Appen Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Appen Limited
ABN:	60 138 878 298
Reporting period:	For the half-year ended 30 June 2018
Previous period:	For the half-year ended 30 June 2017

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	106.3%	to	152,755
Profit from ordinary activities after tax attributable to the owners of Appen Limited	up	73.0%	to	14,036
Profit for the half-year attributable to the owners of Appen Limited	up	73.0%	to	14,036

Dividends

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

On 28 August 2018, the Company declared an interim dividend for the year ending 31 December 2018 of 4.0 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 4 September 2018. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2018 and will be recognised in subsequent financial periods.

Comments
The profit for the Group after providing for income tax amounted to $14,036,000 (30 June 2017: $8,115,000).

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

3. Net tangible assets

	30 Jun 2018 Cents	30 Jun 2017 Cents
Net tangible assets per ordinary security at period end	(7.72)	25.28

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

On 28 August 2018, the Company declared an interim dividend for the year ending 31 December 2018 of 4.0 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 4 September 2018. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2018 and will be recognised in subsequent financial periods.

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2016	3.0	3.0

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Interim Report of Appen Limited for the half-year ended 30 June 2018 is attached.

12. Signed

Signed ____________________________ Date: 28 August 2018

Mark Brayan
Managing Director
Sydney

Appen Limited

ABN 60 138 878 298

Interim Report - 30 June 2018

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 and principal place of business	Level 6 9 Help Street Chatswood NSW 2067 Tel: 02 9468 6300
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: 1300 554 474 Facsimile: (02) 9287 0303
Auditor	KPMG Tower Three International Towers Sydney 300 Barangaroo Avenue Sydney NSW 2000
Solicitors	Norton Rose Fulbright Australia Level 18, Grosvenor Place 225 George Street Sydney NSW 2000
Stock exchange listing	Appen Limited shares are listed on the Australian Securities Exchange (ASX code: APX)
Website	www.appen.com

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Appen') consisting of Appen Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2018.

Directors

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

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

Principal activities

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

Appen operates through two operating divisions:

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

Supporting both divisions is a global on-demand crowd workforce providing customers with very flexible in-country linguistic and cultural expertise in support of 140 global markets.

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

Dividends

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

	Group	
	30 Jun 2018 $'000	30 Jun 2017 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2017 of 3.0 cents per ordinary share (2017: 3.0 cents)	3,174	2,928

On 28 August 2018, the Company declared an interim dividend for the year ending 31 December 2018 of 4.0 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 4 September 2018. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2018 and will be recognised in subsequent financial periods.

Review of operations

The half-year statutory net profit after tax for the Group increased 73% to $14,036,000 (30 June 2017: $8,115,000). After adding back underlying adjustments (net of tax), underlying profit was up 119% to $17,782,000 (30 June 2017: $8,115,000).

	HY2018 $'000	HY2017 $'000	Change %	Percentage change constant currency %
Content Relevance	131,167	53,305	146%	151%
Language Resources	21,510	20,747	4%	5%
Other	78	6		
Total revenue from principal activities	**152,755**	**74,058**	**106%**	**110%**
Underlying net profit after tax	**17,782**	**8,115**	**119%**	**125%**
Less: underlying adjustments (net of tax):				
Amortisation of identifiable assets - Leapforce	(2,302)	-		
Share-based payments - Leapforce	(833)	-		
Transaction costs	(611)	-		
Statutory net profit after tax	**14,036**	**8,115**	**73%**	**76%**
Add: tax	3,765	3,532		
Add: net interest expense	1,561	3		
EBIT *	**19,362**	**11,650**	**66%**	**69%**
Depreciation and amortisation	4,520	1,119		
Statutory EBITDA **	**23,882**	**12,769**	**87%**	**91%**
Add: underlying adjustments:				
Transaction costs	873	-		
Share-based payments - Leapforce	833	-		
Underlying EBITDA	**25,588**	**12,769**	**100%**	**104%**
% Underlying EBITDA / Sales	16.8%	17.2%		
% Underlying Segment EBITDA / Sales				
Language Resources	16.0%	36.0%		
Content Relevance	21.7%	16.8%		
Underlying Diluted Earnings Per Share (cents)	16.47	8.21		

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

Total revenue for the period ended 30 June 2018 was up 106% to $152,755,000 compared to prior period revenue of $74,058,000. Excluding Leapforce revenue for the period of $43,778,500, revenue was $108,975,500, representing organic revenue growth of 47%.

The drivers behind the growth in revenue were:

- The Language Resources division recorded a 4% increase in revenue over the prior year, driven mainly by increased demand for data collection and speech and image annotation services for technology customers. On a constant currency basis, the revenue growth was 5%.
- The Content Relevance division delivered a 146% increase in revenue over the prior year of $77,862,000. This was driven by the Leapforce acquisition as well as organic growth in demand for human annotated data for a variety of machine learning applications. Excluding Leapforce, revenue was $87,388,500, representing organic revenue growth of 64% for the half year ended 30 June 2018. On a constant currency basis, the revenue growth for the division was 151%.

The Company reported statutory EBITDA of $23,883,000 for the half year period to 30 June 2018, representing an 87% increase over the prior corresponding period. The prior year EBITDA result included realised and unrealised foreign exchange gains of $558,000, while the realised and unrealised foreign exchange gains for the current half only amounted to a loss of $1,000.

After adding back underlying adjustments for transaction costs and share based payments in respect of Leapforce vendor shares, underlying EBITDA was $25,588,000 representing a 100% increase over the prior year. This resulted from strong revenue increase in Content Relevance and the acquisition of Leapforce. Leapforce contributed EBITDA of $11,612,000, while Content Relevance (excluding Leapforce) reported a significant organic increase in EBITDA of 88% for the period.

EBITDA in the Language Resources division was significantly impacted by the customer mix, which resulted in a significant reduction in complex, value added government work, impacted by budget approval delays, and an increase in volumes from the technology sector at lower margins. Going forward, there will be a strategic, increased focus on expanding the sales pipeline in the technology sector, with a view to increasing efficiency down the track. The reduction in the operating margin is seen as a timing issue, not structural. This is further validated by the fact that expenses as a percentage of revenue for the full year forecast ended 31 December 2018 are exactly in line with the expense percentage in the prior year for the same period. As a result, no significant cost reduction activities are planned, however efficiency gains will continue to be targeted.

Notwithstanding, the margin impact from Language Resources, operating expenses (expenses excluding services purchased, share based payment expense, depreciation, transaction costs, finance costs and foreign exchange) for the first half period comprised 18.9% of revenue as compared to 24.4% for the prior corresponding period due to continued operational improvements in delivery of services at scale, via a streamlined operating model, delivering cost efficiency and economies of scale.

The Language Resources division reported return on sales of 16.0% down from 36.0%, due to movements in customer mix, resulting in a lower gross margin percentage, as explained above. The Content Relevance division reported return on sales of 21.7% up from 16.8%, impacted positively by the Leapforce acquisition and by continued improvements in operational scale and efficiency.

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

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

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

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

On behalf of the directors

Chris Vonwiller

Christopher Vonwiller
Director

28 August 2018
Sydney

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

To the Directors of Appen Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Appen Limited for the half-year ended 30 June 2018 there have been:

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

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

KPMG

KPMG

Tony Nimac

Partner

Sydney

28 August 2018

Appen Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2018

	Note	Group 30 Jun 2018 $'000	Group 30 Jun 2017 $'000
Revenue	4	152,743	74,057
Interest income calculated using the effective interest method		12	1
Net foreign exchange gain		-	558
Expenses			
Services purchased - data collection		(97,417)	(43,618)
Employee benefits expense		(20,446)	(13,393)
Share-based payments expense	5	(1,755)	(141)
Depreciation and amortisation expense	5	(4,520)	(1,119)
Travel expense		(711)	(437)
Professional fees		(1,514)	(899)
Rental expense		(883)	(388)
Communication expense		(417)	(132)
Transaction costs	5	(873)	-
Net foreign exchange loss		(1)	-
Other expenses		(4,844)	(2,839)
Finance costs		(1,573)	(3)
Profit before income tax expense		17,801	11,647
Income tax expense		(3,765)	(3,532)
Profit after income tax expense for the half-year attributable to the owners of Appen Limited		14,036	8,115
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(201)	(1,928)
Other comprehensive income for the half-year, net of tax		(201)	(1,928)
Total comprehensive income for the half-year attributable to the owners of Appen Limited		13,835	6,187
		Cents	**Cents**
Basic earnings per share	12	13.22	8.32
Diluted earnings per share	12	13.00	8.21

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

Appen Limited
Consolidated statement of financial position
As at 30 June 2018

	Note	Group 30 Jun 2018 $'000	Group 31 Dec 2017 $'000
Assets			
Current assets			
Cash and cash equivalents		23,589	24,015
Trade and other receivables	6	55,652	42,908
Derivative financial instruments		-	123
Prepayments		1,219	1,121
Total current assets		80,460	68,167
Non-current assets			
Property, plant and equipment		4,883	1,762
Intangibles	7	114,061	116,253
Deferred tax		2,233	-
Other assets		40	1,866
Total non-current assets		121,217	119,881
Total assets		201,677	188,048
Liabilities			
Current liabilities			
Trade and other payables		24,111	21,173
Contract liabilities	8	1,672	1,237
Derivative financial instruments		109	46
Income tax		460	1,303
Provisions		1,552	1,151
Total current liabilities		27,904	24,910
Non-current liabilities			
Borrowings		64,896	67,885
Deferred tax		2,613	1,369
Provisions		417	473
Total non-current liabilities		67,926	69,727
Total liabilities		95,830	94,637
Net assets		105,847	93,411
Equity			
Issued capital	9	69,589	69,569
Reserves		40,128	27,712
Accumulated losses		(3,870)	(3,870)
Total equity		105,847	93,411

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

Appen Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2018

Group	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2017	19,510	19,763	(3,870)	35,403
Profit after income tax expense for the half-year	-	-	8,115	8,115
Other comprehensive income for the half-year, net of tax	-	(1,928)	-	(1,928)
Total comprehensive income for the half-year	-	(1,928)	8,115	6,187
Transactions with owners in their capacity as owners:				
Issue of ordinary shares (note 9)	285	-	-	285
Transfer between reserves	-	8,115	(8,115)	-
Share-based payments	-	141	-	141
Dividends paid (note 10)	-	(2,928)	-	(2,928)
Balance at 30 June 2017	19,795	23,163	(3,870)	39,088

Group	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2018	69,569	27,712	(3,870)	93,411
Profit after income tax expense for the half-year	-	-	14,036	14,036
Other comprehensive income for the half-year, net of tax	-	(201)	-	(201)
Total comprehensive income for the half-year	-	(201)	14,036	13,835
Transactions with owners in their capacity as owners:				
Issue of ordinary shares (note 9)	20	-	-	20
Transfer between reserves	-	14,036	(14,036)	-
Share-based payments	-	1,755	-	1,755
Dividends paid (note 10)	-	(3,174)	-	(3,174)
Balance at 30 June 2018	69,589	40,128	(3,870)	105,847

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

	Note	Group 30 Jun 2018 $'000	Group 30 Jun 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		142,647	71,891
Payments to suppliers and employees (inclusive of GST)		(121,072)	(59,244)
		21,575	12,647
Interest received		12	1
Interest and other finance costs paid		(1,417)	(3)
Income taxes paid		(5,639)	(3,493)
Net cash from operating activities		14,531	9,152
Cash flows from investing activities			
Transaction costs paid for prior year acquisition		(3,513)	-
Payments for property, plant and equipment		(1,946)	(581)
Payments for intangibles		(377)	(1,568)
Net cash used in investing activities		(5,836)	(2,149)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	9	20	285
Repayment of borrowings		(6,804)	-
Dividends paid	10	(3,174)	(2,928)
Net cash used in financing activities		(9,958)	(2,643)
Net increase/(decrease) in cash and cash equivalents		(1,263)	4,360
Cash and cash equivalents at the beginning of the financial half-year		24,015	16,471
Effects of exchange rate changes on cash and cash equivalents		837	(845)
Cash and cash equivalents at the end of the financial half-year		23,589	19,986

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

Note 1. General information

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

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

Level 6
9 Help Street
Chatswood NSW 2067

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2018.

Note 2. Significant accounting policies

These financial statements for the interim half-year reporting period ended 30 June 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

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

New or amended Accounting Standards and Interpretations adopted

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

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

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various services are set out below.

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

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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

Note 2. Significant accounting policies (continued)

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

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

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

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

Initial adoption of AASB 9 'Financial Instruments'
The Group has adopted AASB 9 from 1 January 2018. The adoption of AASB 9 has resulted in changes to the Group's accounting policies as follows:

AASB 9 sets out the requirements to recognise and measure financial assets and financial liabilities. This standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'. There was no material impact of transition to AASB 9 on the opening balance of retained earnings. The details of this new significant accounting policy is set out below.

Financial assets
Under AASB 9, on initial recognition, a financial asset is classified at amortised cost or fair value through profit or loss ('FVTPL'). The classification under AASB 9 is based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost only if: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest, and is not designated as at FVTPL.

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

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

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains or losses, including interest or dividend income are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see impairment of financial assets).

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

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

Note 2. Significant accounting policies (continued)

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

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

Impairment of receivables
The Group has elected to measure loss allowances on trade receivables using a life-time expected loss model. The Group has also used the practical expedient of a provisions matrix using a single loss rate approach to approximate the expected credit losses. These provisions are considered representative across all business and geographic segments of the Group based on historical credit loss experience over the past five years.

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

Note 3. Operating segments

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

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

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

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

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

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

Note 3. Operating segments (continued)

Major customers
During the financial half-year ended 30 June 2018 approximately 88% (30 June 2017: 88%) of the Group's external revenue was derived from sales to five major customers.

Operating segment information

Group - 30 Jun 2018	Content Relevance $'000	Language Resources $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	131,167	21,510	-	152,677
Interest	-	-	12	12
Other income	-	-	66	66
Total revenue	131,167	21,510	78	152,755
Segment result	28,513	3,441	66	32,020
Corporate overhead				(4,783)
Marketing expenses				(714)
Net foreign exchange loss				(1)
Share-based payment - employees				(922)
Share-based payment - Leapforce				(833)
Transaction costs				(873)
Depreciation and amortisation				(4,520)
Interest				(1,573)
Profit before income tax expense				17,801
Income tax expense				(3,765)
Profit after income tax expense				14,036

Group - 30 Jun 2017	Content Relevance $'000	Language Resources $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	53,305	20,747	-	74,052
Interest	-	-	1	1
Other income	-	-	5	5
Total revenue	53,305	20,747	6	74,058
Segment result	8,982	7,472	(693)	15,761
Corporate overhead				(3,023)
Marketing expenses				(374)
Net foreign exchange gain				558
Share-based payments - employees				(141)
Transaction costs				(12)
Depreciation and amortisation *				(1,119)
Interest				(3)
Profit before income tax expense				11,647
Income tax expense				(3,532)
Profit after income tax expense				8,115

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

Note 3. Operating segments (continued)

Geographical information

	Services revenue		Geographical non-current assets	
	30 Jun 2018 $'000	30 Jun 2017 $'000	30 Jun 2018 $'000	31 Dec 2017 $'000
Australia	17,007	18,286	1,080	1,106
US	134,918	54,989	111,964	114,035
Other countries	752	777	5,940	4,740
	152,677	74,052	118,984	119,881

Note 4. Revenue

	Group	
	30 Jun 2018 $'000	30 Jun 2017 $'000
Revenue from contracts with customers		
Services revenue	152,677	74,052
Other income		
Other income	66	5
Revenue	152,743	74,057

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

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

Group - 30 Jun 2017	Content Relevance $'000	Language Resources $'000	Total $'000
Geographical regions			
Australia	-	18,286	18,286
US	53,305	1,684	54,989
Other countries	-	777	777
	53,305	20,747	74,052

Contract balances
The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

Note 4. Revenue (continued)

	30 Jun 2018 $'000	1 Jan 2018 $'000
Receivables which are included in 'Trade and other receivables'	44,150	31,638
Contract assets	11,502	11,270
Contract liabilities	(1,672)	(1,237)

On transition to AASB 15, ‘Work in progress’ balances were reclassified as ‘Contract assets’. ‘Unearned revenue’ was reclassified as ‘Contract liabilities’.

There were no other impacts from the application of AASB 15.

The contract assets primarily relate to the Group's right to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the right becomes unconditional. This usually occurs when the Group issues an invoice to the customer. The contract consideration received from customer is recognised over time.

The amount of revenue recognised in contract liabilities at the beginning of the period has been disclosed in note 8.

Note 5. Expenses

	Group	
	30 Jun 2018 $'000	**30 Jun 2017 $'000**
Profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Depreciation expense	688	135
Amortisation expense	3,832	984
Total depreciation and amortisation	4,520	1,119
Transaction costs		
Transaction costs	68	-
Post-acquisition integration cost	805	-
Total transaction costs	873	-
Share-based payments expense		
Share-based payment in respect of Leapforce vendor shares (contingent on employment)	833	-
Share-based payment in respect of Appen performance rights	922	141
Total share-based payments expense	1,755	141

Note 6. Current assets - trade and other receivables

	Group	
	30 Jun 2018 $'000	31 Dec 2017 $'000
Trade receivables	43,250	30,923
Less: Allowance for expected credit losses	(80)	(75)
	43,170	30,848
Other receivables	980	498
Contract assets	11,502	11,270
GST receivable	-	292
	55,652	42,908

Note 7. Non-current assets - intangibles

	Group	
	30 Jun 2018 $'000	31 Dec 2017 $'000
Goodwill - at cost	75,738	111,869
Systems implementation - at cost	5,022	4,732
Less: Accumulated amortisation	(2,159)	(1,802)
	2,863	2,930
Platform development - at cost	4,317	2,036
Less: Accumulated amortisation	(1,424)	(968)
	2,893	1,068
Customer relationships - at cost	34,320	-
Less: Accumulated amortisation	(2,537)	-
	31,783	-
Crowd database - at cost	1,052	-
Less: Accumulated amortisation	(653)	-
	399	-
Customer contracts - at cost	3,213	3,035
Less: Accumulated amortisation	(2,970)	(2,765)
	243	270
Other intangibles - at cost	513	467
Less: Accumulated amortisation	(371)	(351)
	142	116
	114,061	116,253

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

Valuations
These identifiable intangible assets have been valued according to the following valuation methodologies:

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

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

Note 8. Current liabilities - contract liabilities

	Group	
	30 Jun 2018 $'000	31 Dec 2017 $'000
Deposits received in advance	1,672	1,237

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

Opening balance	1,237	716
Payments received in advance	1,739	990
Transfer to revenue	(1,345)	(443)
Revaluation	41	(26)
Closing balance	1,672	1,237

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was $1,672,000 as at 30 June 2018 ($1,237,000 as at 31 December 2017) and is expected to be recognised as revenue in future periods as follows:

	Group	
	30 Jun 2018 $'000	31 Dec 2017 $'000
Within 6 months	1,672	1,237

Note 9. Equity - issued capital

	Group			
	30 Jun 2018 Shares	31 Dec 2017 Shares	30 Jun 2018 $'000	31 Dec 2017 $'000
Ordinary shares - fully paid	106,449,181	105,804,907	69,589	69,569

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2018	105,804,907		69,569
Issue of shares on exercise of performance rights	1 March 2018	520,040	$10.600	-
Shares issued under Share Purchase plan	4 June 2018	83,334	$10.210	-
Issue of shares on exercise of options	28 June 2018	40,900	$0.494	20
Balance	30 June 2018	106,449,181		69,589

Note 10. Equity - dividends

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

	Group	
	30 Jun 2018 $'000	30 Jun 2017 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2017 of 3.0 cents per ordinary share (2017: 3.0 cents)	3,174	2,928

On 28 August 2018, the Company declared an interim dividend for the year ending 31 December 2018 of 4.0 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 4 September 2018. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2018 and will be recognised in subsequent financial periods.

Note 11. Contingent liabilities

The Group has given bank guarantees as at 30 June 2018 of $133,000 (31 December 2017: $133,000) to various landlords.

Note 12. Earnings per share

	Group 30 Jun 2018 $'000	Group 30 Jun 2017 $'000
Profit after income tax attributable to the owners of Appen Limited	14,036	8,115
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	106,167,208	97,532,356
Adjustments for calculation of diluted earnings per share:		
Options and rights over ordinary shares	1,811,928	1,293,324
Weighted average number of ordinary shares used in calculating diluted earnings per share	107,979,136	98,825,680
	Cents	**Cents**
Basic earnings per share	13.22	8.32
Diluted earnings per share	13.00	8.21

Note 13. Events after the reporting period

Apart from the dividend declared as disclosed in note 10, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

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

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial half-year ended on that date; and

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

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

On behalf of the directors

Chris Vonwiller

____
Christopher Vonwiller
Director

28 August 2018
Sydney

Independent Auditor's Review Report

To the members of Appen Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Appen Limited.

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

- giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

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

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Appen Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Tony Nimac

Partner

Sydney

28 August 2018

Sydney