		16,471	12,725
Effects of exchange rate changes on cash and cash equivalents		(1,057)	76
<b>Cash and cash equivalents at the end of the financial year</b>	<b>8</b>	<b>24,015</b>	<b>16,471</b>

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 2017

## 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 21 February 2018.

## 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.

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

### 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, 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 29.

#### 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 2017 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.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

### 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.

### 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

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

### 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 projects are 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. 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.

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.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

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 provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Work-in-progress 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.

### 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.

### 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.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

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.

### 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 is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Patents

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

### Internal software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 1 and 7 years.

### Licence and database

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

Licence and database are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years.

### Contracts

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.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

### *Platform technology development*

Platform technology 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 of 3 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.

### **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.

### **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.

### **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.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

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 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.

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.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

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.

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 2017. 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 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely comprise principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies (continued)

New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018. Management has commenced a project to understand the impact of the new accounting standard. Based on the work performed to date, the management team does not expect the new accounting standard to have a material impact.

### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be 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. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 January 2018. Management has commenced a project to understand the impact of the new accounting standard. Based on the work performed to date, the management team does not expect the new accounting standard to have a material impact.

### *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, measured as the present value of the unavoidable future lease payments to be made over the lease term. 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 does not expect the new accounting standard to have a material impact.

## 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.

# Notes to the Consolidated Financial Statements

continued

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

### 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.

### 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.

## 4. 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.

# Notes to the Consolidated Financial Statements

continued

## 4. Operating segments (continued)

### 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 results.
Language Resources	Language Resources provides 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 2017 approximately 86% (2016: 83%) of the Group's external revenue was derived from sales to five major customers.

### Operating segment information

Group – 2017	Content Relevance \$'000	Language Resources \$'000	Other segments \$'000	Total \$'000
<b>Revenue</b>				
Services revenue	126,160	40,397	–	166,557
Interest	–	–	10	10
Other income	–	–	4	4
<b>Total revenue</b>	<b>126,160</b>	<b>40,397</b>	<b>14</b>	<b>166,571</b>
<b>Segment result</b>	22,147	12,176	(256)	34,067
Corporate overhead				(6,886)
Foreign exchange				937
Transaction costs				(5,877)
Depreciation and amortisation*				(1,863)
Interest				(3)
<b>Profit before income tax expense</b>				<b>20,375</b>
Income tax expense				(6,093)
<b>Profit after income tax expense</b>				<b>14,282</b>

\* Amortisation expense includes AUD\$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

continued

## 4. Operating segments (continued)

Group - 2016	Content Relevance \$'000	Language Resources \$'000	Other segments \$'000	Total \$'000
<b>Revenue</b>				
Services revenue	73,216	37,727	–	110,943
Interest	–	–	8	8
Other income	–	–	52	52
<b>Total revenue</b>	<b>73,216</b>	<b>37,727</b>	<b>60</b>	<b>111,003</b>
<b>Segment result</b>				
Corporate overhead				(6,139)
Foreign exchange				(300)
Transaction costs				(131)
Depreciation and amortisation				(1,153)
Interest				1
<b>Profit before income tax expense</b>				<b>16,031</b>
Income tax expense				(5,542)
<b>Profit after income tax expense</b>				<b>10,489</b>

## Geographical information

	Services revenue		Geographical non-current assets	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Australia	40,393	34,233	1,106	666
US	126,164	76,710	114,035	12,169
Others	–	–	4,740	2,445
	<b>166,557</b>	<b>110,943</b>	<b>119,881</b>	<b>15,280</b>

## 5. Revenue

	Group	
	2017 \$'000	2016 \$'000
<i>Sales revenue</i>		
Services revenue	166,557	110,943
<i>Other revenue</i>		
Interest	10	8
Rent	4	52
	<b>14</b>	<b>60</b>
<b>Revenue</b>	<b>166,571</b>	<b>111,003</b>

# Notes to the Consolidated Financial Statements

continued

## 6. Expenses

	<b>Group</b>	
	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	120	104
Fixtures and fittings	43	9
Computer equipment	207	220
Audio equipment	17	20
Make good	5	16
<b>Total depreciation</b>	<b>392</b>	<b>369</b>
<i>Amortisation</i>		
Patents and formation costs	2	3
Internal software and platform development	472	536
Licence, database and project development*	930	136
Contracts	67	109
<b>Total amortisation</b>	<b>1,471</b>	<b>784</b>
<b>Total depreciation and amortisation</b>	<b>1,863</b>	<b>1,153</b>
<i>Impairment</i>		
Receivables	-	63
<i>Finance costs</i>		
Interest and finance charges paid/payable	13	7
<i>Employee benefits expense</i>		
Defined contribution superannuation expense	1,194	1,028
Share-based payments expense	410	365
Employee benefits expense	27,923	20,686
<b>Total employee benefits expense</b>	<b>29,527</b>	<b>22,079</b>

\* Amortisation expense 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

continued

## 7. Income tax expense

	Group	
	2017 \$'000	2016 \$'000
<i>Income tax expense</i>		
Current tax	7,502	4,260
Deferred tax - origination and reversal of temporary differences	(1,409)	1,282
<b>Aggregate income tax expense</b>	<b>6,093</b>	<b>5,542</b>
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (Note 16)	(1,409)	1,282
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	20,375	16,031
Tax at the statutory tax rate of 30%	6,113	4,809
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	113	149
	<b>6,226</b>	<b>4,958</b>
Difference in overseas tax rates	(133)	584
<b>Income tax expense</b>	<b>6,093</b>	<b>5,542</b>

## 8. Current assets - cash and cash equivalents

	Group	
	2017 \$'000	2016 \$'000
Cash on hand	3	4
Cash at bank	24,012	16,341
Cash on deposit	-	126
	<b>24,015</b>	<b>16,471</b>

## 9. Current assets - trade and other receivables

	Group	
	2017 \$'000	2016 \$'000
Trade receivables	30,923	14,360
Less: Provision for impairment of receivables	(75)	(81)
	<b>30,848</b>	<b>14,279</b>
Other receivables	5,228	229
Work in progress	6,540	7,184
GST receivable	292	169
	<b>42,908</b>	<b>21,861</b>

The GST receivable in 2017 includes the net of GST/VAT receivable and payable amounts. Refer to Note 12 for the change.

# Notes to the Consolidated Financial Statements

continued

## 9. Current assets – trade and other receivables (continued)

### Impairment of receivables

The Group has recognised a loss of \$nil (2016: \$63,000) in profit or loss in respect of impairment of receivables for the year ended 31 December 2017.

The ageing of the impaired receivables provided for above are as follows:

	Group	
	2017 \$'000	2016 \$'000
0 to 3 months overdue	–	81
Over 6 months overdue	75	–
	<b>75</b>	<b>81</b>

Movements in the provision for impairment of receivables are as follows:

	Group	
	2017 \$'000	2016 \$'000
Opening balance	81	34
Additional provisions recognised	–	63
Foreign currency revaluation on opening balance	(6)	–
Receivables written off during the year as uncollectable	–	(16)
<b>Closing balance</b>	<b>75</b>	<b>81</b>

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$3,793,000 as at 31 December 2017 (\$2,149,000 as at 31 December 2016).

The Group did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection.

The ageing of the past due but not impaired receivables are as follows:

	Group	
	2017 \$'000	2016 \$'000
0 to 3 months overdue	3,701	2,137
3 to 6 months overdue	60	12
Over 6 months overdue	32	–
	<b>3,793</b>	<b>2,149</b>

# Notes to the Consolidated Financial Statements

continued

## 10. Current assets - derivative financial instruments

	Group	
	2017 \$'000	2016 \$'000
Forward foreign exchange contracts - cash flow hedges	123	-

Refer to Note 23 for further information on fair value measurement.

## 11. Non-current assets - intangibles

	Group	
	2017 \$'000	2016 \$'000
Goodwill - at cost	111,869	11,463
Patents and formation costs - at cost	321	300
Less: Accumulated amortisation	(280)	(278)
	<b>41</b>	<b>22</b>
Internal software and platform development - at cost	2,181	2,437
Less: Accumulated amortisation	(1,038)	(1,453)
	<b>1,143</b>	<b>984</b>
Licence, database and project development - at cost	4,732	2,215
Less: Accumulated amortisation	(1,802)	(141)
	<b>2,930</b>	<b>2,074</b>
Contracts - at cost	3,035	2,925
Less: Accumulated amortisation	(2,765)	(2,925)
	<b>270</b>	<b>-</b>
	<b>116,253</b>	<b>14,543</b>

# Notes to the Consolidated Financial Statements

continued

## 11. 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	Patents and formation costs \$'000	Internal software and platform development \$'000	Licence, database and project development \$'000	Contracts \$'000	Total \$'000
Balance at 1 January 2016	9,336	25	1,517	357	107	11,342
Additions	–	–	–	1,808	–	1,808
Additions through business combinations (Note 30)	2,007	–	–	–	–	2,007
Exchange differences	120	–	3	45	2	170
Amortisation expense	–	(3)	(536)	(136)	(109)	(784)
<b>Balance at 31 December 2016</b>	<b>11,463</b>	<b>22</b>	<b>984</b>	<b>2,074</b>	<b>–</b>	<b>14,543</b>
Additions	–	22	584	2,021	–	2,627
Additions through business combinations (Note 30)	100,739	–	–	–	–	100,739
Reclassifications	(333)	–	107	(107)	333	–
Exchange differences	–	(1)	(60)	(128)	4	(185)
Amortisation expense*	–	(2)	(472)	(930)	(67)	(1,471)
<b>Balance at 31 December 2017</b>	<b>111,869</b>	<b>41</b>	<b>1,143</b>	<b>2,930</b>	<b>270</b>	<b>116,253</b>

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

### 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.

Value in use for the 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 2018 to 2022 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 22% based on the weighted average cost of capital.

# Notes to the Consolidated Financial Statements

continued

## 11. Non-current assets - intangibles (continued)

### *Leapforce, Inc. and Raterlabs, Inc.*

Leapforce and Raterlabs were acquired on 7 December 2017. As provisional accounting is being applied, the value in use calculation will be performed once all values have been finalised.

### *Mendip Media Group Limited*

Value in use for the 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 6% for 2018 to 2022 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 22% based on the weighted average cost of capital.

## 12. Current liabilities - trade and other payables

	Group	
	2017 \$'000	2016 \$'000
Trade payables	9,240	5,842
VAT payable	–	131
Other payables and accrued expenses	11,933	6,204
	<b>21,173</b>	<b>12,177</b>

Refer to Note 22 for further information on financial instruments.

The GST/VAT payable has been included in GST receivable to disclose the net of GST/VAT receivable and payable amounts effected in 2017. Refer to Note 9 for the change.

## 13. Current liabilities - derivative financial instruments

	Group	
	2017 \$'000	2016 \$'000
Forward foreign exchange contracts	–	92
Foreign exchange contracts - Collars	46	107
	<b>46</b>	<b>199</b>

Refer to Note 22 for further information on financial instruments.

Refer to Note 23 for further information on fair value measurement.

# Notes to the Consolidated Financial Statements

continued

## 14. Current liabilities - provisions

	Group	
	2017 \$'000	2016 \$'000
Annual leave	1,051	789
Lease make-good	100	95
	<b>1,151</b>	<b>884</b>

### 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 - 2017	Lease make-good \$'000
Carrying amount at the start of the year	95
Additional provisions recognised	5
<b>Carrying amount at the end of the year</b>	<b>100</b>

## 15. Non-current liabilities - borrowings

	Group	
	2017 \$'000	2016 \$'000
Facility A (Senior debt)	50,843	–
Facility B (Working capital)	17,038	–
Lease liability	4	6
	<b>67,885</b>	<b>6</b>

Refer to Note 22 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 \$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. This facility is repayable at the end of the term. 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.

# Notes to the Consolidated Financial Statements

continued

## 15. Non-current liabilities - borrowings (continued)

### Total secured liabilities

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

	Group	
	2017 \$'000	2016 \$'000
Facility A (Senior debt)	50,843	–
Facility B (Working capital)	17,038	–
Lease liability	4	6
	<b>67,885</b>	<b>6</b>

### 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	
	2017 \$'000	2016 \$'000
Total facilities		
Facility A (Senior debt)	51,237	–
Facility B (Working capital)	20,000	–
	<b>71,237</b>	–
Used at the reporting date		
Facility A (Senior debt)	51,237	–
Facility B (Working capital)	17,038	–
	<b>68,275</b>	–
Unused at the reporting date		
Facility A (Senior debt)	–	–
Facility B (Working capital)	2,962	–
	<b>2,962</b>	–

\* Balance excludes borrowing cost of \$394,000.

# Notes to the Consolidated Financial Statements

continued

## 16. Non-current liabilities - deferred tax

	Group	
	2017 \$'000	2016 \$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
<i>Amounts recognised in profit or loss:</i>		
Platform development costs	298	403
Impairment of receivables	(20)	(30)
Property, plant and equipment	62	(60)
Intangible assets	929	1,537
Employee benefits	(893)	(963)
Accrued expenses	(955)	(260)
Work-in-progress	1,962	2,155
Foreign currency revaluation and other expense	(14)	(4)
<b>Deferred tax liability</b>	<b>1,369</b>	<b>2,778</b>
<i>Movements:</i>		
Opening balance	2,778	1,496
Charged/(credited) to profit or loss (Note 7)	(1,409)	1,282
<b>Closing balance</b>	<b>1,369</b>	<b>2,778</b>

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

## 17. Non-current liabilities - provisions

	Group	
	2017 \$'000	2016 \$'000
<b>Long service leave</b>	<b>473</b>	<b>417</b>

# Notes to the Consolidated Financial Statements

continued

## 18. Equity - issued capital

	Group			
	2017 Shares	2016 Shares	2017 \$'000	2016 \$'000
Ordinary shares - fully paid	105,804,907	97,180,407	69,569	19,510

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2016	96,280,001		19,077
Issue of shares on exercise of options	1 March 2016	51,125	\$0.412	21
Issue of shares on exercise of options	1 March 2016	112,475	\$0.432	49
Issue of shares on exercise of options	1 March 2016	112,475	\$0.489	55
Issue of shares on exercise of options	1 March 2016	51,125	\$0.494	26
Issue of shares on exercise of options	1 March 2016	358,593	\$0.500	179
Issue of shares on exercise of options	16 March 2016	26,563	\$0.500	13
Issue of shares on exercise of options	8 June 2016	106,250	\$0.500	53
Issue of shares on exercise of options	10 November 2016	40,900	\$0.412	17
Issue of shares on exercise of options	10 November 2016	40,900	\$0.494	20
<b>Balance</b>	31 December 2016	<b>97,180,407</b>		<b>19,510</b>
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)
<b>Balance</b>	31 December 2017	<b>105,804,907</b>		<b>69,569</b>

# Notes to the Consolidated Financial Statements

continued

## 18. Equity - issued capital (continued)

### 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.

### 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 2016 Annual Report.

## 19. Equity - reserves

	<b>Group</b>	
	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Common control reserve	(1,416)	(1,416)
Foreign currency translation reserve	2,790	3,672
Share-based payments reserve	1,979	1,569
Profits reserve	22,500	14,079
Other reserves	1,859	1,859
	<b>27,712</b>	<b>19,763</b>

### 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.

# Notes to the Consolidated Financial Statements

continued

## 19. Equity - reserves (continued)

### 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 and not appropriate 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.

### 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 2016	(1,416)	3,363	1,204	8,441	1,859	13,451
Foreign currency translation	-	309	-	-	-	309
Share-based payments	-	-	365	-	-	365
Transfer from accumulated losses	-	-	-	10,489	-	10,489
Dividends paid	-	-	-	(4,851)	-	(4,851)
<b>Balance at 31 December 2016</b>	<b>(1,416)</b>	<b>3,672</b>	<b>1,569</b>	<b>14,079</b>	<b>1,859</b>	<b>19,763</b>
Foreign currency translation	-	(882)	-	-	-	(882)
Share-based payments	-	-	410	-	-	410
Transfer from accumulated losses	-	-	-	14,282	-	14,282
Dividends paid	-	-	-	(5,861)	-	(5,861)
<b>Balance at 31 December 2017</b>	<b>(1,416)</b>	<b>2,790</b>	<b>1,979</b>	<b>22,500</b>	<b>1,859</b>	<b>27,712</b>

## 20. Equity - accumulated losses

	Group	
	2017 \$'000	2016 \$'000
Accumulated losses at the beginning of the financial year	(3,870)	(3,870)
Profit after income tax expense for the year	14,282	10,489
Transfer to Profits reserve	(14,282)	(10,489)
<b>Accumulated losses at the end of the financial year</b>	<b>(3,870)</b>	<b>(3,870)</b>

# Notes to the Consolidated Financial Statements

continued

## 21. Equity - dividends

### Dividends

Dividends paid during the financial year were as follows:

	Group	
	2017 \$'000	2016 \$'000
Final dividend paid out of the profits reserve for the year ended 31 December 2016 of 3.0 cents per ordinary share (2016: 31 December 2015 of 3.0 cents)	2,928	2,909
Interim dividend paid out of the profits reserve for the year ended 31 December 2017 of 3.0 cents per ordinary share (2016: 31 December 2016 of 2.0 cents)	2,933	1,942
	<b>5,861</b>	<b>4,851</b>

### Dividend declared

On 21 February 2018, the Company declared a final dividend for the year ended 31 December 2017 of 3.0 cents per share, fully franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 27 February 2018. The financial effect of these dividends has not been brought to account in the financial statements for the period ended 31 December 2017 and will be recognised in subsequent financial reports.

### Franking credits

	Group	
	2017 \$'000	2016 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	3,446	2,461

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

## 22. 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.

# Notes to the Consolidated Financial Statements

continued

## 22. 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:

	Sell Australian dollars		Average exchange rates	
	2017 \$'000	2016 \$'000	2017	2016
<b>Sell United States dollars</b>				
Foreign exchange forward contract maturity:				
0 - 3 months	7,180	1,580	0.7591	0.7592
3 - 6 months	3,247	395	0.7700	0.7450

	Buy Australian dollars		Average exchange rates	
	2017 \$'000	2016 \$'000	2017	2016
<b>Sell United States dollars</b>				
Foreign exchange option contract maturity:				
0 - 3 months	1,300	4,683	0.7690	0.7474
3 - 6 months	3,247	2,043	0.7687	0.7342

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

	Average exchange rates		Reporting date exchange rates	
	2017	2016	2017	2016
<b>Australian dollars</b>				
United States Dollars	0.7692	0.7422	0.7809	0.7202
European Economic and Monetary Union Euro	0.5930	0.6729	0.5787	0.6844
United Kingdom Pound Sterling	0.6773	0.5536	0.6517	0.5840
Hong Kong Dollars	5.9946	5.7603	6.0994	5.5846
Philippine Pesos	39.8340	35.3549	39.0305	35.7238

# Notes to the Consolidated Financial Statements

continued

## 22. 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	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
United States Dollars	47,283	27,411	58,431	5,754
European Economic and Monetary Union Euro	1,313	427	–	–
United Kingdom Pound Sterling	351	700	81	156
Hong Kong Dollars	1	1	–	–
Philippine Pesos	913	1,330	177	3
	<b>49,861</b>	<b>29,869</b>	<b>58,689</b>	<b>5,913</b>

The Group had net liabilities denominated in foreign currencies of \$8,828,000 (assets \$49,861,000 less liabilities \$58,689,000) as at 31 December 2017 (2016: net assets of \$23,956,000 (assets \$29,869,000 less liabilities \$5,913,000)).

Based on this exposure, had the Australian dollar weakened by 5% or strengthened by 5% (2016: 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 - 2017	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
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
		<b>2,264</b>	<b>(1,985)</b>		<b>(2,264)</b>	<b>1,985</b>

# Notes to the Consolidated Financial Statements

continued

## 22. Financial instruments (continued)

Group - 2016	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
United States Dollars	5%	(43)	(1,040)	5%	43	1,040
European Economic and Monetary Union Euro	5%	(21)	–	5%	21	–
United Kingdom Pound Sterling	5%	–	(27)	5%	–	27
Hong Kong Dollars	5%	–	–	5%	–	–
Philippine Pesos	5%	–	(66)	5%	–	66
		<b>(64)</b>	<b>(1,133)</b>		<b>64</b>	<b>1,133</b>

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. (2016: numbers have been restated due to change in methodology).

### 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	2017		2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Facility A	3.67%	51,237	–	–
Facility B	3.71%	17,038	–	–
Net exposure to cash flow interest rate risk		<b>68,275</b>		–

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 \$68,275 (2016: \$nil).

# Notes to the Consolidated Financial Statements

continued

## 22. 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 - 2017	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Facility A	100	(512)	(512)	100	512	512
Facility B	100	(170)	(170)	100	170	170
		<b>(682)</b>	<b>(682)</b>		<b>682</b>	<b>682</b>

The Group is not exposed to any significant interest rate risk at 31 December 2016.

### 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.

### 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.

### Financing arrangements

Unused borrowing facilities at the reporting date:

	Group	
	2017 \$'000	2016 \$'000
Facility B (Working capital)	2,962	-

# Notes to the Consolidated Financial Statements

continued

## 22. Financial instruments (continued)

### 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 - 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
<b>Non-derivatives</b>						
<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
<b>Total non-derivatives</b>		<b>11,252</b>	<b>1,335</b>	<b>69,607</b>	<b>–</b>	<b>82,194</b>
<b>Derivatives</b>						
Foreign exchange contracts - Collars	–	46	–	–	–	46
<b>Total derivatives</b>		<b>46</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>46</b>

Group - 2016	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	–	5,842	–	–	–	5,842
Other payables	–	545	–	–	–	545
<i>Interest-bearing - variable</i>						
Lease liability	–	–	6	–	–	6
<b>Total non-derivatives</b>		<b>6,387</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>6,393</b>
<b>Derivatives</b>						
Forward foreign exchange contracts net settled	–	92	–	–	–	92
Foreign exchange contracts - Collars	–	107	–	–	–	107
<b>Total derivatives</b>		<b>199</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>199</b>

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

continued

## 23. 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

<b>Group - 2017</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<i>Assets</i>				
Forward foreign exchange contracts	–	123	–	123
<b>Total assets</b>	<b>–</b>	<b>123</b>	<b>–</b>	<b>123</b>
<i>Liabilities</i>				
Foreign exchange contracts - Collars	–	46	–	46
<b>Total liabilities</b>	<b>–</b>	<b>46</b>	<b>–</b>	<b>46</b>
<b>Group - 2016</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<i>Liabilities</i>				
Forward foreign exchange contracts	–	92	–	92
Foreign exchange contracts - Collars	–	107	–	107
<b>Total liabilities</b>	<b>–</b>	<b>199</b>	<b>–</b>	<b>199</b>

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

continued

## 24. 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:

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,518,996	2,589,402
Post-employment benefits	176,873	205,924
Long-term benefits	160,312	95,470
Share-based payments	188,852	326,046
	<b>3,045,033</b>	<b>3,216,842</b>

## 25. 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:

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - KPMG</i>		
Audit or review of the financial statements	212,534	150,000
<i>Other services - KPMG</i>		
Taxation and compliance services - Australia	72,514	256,375
Other services	153,750	7,500
	226,264	263,875
	<b>438,798</b>	<b>413,875</b>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	33,197	14,548
<i>Other services - network firms</i>		
Taxation and compliance services - USA	85,793	69,480
Other services	42,561	-
	128,354	69,480
	<b>161,551</b>	<b>84,028</b>

# Notes to the Consolidated Financial Statements

continued

## 26. Contingent liabilities

The Group has given bank guarantees as at 31 December 2017 of \$133,000 (2016: \$122,000) in satisfaction of its performance obligations with respect to rental premises.

## 27. Commitments

	Group	
	2017 \$'000	2016 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,505	637
One to five years	4,519	2,314
	<b>6,024</b>	<b>2,951</b>

## 28. Related party transactions

### Parent entity

Appen Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in Note 31.

### Key management personnel

Disclosures relating to key management personnel are set out in Note 24 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.

## 29. Parent entity information

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

### Statement of profit or loss and other comprehensive income

	Company	
	2017 \$'000	2016 \$'000
Profit after income tax	3,183	6,316
<b>Total comprehensive income</b>	<b>3,183</b>	<b>6,316</b>

# Notes to the Consolidated Financial Statements

continued

## 29. Parent entity information (continued)

### Statement of financial position

	Company	
	2017 \$'000	2016 \$'000
Total current assets	68,705	41
Total assets	80,712	28,878
Total current liabilities	3,991	–
Total liabilities	4,337	–
Equity		
Issued capital	69,569	19,510
Share-based payments reserve	1,980	1,569
Profits reserve	8,572	11,545
Other reserves	1,859	1,859
Accumulated losses	(5,605)	(5,605)
<b>Total equity</b>	<b>76,375</b>	<b>28,878</b>

### 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 2017 and 31 December 2016.

### Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2017 and 31 December 2016.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2017 and 31 December 2016.

### 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.

# Notes to the Consolidated Financial Statements

continued

## 30. Business combinations

### 2016

On 30 September 2016, Appen (Europe) Limited acquired 100% of the ordinary shares of Mendip Media Group Limited (MMG) for the total consideration transferred of \$2,525,000. MMG is a leading provider of secure transcription services in the UK. This was a strategic acquisition to secure the services of MMG, a critical subcontractor to Appen for specialised government work and to provide a highly secure capability and platform to enable Appen to grow its position in secure transcription in the UK and Europe.

The goodwill of \$2,007,000 represents the difference in the fair value of assets acquired to consideration paid. The acquired business contributed revenues of \$510,000 and loss after tax of \$1,000 to the Group for the period from 30 September 2016 to 31 December 2016. If the acquisition occurred on 1 January 2016, the full year contributions would have been revenues of \$2,267,000 and loss after tax of \$10,000. The values identified in relation to the acquisition of Mendip Media Group Limited are final as at 31 December 2017.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	396
Trade receivables	182
Other receivables	50
Fixtures and fittings	20
Computer equipment	30
Trade payables	(23)
Other payables	(96)
Provision for income tax	(32)
Deferred tax liability	(3)
Provisions	(6)
Net assets acquired	518
Goodwill	2,007
Acquisition-date fair value of the total consideration transferred	<b>2,525</b>
Representing:	
Cash paid or payable to vendor	<b>2,525</b>
Acquisition costs expensed to profit or loss	<b>131</b>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	2,525
Less: cash and cash equivalents	(396)
Net cash used	<b>2,129</b>

# Notes to the Consolidated Financial Statements

continued

## 30. 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 \$100,739,000 represents the difference in the fair value of assets acquired to consideration paid. The acquired business contributed revenues of \$6,008,000 and profit after tax of \$934,000 to the Group for the period from 7 December 2017 to 31 December 2017. If the acquisition occurred on 1 January 2017, the full year contributions would have been revenues of \$77,152,000 and profit after tax of \$9,595,000. Adjusting for share-based payments and income tax, underlying full year contributions would have been revenues of \$77,152,000 and profit after tax of \$10,696,000. The values identified in relation to the acquisition of Leapforce are provisional as at 31 December 2017.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	4,915
Trade receivables	12,548
Prepayments	32
Fixtures and fittings	102
Trade payables	(4,348)
Employee benefits	(112)
Accrued expenses	(156)
Share-based payment	5,260
Working capital adjustment	37
Net assets acquired	18,278
Goodwill	100,739
Acquisition-date fair value of the total consideration transferred	<b>119,017</b>
Representing:	
Cash paid or payable to vendor	84,155
Cash paid to vendor for working capital	8,972
Appen Limited shares issued to vendor	20,630
Contingent consideration	5,260
	<b>119,017</b>
Acquisition costs expensed to profit or loss	<b>5,877</b>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	119,017
Less: cash and cash equivalents	(4,915)
Less: shares issued by Company as part of consideration	(20,630)
Less: contingent consideration	(5,260)
Net cash used	<b>88,212</b>

# Notes to the Consolidated Financial Statements

continued

## 31. 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	
		2017 %	2016 %
Appen Butler Hill Pty Limited	Australia	100.00%	100.00%
Appen Butler Hill Inc.*	United States of America	100.00%	100.00%
Appen (Europe) Limited*	United Kingdom	100.00%	100.00%
Mendip Media Group Limited	United Kingdom	100.00%	100.00%
Appen (Hong Kong) Limited*	Hong Kong	100.00%	100.00%
Beijing Appen Technology Co., Ltd*	China	100.00%	–
Leapforce Inc.	United States of America	100.00%	–
RaterLabs Inc.	United States of America	100.00%	–
Appen Financial Services Pty Ltd	Australia	100.00%	–

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

## 32. 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

Appen Financial Services Pty Ltd

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

continued

## 32. 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'.

<b>Statement of profit or loss and other comprehensive income</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Revenue	42,082	33,916
Services purchased - data collection	(7,844)	(8,325)
Employee benefits expense	(14,141)	(10,794)
Depreciation and amortisation expense	(339)	(285)
Travel expense	(575)	(865)
Professional fees	(994)	(785)
Rental expense	(504)	(322)
Communication expense	(748)	(230)
Transaction costs	(3,873)	-
Other expenses	(1,599)	(1,049)
Finance costs	(1)	(282)
<b>Profit before income tax expense</b>	<b>11,464</b>	<b>10,979</b>
Income tax expense	(2,871)	(3,318)
<b>Profit after income tax expense</b>	<b>8,593</b>	<b>7,661</b>
<b>Other comprehensive income</b>		
Foreign currency translation	66	-
Other comprehensive income for the year, net of tax	66	-
<b>Total comprehensive income for the year</b>	<b>8,659</b>	<b>7,661</b>

<b>Equity - retained profits</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Retained profits at the beginning of the financial year	-	-
Profit after income tax expense	8,593	7,661
Transfer to Profits reserve	(8,593)	(7,661)
<b>Retained profits at the end of the financial year</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Financial Statements

continued

## 32. Deed of cross guarantee (continued)

<b>Statement of financial position</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	10,025	2,575
Trade and other receivables	9,783	22,699
Derivative financial instruments	123	-
Prepayments	437	163
	<b>20,368</b>	<b>25,437</b>
<b>Non-current assets</b>		
Investments accounted for using the equity method	6,337	18,241
Property, plant and equipment	1,363	466
Intangibles	328	200
Intercompany loan	55,070	-
Other non-current assets	1,866	-
	<b>64,964</b>	<b>18,907</b>
<b>Total assets</b>	<b>85,332</b>	<b>44,344</b>
<b>Current liabilities</b>		
Trade and other payables	5,888	3,059
Derivative financial instruments	46	199
Income tax	1,584	1,771
Provisions	606	545
Revenue received in advance	473	357
	<b>8,597</b>	<b>5,931</b>
<b>Non-current liabilities</b>		
Borrowings	4	6
Deferred tax	343	1,091
Provisions	473	417
	<b>820</b>	<b>1,514</b>
<b>Total liabilities</b>	<b>9,417</b>	<b>7,445</b>
<b>Net assets</b>	<b>75,915</b>	<b>36,899</b>
<b>Equity</b>		
Issued capital	69,569	19,510
Reserves	6,346	17,389
<b>Total equity</b>	<b>75,915</b>	<b>36,899</b>

# Notes to the Consolidated Financial Statements

continued

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

	Group	
	2017 \$'000	2016 \$'000
Profit after income tax expense for the year	14,282	10,489
Adjustments for:		
Depreciation and amortisation	1,863	1,153
Share-based payments	410	365
Foreign exchange differences	(975)	76
Impairment loss on receivables	–	63
Transaction costs paid for acquisition	3,577	–
Change in operating assets and liabilities:		
Increase in trade and other receivables	(9,166)	(4,715)
Increase/(decrease) in trade and other payables	(773)	3,444
Increase in employee benefits and provisions	5,198	143
Increase/(decrease) in provision for income tax	(144)	72
Increase/(decrease) in deferred tax liabilities	(1,409)	1,282
Increase in unearned revenue	521	307
<b>Net cash from operating activities</b>	<b>13,384</b>	<b>12,679</b>

## 34. Earnings per share

	Group	
	2017 \$'000	2016 \$'000
Profit after income tax attributable to the owners of Appen Limited	14,282	10,489
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	98,150,474	96,992,819
Adjustments for calculation of diluted earnings per share:		
Options and rights over ordinary shares	1,275,102	2,640,507
Weighted average number of ordinary shares used in calculating diluted earnings per share	99,425,576	99,633,326
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	<b>14.55</b>	<b>10.81</b>
Diluted earnings per share	<b>14.36</b>	<b>10.53</b>

# Notes to the Consolidated Financial Statements

continued

## 35. 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 40% - 46%, discounted at a discount rate of 2.25%.

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

#### 2017

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/forfeited/ other	Balance at the end of the year
25/02/2015*	01/03/2018	677,880	–	(9,398)	(291,210)	377,272
29/07/2015*	01/03/2018	142,768	–	–	–	142,768
01/03/2016**	01/03/2019	466,272	–	–	(113,930)	352,342
01/07/2016**	01/03/2019	78,303	–	–	(7,485)	70,818
01/03/2017***	01/03/2020	–	315,390	–	–	315,390
		<b>1,365,223</b>	<b>315,390</b>	<b>(9,398)</b>	<b>(412,625)</b>	<b>1,258,590</b>

\* Rights are performance based and participant needs to be employed at 1 January 2018 to be able to convert to shares.

\*\* Rights are performance based and participant needs to be employed at 1 January 2019 to be able to convert to shares.

\*\*\* Rights are performance based and participant needs to be employed at 1 January 2020 to be able to convert to shares.

#### 2016

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/forfeited/ other	Balance at the end of the year
25/02/2015*	01/03/2018	677,880	–	–	–	677,880
29/07/2015*	01/03/2018	142,768	–	–	–	142,768
01/03/2016**	01/03/2019	–	466,272	–	–	466,272
01/07/2016**	01/03/2019	–	78,303	–	–	78,303
		<b>820,648</b>	<b>544,575</b>	<b>–</b>	<b>–</b>	<b>1,365,223</b>

\* Rights are performance based and participant needs to be employed at 1 January 2018 to be able to convert to shares.

\*\* Rights are performance based and participant needs to be employed at 1 January 2019 to be able to convert to shares.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.00 years (2016: 0.85 years).

# Notes to the Consolidated Financial Statements

continued

## 35. Share-based payments (continued)

### 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.

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

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

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

## 35. Share-based payments (continued)

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

### 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
			<b>762,312</b>	<b>–</b>	<b>(653,950)</b>	<b>–</b>	<b>108,362</b>
Weighted average exercise price			\$0.488	\$0.000	\$0.487	\$0.000	\$0.495

\* Options forfeited due to participants leaving Appen.

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

### 2016

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	173,825	–	(92,025)	–	81,800
31/08/2013	01/03/2019	\$0.494	173,825	–	(92,025)	–	81,800
31/03/2014	01/03/2018	\$0.432	132,925	–	(112,475)	–	20,450
31/03/2014	01/03/2019	\$0.489	132,925	–	(112,475)	–	20,450
24/12/2014	01/03/2020	\$0.500	610,937	–	(491,406)	–	119,531
24/12/2014	01/03/2021	\$0.500	610,937	–	–	(172,656)	438,281
			<b>1,835,374</b>	<b>–</b>	<b>(900,406)</b>	<b>(172,656)</b>	<b>762,312</b>
Weighted average exercise price			\$0.485	\$0.000	\$0.481	\$0.500	\$0.488

\* Options forfeited due to participants leaving Appen.

# Notes to the Consolidated Financial Statements

continued

## 35. Share-based payments (continued)

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

Grant date	Expiry date	2017 Number	2016 Number
31/08/2013	01/03/2018	–	20,450
31/08/2013	01/03/2019	81,800	20,450
31/03/2014	01/03/2018	–	81,800
31/03/2014	01/03/2019	–	81,800
24/12/2014	01/03/2020	13,281	119,531
24/12/2014	01/03/2021	13,281	–
		<b>108,362</b>	<b>324,031</b>

The weighted average share price during the financial year was \$4.872 (2016: \$2.646).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.54 years (2016: 3.34 years).

## 36. Events after the reporting period

Apart from the dividend declared as disclosed in Note 21, no other matter or circumstance has arisen since 31 December 2017 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 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 2017 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 32 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

21 February 2018  
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 2017 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 2017;
- 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

The **Key Audit Matters** we identified are:

- Revenue recognition
- Acquisition of Leapforce Inc and Raterlabs Inc

**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.

These matters were 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 these matters.

## Revenue recognition

Refer to Note 5 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 revenue streams in the Appen Limited Group.</p> <p>Our audit attention focused on revenue recognition from the two largest revenue streams:</p> <ul style="list-style-type: none"> <li>• Revenue from the rendering of language resource services; and</li> <li>• Revenue from the rendering of content relevance services.</li> </ul> <p>Revenue generated from language resource services is accounted for using contract accounting which is based on management’s calculation of:</p> <ul style="list-style-type: none"> <li>• The expected total time and costs to complete a customer project; and</li> <li>• 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.</li> </ul> <p>These contracts are mainly short term in nature and similar amongst customers.</p> <p>At year end, a significant amount of work in progress related to revenue generated from language resource services and receivables are</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• We tested key controls in the Group’s revenue process including, management approval of sales invoices and the review and approval by management of monthly project reporting.</li> <li>• We selected a statistical sample of language resource projects based on the quantitative value of work in progress at year end. For the sample selected, we performed the following procedures in relation to management’s recognition of revenue:                             <ul style="list-style-type: none"> <li>• We compared the total time and costs budgeted to complete a customer project against the customer contract and project details provided by project managers;</li> <li>• We recalculated the percentage completion by agreeing the number of lines or utterances completed at year end to underlying project records and compared this to the total number of lines or utterances to be completed for the project as a whole; and.</li> <li>• We checked the logged performance date of the above project work for allocation of work across financial years.</li> </ul> </li> <li>• We assessed the accuracy of work in progress, accrued revenue and receivables on balance sheet by matching underlying documentation of a sample of transaction activity subsequent to year end, such as invoices raised and cash receipts from customers, to relevant projects in</li> </ul>

# Independent Auditor’s Report

continued



<p>recognised on the balance sheet due to a high volume of projects spanning across year end.</p> <p>Revenue generated from content relevance services involved a high volume of transactions with customers, which are recognised as services are completed and approved by the customer. Our audit effort reflects the volume of projects and transactions for these revenue types.</p>	<p>work in progress, accrued revenue and receivables at year end.</p> <ul style="list-style-type: none"> <li>• We performed analytical procedures over revenue from language resource and content relevance to compare revenue received as cash receipts to revenue recognised during the year.</li> <li>• We selected a statistical sample of revenue transactions in the months of December 2017 and January 2018 and vouched to underlying records to check that the revenue was recognised in the period that the service was provided.</li> </ul>
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**Acquisition of Leapforce Inc and Raterlabs Inc**

Refer to Note 30 to the Financial Report

<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group completed the acquisition of Leapforce Inc and Raterlabs Inc. during the year.</p> <p>We determined that the accounting for the business combination was a key audit matter due to the size of the transaction and the level of judgement in the calculations.</p> <p>The key areas of judgement included:</p> <ul style="list-style-type: none"> <li>• Determination of purchase consideration</li> <li>• The fair value of the acquired assets and liabilities recognised at acquisition date</li> <li>• Disclosure of the acquisition in the financial statements</li> </ul>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining the Purchase Agreement to understand the structure, key terms and conditions and nature of certain payments. We evaluated the accounting treatment of the acquisition consideration and transaction costs against the criteria in the Accounting Standards to determine whether the acquisition had been appropriately accounted for.</li> <li>• We tested acquisition date opening balances and checked to underlying documentation including assessment of fair values as at acquisition date.</li> <li>• Assessing the mathematical accuracy of the Group’s calculation of goodwill arising on acquisition.</li> <li>• Assessing the appropriateness of the business combination disclosure in the financial statements.</li> </ul>

# Independent Auditor's Report

continued



## 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.

The Other Information we obtained prior to the date of this Auditor's Report was the Chairman's Report and the CEO's Report.

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.

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.

## 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 this Financial Report.

# Independent Auditor's Report

continued



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/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.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 2017 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 12 to 23 of the Directors' report for the year ended 31 December 2017.

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

21 February 2018

# Shareholder Information

31 December 2017

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 2018.

## Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares*	Number of holders of performance rights**
1 to 1,000	3,633	–	–
1,001 to 5,000	3,838	–	13
5,001 to 10,000	666	–	7
10,001 to 100,000	546	3	8
100,001 and over	44	–	4
	8,727	3	32
Holding less than a marketable parcel	139	–	–

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

\*\* The performance rights are unquoted and have been issued under an employee incentive scheme.

## 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
J P MORGAN NOMINEES AUSTRALIA LIMITED	17,104,526	16.17
C & J VONWILLER PTY LIMITED	13,060,083	12.34
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,177,700	10.56
CITICORP NOMINEES PTY LIMITED	10,463,735	9.89
NATIONAL NOMINEES LIMITED	5,220,515	4.93
CS THIRD NOMINEES PTY LIMITED	3,501,018	3.31
CITIBANK NA	2,787,826	2.63
UBS NOMINEES PTY LTD	2,358,057	2.23
NEW GREENWICH PTY LTD	1,800,495	1.70
CS FOURTH NOMINEES PTY LIMITED	1,692,238	1.60
BNP PARIBAS NOMS PTY LTD	1,608,619	1.52
ANACACIA PTY LIMITED	1,000,000	0.95
GINGA PTY LTD	925,494	0.87
BRISPOT NOMINEES PTY LTD	778,872	0.74
BNP PARIBAS NOMINEES PTY LTD	525,700	0.50
SIDMOUTH PTY LTD	400,000	0.38
NAMAL (L) LTD	300,000	0.28
MR WILLIAM JOHN LAUKKA & MRS ELIZABETH ANNE LAUKKA	250,229	0.24
MIJON INVESTMENTS PTY LTD	250,229	0.24
BNP PARIBAS NOMINEES PTY LTD	245,515	0.23
	<b>75,450,851</b>	<b>71.31</b>

# Shareholder Information

continued

## Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	3	3
Performance rights over ordinary shares issued	32	32

## Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
C & J VONWILLER PTY LIMITED	13,060,083	12.34
REGAL FUNDS MANAGEMENT PTY LTD	7,438,411	7.03
VINVA INVESTMENT MANAGEMENT	4,898,276	4.63

## Voting rights

The voting rights attached to ordinary shares are set out below:

### Ordinary shares

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

Options have no voting rights.

### Performance rights

Performance rights have no voting rights.

## Restricted securities

Class	Expiry date	Number of shares
Ordinary shares, in respect of the Leapforce acquisition	7 December 2018	1,115,130
	7 December 2019	1,115,130
	7 December 2020	557,566
		<b>2,787,826</b>

## 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

Leanne Ralph

## 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

## 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](http://www.appen.com)

## Corporate Governance Statement

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

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