Annual Report 2015

Appen is a global leader in speech and search technology services. With expertise in more than 150 languages, Appen partners with leading technology and ecommerce companies as they develop new offerings and expand them to global markets. Our solutions help companies create engaging products with accurate speech interfaces and relevant content ranging from web sites to maps, images and merchandise.

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

VISION

To empower every culture with language and search technology.

MISSION

To bring together the best of human intelligence and technology to accelerate global technology solutions, bridging gaps between people and communities with our network of language and culture specialists in over 150 languages, deep linguistic expertise and strong project management.

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

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

CHAIRMAN'S REPORT

Chris Vonwiller
Chairman

DEAR SHAREHOLDERS

FY2015 was our first year as a listed company, following our IPO on 7th January 2015. It has been an outstanding year for our company.

Financial results

Financially, we exceeded the key targets to which we committed in our prospectus. A range of factors, including strong demand for our services and a depreciating Australian dollar, contributed to three successive profit guidance upgrades through the year. For the full year, Appen achieved:

- Revenue of $82.7m that handsomely exceeded our prospectus forecast of $53.6m and represented growth of 62% on the FY2014 result of $51.0m;
- EBITDA of $13.8m compared to the prospectus forecast of $6.6m and 189% up on FY2014;
- Net profit after tax of $8.3m versus the prospectus forecast of $3.8m and the FY2014 result of $1.6m; and
- Pro forma EBITDA and NPAT, after one-off adjustments such as the cost of the Company's initial public offering, were up 110% and 136% respectively.

Following this strong result, the board has declared a final dividend of 3.0 cents per share, fully franked, following the interim dividend of 1.2 cents per share paid in September 2015.

Strategically, we have made good progress on the objectives which we set. As previously reported, we identified social media and ecommerce as attractive growth opportunities. As described in the CEO's report, the pilots we established with major customers in 2014 evolved to significant new sources of revenue for Appen in 2015, broadened our customer base and reduced the high concentration of revenue from our largest customer.

Appen's results in 2015 are the result of outstanding efforts by our company's management and staff. We are fortunate to have an employee cohort of rich talent and cultural and linguistic diversity, working as a global team in Australia, USA, Philippines and other locations in Europe and Asia. The industry in which we work is dynamic, and this is reflected in our staff values of creativity, agility and quality.

We acknowledge also the vital contribution of our crowd of over 320,000 on-demand independent contractors. This crowd underpins our competitiveness and our ability to ramp up quickly in response to our customers' requirements.

Board changes

During the year, we strengthened our board with the addition of two new non-executive directors, Deena Shiff and Stephen Hasker. Coincident with the IPO, long-serving non-executive directors Dr Julia Vonwiller and Jonathan Shein retired. We thank them for their sustained and strong contributions to the Appen board. The current Appen board represents a first-class mix of skills and business experience including technology, innovation, international strategy and specific industry knowledge. We are committed to the highest standards of corporate governance and delivering shareholder value.

At mid-year, Lisa Braden-Harder, Appen's CEO since January 2013 resigned from that role and subsequently stepped down from the Appen board at the end of 2015. Lisa had senior leadership positions in the company for over 20 years, and has been the CEO during a period of outstanding success. She has built a strong foundation for future growth. We thank her and wish her well in her future endeavours.

Our new CEO, Mark Brayan, commenced on 13th July and joins the Appen board. He brings to Appen a wealth of international experience in the technology sector, proven leadership of ASX-listed companies and a track record of enhancing shareholder value, people leadership and developing strong customer relationships.

Since year-end, Appen has also appointed a new Chief Financial Officer Kevin Levine. Kevin has extensive experience as a CFO in ASX-listed companies. He succeeds Mark Byrne who has fulfilled this role with distinction for five years through a period of growth. We are grateful for Mark's strong contributions.

Future

We believe that Appen has outstanding growth opportunities in all of our operating divisions. The combination of our strong customer relationships in the key industry sectors, our global coverage in languages, and our technology, give us optimism about the future.

We are grateful for your support as shareholders. We value your loyalty and the trust you have placed in us, and we are committed to deliver on your behalf.

Finally, I would like to thank my fellow directors. It has been a pleasure to work with them.

Sincerely,

Chris Vonwiller
Chairman

Appen's results in 2015 are the result of outstanding efforts by our company's management and staff. We are fortunate to have an employee cohort of rich talent and cultural and linguistic diversity, working as a global team in Australia, USA, Philippines and other locations in Europe and Asia.

CEO'S REPORT

Mark Brayan
Managing Director and
Chief Executive Officer

DEAR SHAREHOLDERS

It is pleasing to report such a strong performance in our first year on the ASX.

Results overview

As highlighted in the Chairman's Report, the Company's revenue, EBITDA and net profit after tax all significantly exceeded our prospectus forecast and provided substantial growth on last year.

There were three principal drivers of the results.

Firstly, we achieved considerable revenue growth from our new customers and substantial repeat revenue from our existing, long-standing customers.

Pilot programmes established in FY2014 in search, social media and ecommerce came to fruition in FY2015, delivering aggregate revenue in excess of $28m. Our new business momentum continued in FY2015 with five new customers added after successful pilots that should deliver greater revenue in FY2016. We are well positioned for further growth with 14 more pilots completed or still underway.

Revenue from new customers has greatly improved our customer diversity. No single customer accounted for more than 28% of our revenue in FY2015, down from 48% last year.

Our existing customers also contributed to the increase in revenue, with 97% of FY2015 revenue coming from customers that also contributed revenue in FY2014, illustrating the quality and importance of the data and services that we provide to our customers.

It was also pleasing that both of our operating divisions, Language Resources and Content Relevance, delivered strong revenue growth of 42% and 78% respectively compared to the prior year.

The second factor underpinning our results was the quality of our earnings.

Our Language Resources Division continues to provide essential data and services to aid the development of speech-enabled technologies at healthy margins. This is due to the critical nature of the data and the quality of our delivery.

Our Content Relevance Division, provider of search evaluation services, reported significant revenue growth due to a number of new customers. Volume discounts, competitive pressure and the expense of ramping up multiple new customers in parallel saw gross margins fall year on year, but operating margins held steady at 15%, due to the operational scalability underpinned by offshoring and technology.

Our offshore centre in the Philippines and investments in our proprietary technology will continue to provide margin benefits for both divisions.

Thirdly, our FY2015 performance included the benefit of a strong currency tailwind. The Company derives most of its revenue in USD and the relative depreciation of the AUD through the year provided a boost to our results.

However, the underlying growth was still extremely strong. Excluding the impact of foreign currency movements, revenue grew 35% on last year, EBITDA was up 85% and NPAT was 144% higher than FY2014.

Our results would not be possible without our talented and dedicated team. Appen's diverse, global and multi-lingual staff combine to deliver high quality data and services for our customers around the world. We also work together to provide a positive culture and interesting and fulfilling work. Our high employee satisfaction of 90% and low turnover of 13% indicates a high level of engagement and this ensures consistent and quality service for our customers.

We also rely on our growing international crowd of over 320,000 on-demand independent contractors who play a vital role in providing the very broad set of languages and skills required to satisfy our customer requirements.

Our success and growth in FY2015 clearly illustrates the demand for our high quality data and services and our ability to scale our operations to translate revenue volume increases into efficient bottom line performance. EBITDA return on sales was 17% as compared to 9% in the prior year.

Future

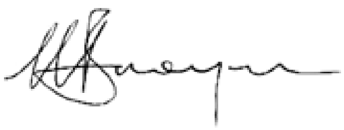
Trends within the technology industry of the increasing application of speech recognition technologies in multiple sectors, greater use of machine learning and natural language processing in search and the growing use of crowdsourcing to solve enterprise challenges all combine to make us optimistic about the opportunities and growth ahead of us.

The outlook for 2016 is positive and we look forward to building on the success of 2015 to deliver further growth.

I'd like to thank our executive team for their inspiring leadership and all of our staff for their hard work, customer commitment and teamwork.

Thank you for your support in FY2015.

Sincerely,



Mark Brayan
Managing Director and
Chief Executive Officer

The outlook for 2016 is positive and we look forward to building on the success of 2015 to deliver further growth.

FINANCIAL REPORT

DIRECTORS' REPORT

The directors present their report, together with the financial statements, of 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 2015.

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
Lisa Carol Braden-Harder (resigned on 31 December 2015)
Mark Ronald Brayan (appointed on 13 July 2015)
Stephen John Hasker (appointed on 7 April 2015)
Robin Jane Low
William Robert Pulver
Jeremy Andrew Samuel
Deena Robyn Shiff (appointed on 15 May 2015)

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the Group consisted of the provision of data solutions and services for global technology companies and government agencies.

Appen operates through two operating divisions being:

- 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.
- Language Resources which 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.

Supporting both divisions is a global on-demand workforce providing customers with very flexible in-country linguistic and cultural expertise in support of large global initiatives to any 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	
	2015 $'000	2014 $'000
Dividends paid out of the profits reserve for the year ended 31 December 2015 of 1.2 cents per ordinary share (2014: 13.0 cents per management share prior to the restructuring of capital).	1,155	1,188

Dividend declared

On 29 February 2016, the Company declared a final dividend for the year ended 31 December 2015 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 7 March 2016. The financial effect of these dividends has not been brought to account in the financial statements for the period ended 31 December 2015 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 $8,308k (31 December 2014: $1,615k).

Financial Performance

	2015 $'000	2014 $'000	% change	% change constant currency
Language Resources	31,913	22,494	42%	19%
Content Relevance	50,730	28,437	78%	48%
Other	73	75		
Total revenue from principal activities	**82,716**	**51,006**	**62%**	**35%**
Net profit after tax (NPAT)	8,308	1,615	414%	144%
Add tax	4,102	2,070	98%	
Add net interest (income)/expense	(17)	130	-113%	
EBIT*	**12,393**	**3,815**	**225%**	**100%**
Depreciation and amortisation	1,427	973	47%	
Statutory EBITDA**	**13,820**	**4,788**	**189%**	**85%**
Add non-recurring items				
Change in fair value of contingent consideration	–	1,924		
Initial public listing costs	214	1,112		
Excise net tax refund	–	(1,151)		
Adjusted EBITDA	**14,034**	**6,673**	**110%**	**33%**
% Statutory EBITDA / Sales	17%	9%		
% Adjusted EBITDA / Sales	17%	13%		
% Segment Profit / Sales				
Language Resources	41%	36%		
Content Relevance	15%	15%		

* EBIT is defined as earnings before tax and interest

** EBITDA is EBIT before depreciation and amortisation

The Company reported EBITDA of $13,820k representing a 189% increase from 2014. The Language Resources division increased return on sales from 32% to 41%, due to a favourable mix towards higher margin transcription and data collection contracts. The Content Relevance division return of 15% was lower than the 2014 return of 18%, due to margin trade off from a significant increase in revenue.

Total revenue for the financial year ended 31 December 2015 was $82,716k compared to 2014 revenue of $51,006k. The drivers behind this change in revenue were:

– After a flat year in 2014, the Language Resources division recorded a 41% increase in revenue over the prior year, driven by increased volumes across most of the customer base. After adjusting for foreign exchange movements, the annual growth was 19%, which was significant given the relative maturity of this market segment.
– Following a decline in revenue in 2014, the Content Relevance division delivered an 80% increase in revenue over the prior year. This was largely driven by a significant new business from major customers in social media. After adjusting for foreign exchange movements, the annual growth was 48%.

Adjusted EBITDA for the financial year ended 31 December 2015 rose 110% from $6,673k to $14,034k. This resulted from the strong revenue increase and cost containment from scalability achieved through the continued globalisation of operations. Overall expenses for 2015 comprised 83% of revenue as compared to 87% in 2014. After adjusting for foreign exchange movements, the annual growth was 33%.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 7 January 2015, the Company listed on the Australian Securities Exchange (ASX code: APX). Previously on 13 October 2014 the Company changed its name from Appen Holdings Pty Limited to Appen Limited.

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No other matter or circumstance has arisen since 31 December 2015 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

Name:	**Christopher Charles Vonwiller**
Title:	Non-Executive Chairman
Age:	73
Qualifications:	BSc, BE (Hons), MBA, FIE (Aust.), FTSE
Experience and expertise:	Chris is the Non-Executive Chairman of Appen having formerly served as Appen CEO from 1999-2010. Prior to joining Appen, Chris served for 20 years in senior executive positions with the Australian telecommunications carrier Telstra Corporation Limited, playing a leading role in the development and deployment of innovative internet services, multimedia, and pay television. Chris is a former Chairman of the Warren Centre for Advanced Engineering at The University of Sydney. For his work at Appen, Chris was named an Innovation Hero by the Warren Centre in June 2007.
Special responsibilities:	Chairman of the board
Interests in shares:	14,210,083 ordinary shares (indirectly)
Interests in options:	None

Name:	**Mark Ronald Brayan**
Title:	Managing Director and Chief Executive Officer
Age:	52
Qualifications:	MBA, BSurv (Hons)
Experience and expertise:	Mark joined Appen in July 2015 as CEO and is responsible for the company's leadership, strategy and culture. Mark has over twenty-five years' experience in technology and services. Prior to joining Appen, Mark was CEO of MST Global, a provider of technology solutions to the resources sector. Before that he was the CEO of Integrated Research Limited (ASX:IRI), an international software company listed on the Australian Stock exchange. Mark was also COO of the HR outsourcing company Talent2 (ASX:TWO) and CEO of Concept Systems (ASX:CSI) before its merger with Talent2. Mark has an MBA from the Australian Graduate School of Management and Bachelor of Surveying with 1st Class Honours from the University of NSW
Interests in shares:	174,450 ordinary shares (directly/indirectly)
Interests in options:	142,768 performance rights

DIRECTORS' REPORT

continued

Name:	**William Robert Pulver**
Title:	Non-Executive Director
Age:	56
Qualifications:	BCom (Marketing)
Experience and expertise:	William (Bill) Pulver originally joined Appen as Chief Executive Officer ('CEO') in April 2010 overseeing the merger of Appen and Butler Hill in 2011. In January 2013, Bill transitioned to a non-executive director role on the Appen board, after taking on the role of CEO of the Australian Rugby Union. Prior to joining Appen, Bill served as president and chief executive officer of NetRatings, Inc., a NASDAQ-listed company, headquartered in New York and specialising in Internet media and market research. Bill led NetRatings until it was bought by The Nielsen Company in June 2007 and was responsible for its extensive growth through organic product development and acquisitions.
Special responsibilities:	Chairman of Nominations and Remuneration Committee
Interests in shares:	4,421,527 ordinary shares (indirectly)
Interests in options:	None

Name:	**Robin Jane Low**
Title:	Independent Non-Executive Director
Age:	54
Qualifications:	BCom, FCA, GAICD
Experience and expertise:	Robin was a partner at PricewaterhouseCoopers with over 28 years' experience in financial services, particularly insurance, and in assurance and risk management. Robin is a member of the Audit and Assurance Standards Board and is on the boards of a number of not-for-profit organisations including Sydney Medical School Foundation, Public Education Foundation and Primary Ethics. Robin holds a Bachelor of Commerce from The University of New South Wales, is a Fellow of the Institute of Chartered Accountants in Australia, and is a Graduate Member of the Australian Institute of Company Directors.
Other current directorships:	Director of AUB Group Limited (ASX: AUB), CSG Limited (ASX: CSV) and IPH Limited (ASX: IPH)
Special responsibilities:	Chairman of the Audit and Risk Committee
Interests in shares:	150,344 ordinary shares (indirectly)
Interests in options:	None

Name:	**Jeremy Andrew Samuel**
Title:	Non-Executive Director
Age:	43
Qualifications:	MBA, LLB
Experience and expertise:	Jeremy has been a Non-Executive Director of Appen since October 2009 and is the founder and Managing Director of Anacacia Capital Pty Limited. Jeremy is a director of several companies in which Anacacia has invested, including Yumi's Quality Foods and was formerly a director of Rafferty's Garden, Home Appliances and Lomb Scientific.
Special responsibilities:	None
Interests in shares:	Anacacia Capital Pty Limited is the fund manager of Anacacia Partnership 1L which holds 18,478,739 shares amounting to 19.2% of share capital and the Wattle Fund that has just under 5% interest. As at the date of this report, Jeremy Samuel does not have a relevant interest in these shares for the purposes of the Corporations Act.
Interests in options:	None

Name:	**Stephen John Hasker**
Title:	Non-Executive Director
Age:	46
Qualifications:	BCom, MBA, MIA, ACAA
Experience and expertise:	Steve has been a Non-Executive Director of Appen since April 2015. He is the President and Chief Operating Officer of Nielsen Holdings plc, based in New York. Steve is also a Non-Executive Director of Global Eagle Entertainment (Nasdaq)
Special responsibilities:	None
Interests in shares:	None
Interests in options:	None

Name:	**Deena Robyn Shiff**
Title:	Non-Executive Director
Age:	61
Qualifications:	BSc (Econ); BA (Law)
Experience and expertise:	Deena Shiff has been a Non-Executive Director since May 2015. Deena serves on the boards of a number of communications and technology companies including Bai Communications and Citadel Group (ASX:CGL), as well as serving on the board of not for profit companies. Until 2013, Deena was a Group Managing Director at Telstra, in turn, running the Wholesale Division; establishing the business division, Telstra Business; and setting up and leading Telstra Ventures, Telstra's corporate venture capital arm. Prior to that Deena had a legal career including as in-house counsel at Telstra and as a partner at law firm Mallesons, Stephen Jacques.
Special responsibilities:	None
Interests in shares:	50,000 ordinary shares (indirectly)
Interests in options:	None

COMPANY SECRETARIES

Mark Edmund Payton Byrne (BEc, MBA, CA, CSA, GAICD) was the Chief Financial Officer and Co-company Secretary until his resignation on 29 January 2016. Kevin Levine was appointed Chief Financial Officer on 5 January 2016. Leanne Ralph was appointed as Co-company Secretary on 18 December 2014 and as Company Secretary on 5 January 2016. Leanne brings a wealth of experience in company secretarial activities particularly with listed companies. She is currently the company secretary of 7 listed companies as well as a number of unlisted companies. Leanne is member of the Governance Institute.

DIRECTORS' REPORT

continued

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2015 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	13	13	3	3	3	3
Lisa Braden-Harder*	13	13	–	–	–	–
William Pulver	12	13	1	1	4	4
Jeremy Samuel	13	13	–	–	–	–
Mark Brayan****	7	7	–	–	–	–
Deena Shiff**	9	9	3	3	–	–
Stephen Hasker***	10	10	–	–	1	1
Robin Low	12	13	4	4	4	4

* Resigned on 31 December 2015
** Appointed on 15 May 2015
*** Appointed on 7 April 2015
**** Appointed on 13 July 2015

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 2015 ('**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 2015

C Vonwiller	Non-Executive Chairman
S Hasker	Independent Non-Executive Director (appointed on 7 April 2015)
R Low	Independent Non-Executive Director
W Pulver	Independent Non-Executive Director
J Samuel	Non-Executive Director
D Shiff	Independent Non-Executive Director (appointed on 15 May 2015)
L Braden-Harder	Managing Director (resigned on 31 July 2015) / Non-Executive Director (from 1 August 2015 and resigned on 31 December 2015)
M Brayan	Managing Director and Chief Executive Officer (appointed on 13 July 2015)
M Byrne	Chief Financial Officer & Co-company Secretary (resigned effective 29 January 2016)*
P Hall	Senior Vice-President, Language Resources
T Garves	Senior Vice-President, Content Relevance
T White	Senior Vice-President, Strategy, Sales & Marketing

* Kevin Levine was appointed Chief Financial Officer with effect from 5 January 2016

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 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;
Chris Vonwiller (resigned on 29 July 2015); and
Stephen Hasker (appointed on 29 July 2015)

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 http://investors.appen.com/investors/?page=Corporate-Governance.

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;
William Pulver (resigned on 29 July 2015); and
Deena Shiff (appointed on 29 July 2015)

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 http://investors.appen.com/investors/?page=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 is as follows:

Role	Fee*
Board Chairman	$90,000
Non-Executive Director	$55,000
Audit & Risk Committee Chairman	$15,000
Nomination & Remuneration Committee Chairman	$10,000

* All fees are inclusive of statutory superannuation

Jeremy Samuel waived his entitlement to directors' fees until the end of 31 December 2015.

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 2014 and 2015 are outlined below:

Amounts paid to Non-Executive Directors

	2015			2014			
Director	Fees	Superannuation	Total	Fees	Superannuation	Total	Comments
Chris Vonwiller*	54,000	36,000	90,000	26,962	33,038	60,000	
William Pulver	59,361	5,639	65,000	21,943	2,057	24,000	
Robin Low	63,927	6,073	70,000	15,981	1,519	17,500	appointed 30 October 2014
Jeremy Samuel**	–	–	–	–	–	–	
Deena Shiff	36,667	–	36,667	–	–	–	appointed 15 May 2015
Stephen Hasker	41,250	–	41,250	–	–	–	appointed 7 April 2015
Lisa Braden-Harder***	22,917	–	22,917	–	–	–	resigned 31 December 2015
Julia Vonwiller*	–	–	–	26,962	33,038	60,000	resigned 1 December 2014
Jonathan Shein	–	–	–	20,117	1,883	22,000	resigned 1 December 2014
	278,122	**47,712**	**325,834**	**111,965**	**71,535**	**183,500**	

* In 2014 these amounts were paid to C & J Vonwiller Pty Limited in accordance to the terms of the previous shareholder agreement with the Company prior to listing

** In 2014 Anacacia Capital Pty Limited (of which Jeremy Samuel is Managing Director) was paid $120,000 in accordance to the terms of the previous shareholder agreement with the Company prior to listing. In addition to this in 2014 Anacacia Capital Pty Limited was paid a fee of $120,000 in respect to services associated with the Company's listing

*** Lisa Braden-Harder resigned as Managing Director on the 31 July 2015 and was a Non-Executive Director from 1 August 2015 until 31 December 2015

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.

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

	No of Shares			
Director	1 January 2015	Purchased during the year	Sold during the year	31 December 2015
Christopher Vonwiller	17,210,083	–	3,000,000	14,210,083
William Pulver	8,843,055	–	4,421,528	4,421,527
Lisa Braden-Harder	1,844,672	409,000	1,331,336	922,336
Mark Brayan	–	174,450	–	174,450
Robin Low	100,000	50,344	–	150,344
Deena Shiff	–	50,000	–	50,000
Stephen Hasker	–	–	–	–
Jeremy Samuel*	–	–	–	–

* Jeremy Samuel is the managing director of Anacacia Capital Pty Limited, the fund manager of Anacacia Partnership 1LP which holds 18,478,739 shares amounting to 19.19% of share capital and the Wattle Fund that has just under 5% interest

As at the date of this report, Jeremy Samuel does not have a relevant interest in these shares for the purposes of the Corporations Act.

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.

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:

	2015	2014	2013	2012	2011**
Net profit after tax	8,307,873	1,615,637	1,584,846	(1,925,786)	2,226,598
Basic earnings per share (after share split) – cents	8.67	2.15	2.15	(0.26)	0.37
Adjusted EBIT*	12,392,919	5,701,441	6,114,339	3,071,353	3,841,284
Dividends	1,155,360	1,188,258	723,515	3,130,931	894,890

* Earnings before interest, tax,and change in fair value of contingent consideration, IPO costs and excise tax refund
** reflects 18 month period

Executive remuneration comprises:

- 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
Mark Brayan	Managing Director	No fixed term	1 January	6 months
Mark Byrne	CFO and Company Secretary	No fixed term	1 January	6 weeks
Philip Hall	SVP, Language Resources	No fixed term	1 March	13 weeks
Tammy Garves	SVP, Content Relevance	No fixed term	1 March	90 days
Tom White	SVP, Strategy, Sales and Marketing	No fixed term	1 March	90 days

The company entered into an agreement with Mark Brayan in the role of Managing Director on 13 July 2015 and has no fixed term. A notice period of six months will apply in respect of termination, except in defined circumstances where no notice period applies. There is a probation period of six months. His remuneration is made up of the following items:

Base remuneration
- At the commencement date, A$400,000 inclusive of superannuation
- From 1 January 2016, A$450,000 inclusive of superannuation

Short Term Incentive (STI)
- Target rate of 50% of the base salary with the opportunity to earn up to 75% of base salary for outstanding performance
- The KPIs and their respective weightings will be determined by the board annually

Long Term Incentive
- LTI payment of up to 30% of base salary, in accordance with Appen's LTIP.

Remuneration review
- The board will review Mr. Brayan's performance and remuneration approximately annually.

Restraint
- Mr. Brayan will be subject to competitive restraint during his employment and for a period of not less than three months after his employment with Appen ceases.

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.

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

Performance Measure

	2015 Weighting	2014 Weighting
Revenue	33%	25%
EBIT	67%	50%
EBIT Margin %	0%	25%

Therefore, if the Company achieves 50% of the revenue target and 100% of the EBIT 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 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 & 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.

2015 Results and STI Payments

AUD	Target	Actual	% Actual/ Target	% Payout*
Revenue	$59,632,680	$82,716,153	139%	150%
EBIT	$6,453,299	$12,392,919	192%	150%
* % payout capped at 150%				
	Weighted Ave Performance Payout %			150%

Executive	Currency	Fixed Remuneration**	STI Target	Performance Payout % (Max 150%)	Total STI Payout	Total STI Payout (AUD)
Mark Brayan*	AUD	$190,769	50%	150.0%	$143,077	$143,077
Lisa Braden-Harder***	USD	$212,439	50%	150.0%	$144,375	$191,733
Mark Byrne	AUD	$250,377	30%	150.0%	$112,669	$112,669
Philip Hall	AUD	$213,868	30%	150.0%	$96,241	$96,241
Tammy Garves	USD	$205,768	30%	150.0%	$92,595	$122,969
Tom White*	USD	$196,772	30%	150.0%	$88,548	$117,593

* started 13 July 2015
** this includes superannuation for only Australian based executives
*** bonus calculated on base salary of $USD330,000 prorated for 7 months

2014 Results and STI Payments

AUD	Target	Actual	% Actual/ Target	% Payout
Revenue	$58,362,019	$50,931,326	87.3%	76.2%
EBIT	$6,673,786	$6,218,340	93.2%	86.8%
EBIT Margin	11.44%	12.21%	106.8%	114.0%
	Weighted Ave Performance Payout %			90.9%

Executive	Currency	Fixed Remuneration*	STI level	Performance Payout %	Total STI Payout	Total STI Payout (AUD)
Lisa Braden-Harder	USD	$256,094	50%	90.9%	$116,455	$129,036
Mark Byrne	AUD	$206,069	20%	90.9%	$37,483	$37,483
Philip Hall	AUD	$193,226	30%	90.9%	$52,720	$52,720
Tammy Garves	USD	$187,575	30%	90.9%	$51,178	$56,707
Tom White	USD	$179,375	30%	90.9%	$48,941	$54,228

* this includes superannuation for only Australian based executives

DIRECTORS' REPORT

continued

Long Term Incentives
Long-term incentives to the Managing Director, other executive KMP and employees are to be 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
In addition to the replacement of the previous option plan, the Company developed a long term incentive plan that incorporates performance conditions and was effective from 1 January 2015.

The long term incentive plan provides for awards of Performance Rights to senior management, vesting in three tranches over a three year period. The Performance Rights will only vest subject to:

- achievement of an Earnings Per Share ('EPS') performance condition which is tested over a one year performance period, for three consecutive years; and
- continuation of employment until 1 March 2018. Once the initial performance period has ended shareholder alignment will continue through executives being incentivised to maintain the share price in order to maximise the value of any award, until the Performance Rights vest. In addition, generally if an executive leaves before Performance Rights vest (and despite one or multiple EPS condition being met), the Rights lapse. The plan also acts as a retentive 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, the hurdle to be measured over a one year period, using a consistent EPS growth method – a consistent target that applies each year. Under this calculation method an annual EPS growth target is set at the beginning of each performance period.

The Board considers that this method acts more as a benchmark than an alternative annual EPS growth method, which would require the Board to set EPS outcomes each year. 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 element.

Performance Conditions
Earnings per Share Targets

Year	2015*	2016	2017
Basic EPS Growth rate	4.3%	10.0%	10.0%

* this is based off the adjusted net profit after tax for 2014

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

Based on the financial results for the 2015 financial year, the Board resolved that 2015 EPS growth rate target of 4.3% has been met. The number of performance rights allocated to executives are:

		Vesting Date		
Executive	**No of Rights**	**1/03/2016**	**1/03/2017**	**1/03/2018**
Mark Brayan	142,768	27,668	57,550	57,550
Mark Byrne	78,792	26,264	26,264	26,264
Philip Hall	102,366	34,122	34,122	34,122
Tammy Garves	138,679	46,226	46,226	46,226
Tom White	123,863	41,288	41,288	41,288
	586,468	**175,568**	**205,450**	**205,450**

These were granted on the 25th February 2015 for all executives other than Mark Brayan (CEO). 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 taking into account 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:

		Vesting date	**1/03/2016**	**1/03/2017**
		Expiry	**1/03/2020**	**1/03/2021**
Executive	**No of options**	**Exercise Price**	**0.50**	**0.50**
Lisa Braden-Harder	425,000		212,500	212,500
Mark Byrne	212,500		106,250	106,250
Philip Hall	212,500		106,250	106,250
Tammy Graves	212,500		106,250	106,250
Tom White	212,500		106,250	106,250
	1,275,000		**637,500**	**637,500**

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

Executive	Held at 1st January 2015	Exercised*	Forfeited	Held at 31st December 2015	Vested during the Year	Vested and Exercisable at 31st December 2015
Lisa Braden-Harder	834,000	409,000	425,000	–	–	–
Mark Byrne	1,030,500	613,500	–	417,000	–	204,500
Philip Hall	253,400	–	–	253,400	–	40,900
Tammy Garves	212,500	–	–	212,500	–	–
Tom White	253,400	–	–	253,400	–	40,900

* details of the options exercises are in the table below

Executive	No of Options Exercised	Amount paid on options exercised	Value of options at time of exercise
Lisa Braden-Harder	409,000	$188,344	$83,641
Mark Byrne	613,500	$262,500	$179,220

Summary of Executive Remuneration
Details of the remuneration of the KMP of the group are set out in the tables below.

2015	Short Term Benefits		Post Employment Benefits		Long Term Benefits	Share Based Payment			Total Short Term Benefits
Executive	Cash Salary	STI $	Superannuation $	Termination Payments $	Leave Entitlements $	Equity Settled $	Cash Settled $	Total $	
Mark Brayan	174,218	143,077	16,551	–	14,675	12,112	–	360,633	317,295
Lisa Braden-Harder	282,124	191,733	–	40,737	10,851	–	–	525,445	473,857
Mark Byrne	228,652	112,669	21,725	–	21,578	26,062	–	410,685	341,321
Philip Hall	195,313	96,241	18,555	–	24,016	30,442	–	364,566	291,554
Tammy Garves	273,264	122,969	37,535	–	10,510	37,188	–	481,466	396,232
Tom White	261,318	117,593	35,894	–	10,051	34,436	–	459,292	378,911
	1,414,889	**784,282**	**130,260**	**40,737**	**91,680**	**140,240**	**–**	**2,602,088**	**2,199,170**

* Lisa Braden-Harder received a termination payment as part of her transitional agreement with the company from Managing Director to Non-Executive Director

2014	Short Term Benefits		Post Employment Benefits		Long Term Benefits	Share Based Payment			Total Short Term Benefits
Executive	**Cash Salary**	**STI $**	**Superannuation $**	**Termination Payments $**	**Leave Entitlements $**	**Equity Settled $**	**Cash Settled $**	**Total $**	
Lisa Braden-Harder	283,761	129,036	29,644	–	10,914	97,675	–	551,029	412,797
Mark Byrne	188,400	37,483	17,669	–	18,172	41,175	–	302,899	225,883
Philip Hall	176,662	52,720	16,564	–	20,389	9,767	26,800	302,902	229,382
Tammy Garves	207,839	56,707	29,644	–	7,994	41,175	26,875	370,235	264,546
Tom White	198,753	54,228	5,792	–	7,644	9,767	–	276,185	252,982
	1,055,415	**330,174**	**99,313**	**–**	**65,113**	**199,559**	**53,675**	**1,803,250**	**1,385,589**

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

	Proportion of remuneration performance related		Value of equity as proportion of remuneration	
Executive	**2015**	**2014**	**2015**	**2014**
Mark Brayan	40%	n/a	3%	n/a
Lisa Braden-Harder	36%	23%	0%	18%
Mark Byrne	27%	12%	6%	14%
Philip Hall	26%	17%	8%	3%
Tammy Garves	26%	15%	8%	11%
Tom White	26%	20%	7%	4%

DIRECTORS' REPORT

continued

6. EXECUTIVE SHAREHOLDINGS

The table below outlines the current shares, rights and options held by the executive KMP as at 31 December 2015:

Executive	No of Ordinary shares currently held	Security	Grant Date	Vesting Date	Number	Option Price	Expiry Date*
Mark Brayan	174,450	Rights	29/07/2015	1/03/2016	27,668	N/A	N/A
		Rights	29/07/2015	1/03/2017	57,550	N/A	N/A
		Rights	29/07/2015	1/03/2018	57,550	N/A	N/A
Lisa Braden-Harder	922,336						
Mark Byrne	818,000	Options	31/08/2013	Fully Vested	51,125	$0.412	1/03/2018
		Options	1/03/2014	Fully Vested	51,125	$0.432	1/03/2018
		Options	31/08/2013	Fully Vested	51,125	$0.494	1/03/2019
		Options	1/03/2014	Fully Vested	51,125	$0.489	1/03/2019
		Options	24/08/2014	1/03/2016	106,250	$0.500	1/03/2020
		Options	24/08/2014	1/03/2017	106,250	$0.500	1/03/2021
		Rights	25/02/2015	1/03/2016	26,264	N/A	N/A
		Rights	25/02/2015	1/03/2017	26,264	N/A	N/A
		Rights	25/02/2015	1/03/2018	26,264	N/A	N/A
Philip Hall	575,270	Options	1/03/2014	Fully Vested	20,450	$0.432	1/03/2018
		Options	1/03/2014	Fully Vested	20,450	$0.489	1/03/2019
		Options	1/03/2016	1/03/2016	106,250	$0.500	1/03/2020
		Options	1/03/2017	1/03/2017	106,250	$0.500	1/03/2021
		Rights	25/02/2015	1/03/2016	34,122	N/A	N/A
		Rights	25/02/2015	1/03/2017	34,122	N/A	N/A
		Rights	25/02/2015	1/03/2018	34,122	N/A	N/A
Tammy Garves	10,225	Options	1/03/2016	1/03/2016	106,250	$0.500	1/03/2020
		Options	1/03/2017	1/03/2017	106,250	$0.500	1/03/2021
		Rights	25/02/2015	1/03/2016	46,226	N/A	N/A
		Rights	25/02/2015	1/03/2017	46,226	N/A	N/A
		Rights	25/02/2015	1/03/2018	46,266	N/A	N/A
Tom White	–	Options	1/03/2014	Fully Vested	20,450	$0.432	1/03/2018
		Options	1/03/2014	Fully Vested	20,450	$0.489	1/03/2019
		Options	1/03/2016	1/03/2016	106,250	$0.500	1/03/2020
		Options	1/03/2017	1/03/2017	106,250	$0.500	1/03/2021
		Rights	25/02/2015	1/03/2016	41,288	N/A	N/A
		Rights	25/02/2015	1/03/2017	41,288	N/A	N/A
		Rights	25/02/2015	1/03/2018	41,288	N/A	N/A

* Rights are automatically converted to shares on the 1st March 2018 assuming all conditions of the plan are met

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 http://investors.appen.com/investors/?page=Corporate-Governance.

SHARES UNDER OPTION

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

Expiry Date	Exercise Price	No of Options
1st March 2018	$0.412	173,825
1st March 2019	$0.494	173,825
1st March 2018	$0.432	132,925
1st March 2019	$0.489	132,925
1st March 2020	$0.500	610,937
1st March 2021	$0.500	610,937
		1,835,374

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:

Executive	No of Rights
Mark Brayan	142,768
Mark Byrne	78,792
Philip Hall	102,366
Tammy Garves	138,679
Tom White	123,863
	586,468

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year, 1,431,500 ordinary shares of the Company were issued and fully paid for on the exercise of options during the year ended 31 December 2015 and up to the date of this Remuneration Report as outlined below (there are no amounts unpaid on the shares issued).

This concludes the end of the audited section of the Remuneration Report.

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.

DIRECTORS' REPORT

continued

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 on the following page.

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 the IPO 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 24 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 Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order 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

29 February 2016
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 for the financial year ended 31 December 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Nimac
Partner

Sydney

29 February 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	Group 2015 $'000	Group 2014 $'000
Revenue	5	82,716	51,006
Expenses			
Services purchased – data collection		(41,855)	(21,756)
Employee benefits expense	6	(20,955)	(17,921)
Depreciation and amortisation expense	6	(1,427)	(973)
Impairment of assets	6	(37)	(73)
Travel expense		(971)	(911)
Professional fees		(1,078)	(917)
Rental expense		(503)	(437)
Communication expense		(322)	(278)
IPO Transaction costs		(214)	(959)
Change in fair value of contingent consideration		–	(1,924)
Excise tax refunds		–	1,500
Other expenses		(2,581)	(2,324)
Finance costs	6	(363)	(348)
Profit before income tax expense		**12,410**	**3,685**
Income tax expense	7	(4,102)	(2,070)
Profit after income tax expense for the year attributable to the owners of Appen Limited	19	**8,308**	**1,615**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		1,325	765
Other comprehensive income for the year, net of tax		**1,325**	**765**
Total comprehensive income for the year attributable to the owners of Appen Limited		**9,633**	**2,380**
		Cents	Cents
Basic earnings per share	32	8.67	2.16
Diluted earnings per share	32	8.55	1.88

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 2015

	Note	Group 2015 $'000	Group 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	8	12,725	8,649
Trade and other receivables	9	17,278	10,062
Other		285	211
Total current assets		**30,288**	**18,922**
Non-current assets			
Property, plant and equipment		379	358
Intangibles	10	11,342	10,859
Other		8	–
Total non-current assets		**11,729**	**11,217**
Total assets		**42,017**	**30,139**
Liabilities			
Current liabilities			
Trade and other payables	11	8,829	7,858
Derivative financial instruments	12	86	640
Income tax	13	1,376	66
Provisions	14	777	690
Other	15	409	41
Total current liabilities		**11,477**	**9,295**
Non-current liabilities			
Borrowings		8	–
Deferred tax	16	1,496	913
Provisions		378	282
Total non-current liabilities		**1,882**	**1,195**
Total liabilities		**13,359**	**10,490**
Net assets		**28,658**	**19,649**
Equity			
Issued capital	17	19,077	18,476
Reserves	18	13,451	5,043
Accumulated losses	19	(3,870)	(3,870)
Total equity		**28,658**	**19,649**

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 2015

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2014	8,124	3,023	(3,009)	8,138
Adjustment for reclassification	–	861	(861)	–
Balance at 1 January 2014 – restated	8,124	3,884	(3,870)	8,138
Profit after income tax expense for the year	–	–	1,615	1,615
Other comprehensive income for the year, net of tax	–	765	–	765
Total comprehensive income for the year	**–**	**765**	**1,615**	**2,380**
Transactions with owners in their capacity as owners:				
Transfer between reserves	–	1,615	(1,615)	–
Issue of ordinary shares (Note 17)	9,871	–	–	9,871
Issue of management shares (Note 17)	481	–	–	481
Transaction costs, net of tax	–	(241)	–	(241)
Share-based payments	–	208	–	208
Dividends paid (Note 20)	–	(1,188)	–	(1,188)
Balance at 31 December 2014	**18,476**	**5,043**	**(3,870)**	**19,649**

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2015	18,476	5,043	(3,870)	19,649
Profit after income tax expense for the year	–	–	8,308	8,308
Other comprehensive income for the year, net of tax	–	1,325	–	1,325
Total comprehensive income for the year	**–**	**1,325**	**8,308**	**9,633**
Transactions with owners in their capacity as owners:				
Transfer between reserves	–	8,308	(8,308)	–
Issue of ordinary shares (Note 17)	601	–	–	601
Transaction costs, net of tax	–	(233)	–	(233)
Share-based payments	–	163	–	163
Dividends paid (Note 20)	–	(1,155)	–	(1,155)
Balance at 31 December 2015	**19,077**	**13,451**	**(3,870)**	**28,658**

Reclassification
Accumulated losses in the current and prior year have been split between accumulated losses and a profits reserve. As a result the opening balance has been reclassified for this new treatment.

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 2015

	Note	Group 2015 $'000	Group 2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		72,511	58,871
Payments to suppliers and employees (inclusive of GST)		(67,650)	(49,605)
		4,861	9,266
Interest received		20	17
Interest paid		(3)	(147)
Income taxes paid		(848)	(881)
Net cash from operating activities	31	**4,030**	**8,255**
Cash flows from investing activities			
Payments for property, plant and equipment		(320)	(172)
Payments for intangibles		(304)	(705)
Payment for contingent consideration		–	(10,549)
Net cash used in investing activities		**(624)**	**(11,426)**
Cash flows from financing activities			
Proceeds from issue of shares	17	601	10,352
Payments for share buy-backs		–	(233)
Proceeds from borrowings		–	2,149
Repayment of borrowings		–	(5,702)
Dividends paid	20	(1,155)	(1,188)
Net cash (used in)/from financing activities		**(554)**	**5,378**
Net increase in cash and cash equivalents		2,852	2,207
Cash and cash equivalents at the beginning of the financial year		8,649	5,771
Effects of exchange rate changes on cash and cash equivalents		1,224	671
Cash and cash equivalents at the end of the financial year	8	**12,725**	**8,649**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

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 company was admitted to the Australia Securities Exchange ('ASX') on 7 January 2015 under the ASX code 'APX'. The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 February 2016.

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, revised or amending 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.

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.

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 28.

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 2015 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.

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. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of disputes on service quality or there is continuing management involvement with the products.

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 consolidated 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 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 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.

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 or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of maintenance (re-packaging or additional data) and selling expenses.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Platform technology development
Platform technology development costs are capitalised at the direct costs 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 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 as 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments
Equity-settled and cash-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. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are 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.

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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the binomial option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

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 an equity-settled award is 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 are 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 are 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 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 consolidated 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 Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order 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 2015. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, is set out below.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. 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 and the impact of its adoption is expected to be minimal.

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 but the impact of its adoption is yet to be assessed by the Group.

IFRS 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 consolidated 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 consolidated 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 but the impact of its adoption is yet to be assessed by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial model taking into account the terms and conditions upon which the instruments were granted. 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: 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.

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 2015 approximately 72% (2014: 83%) of the Group's external revenue was derived from sales to 5 major customers.

Operating segment information

Group – 2015	Content Relevance $'000	Language Resources $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Services revenue	50,730	31,913	–	82,643
Rent	–	–	53	53
Interest	–	–	20	20
Total revenue	**50,730**	**31,913**	**73**	**82,716**
Segment result profit	7,695	12,958	73	20,726
Corporate overhead				(6,672)
Initial Public Offer expenses				(214)
Depreciation and amortisation				(1,427)
Interest				(3)
Profit before income tax expense				**12,410**
Income tax expense				(4,102)
Profit after income tax expense				**8,308**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. OPERATING SEGMENTS (CONTINUED)

Group – 2014	Content Relevance $'000	Language Resources $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Services revenue	28,437	22,494	–	50,931
Rent	–	–	58	58
Interest	–	–	17	17
Total revenue	**28,437**	**22,494**	**75**	**51,006**
Segment result profit	4,193	8,104	75	12,372
Corporate overhead				(4,684)
Initial Public Offer expenses				(959)
Depreciation and amortisation				(973)
Interest				(147)
Change in fair value of contingent consideration				(1,924)
Profit before income tax expense				**3,685**
Income tax expense				(2,070)
Profit after income tax expense				**1,615**

Revenue and segment profit for content relevance and language resources has been restated to reflect revised divisional allocation methodology effected in 2015. There is no change to total revenue and segment profit.

Geographical information

	Services revenue		Geographical non-current assets	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Australia	27,388	19,101	418	358
US	55,255	31,830	11,311	10,859
	82,643	**50,931**	**11,729**	**11,217**

5. REVENUE

	Group	
	2015 $'000	2014 $'000
Sales revenue		
Services revenue	82,643	50,931
Other revenue		
Interest	20	17
Rent	53	58
	73	**75**
Revenue	**82,716**	**51,006**

6. EXPENSES

	Group 2015 $'000	Group 2014 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	74	57
Fixtures and fittings	13	10
Computer equipment	150	83
Audio equipment	20	27
Make good	16	16
Total depreciation	**273**	**193**
Amortisation		
Patents and formation costs	3	22
Internal software and platform development	549	234
Licence, database and project development	51	67
Contracts	551	457
Total amortisation	**1,154**	**780**
Total depreciation and amortisation	**1,427**	**973**
Impairment		
Receivables	37	73
Finance costs		
Interest and finance charges paid/payable	3	147
Net foreign exchange loss	360	201
Finance costs expensed	**363**	**348**
Employee benefits expense		
Defined contribution superannuation expense	850	859
Share-based payments expense	163	55
Employee benefits expense	19,942	17,007
Total employee benefits expense	**20,955**	**17,921**

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7. INCOME TAX EXPENSE

	Group	
	2015 $'000	2014 $'000
Income tax expense		
Current tax	3,519	998
Deferred tax – origination and reversal of temporary differences	583	1,072
Aggregate income tax expense	**4,102**	**2,070**
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets	–	159
Increase in deferred tax liabilities (Note 16)	583	913
Deferred tax – origination and reversal of temporary differences	**583**	**1,072**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	12,410	3,685
Tax at the statutory tax rate of 30%	3,723	1,106
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	(227)	952
	3,496	**2,058**
Difference in overseas tax rates	606	12
Income tax expense	**4,102**	**2,070**

8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Group	
	2015 $'000	2014 $'000
Cash on hand	3	2
Cash at bank	12,533	8,523
Cash on deposit	189	124
	12,725	**8,649**

9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Group 2015 $'000	Group 2014 $'000
Trade receivables	12,618	4,630
Less: Provision for impairment of receivables	(34)	(61)
	12,584	**4,569**
Other receivables	235	623
Work in progress	4,407	3,241
GST recoverable	52	129
Other refunds	–	1,500
	17,278	**10,062**

Impairment of receivables
The Group has recognised a loss of $37,000 (2014: $73,000) in profit or loss in respect of impairment of receivables for the year ended 31 December 2015.

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

	Group 2015 $'000	Group 2014 $'000
Over 6 months overdue	**34**	**61**

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

	Group 2015 $'000	Group 2014 $'000
Opening balance	61	29
Additional provisions recognised	10	105
Receivables written off during the year as uncollectable	(37)	(73)
Closing balance	**34**	**61**

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $1,109,000 as at 31 December 2015 ($2,716,000 as at 31 December 2014).

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

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9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Group	
	2015 $'000	2014 $'000
0 to 3 months overdue	1,022	2,614
3 to 6 months overdue	13	16
Over 6 months overdue	74	86
	1,109	**2,716**

10. NON-CURRENT ASSETS – INTANGIBLES

	Group	
	2015 $'000	2014 $'000
Goodwill – at cost	9,336	8,323
Patents and formation costs – at cost	300	297
Less: Accumulated amortisation	(275)	(270)
	25	**27**
Internal software and platform development – at cost	2,407	2,181
Less: Accumulated amortisation	(890)	(321)
	1,517	**1,860**
Licence, database and project development – at cost	357	2,453
Less: Accumulated amortisation	–	(2,403)
	357	**50**
Contracts – at cost	2,888	2,574
Less: Accumulated amortisation	(2,781)	(1,975)
	107	**599**
	11,342	**10,859**

10. 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 2014	7,627	46	1,231	118	1,011	10,033
Additions	–	3	702	–	–	705
Exchange differences	696	–	161	(1)	45	901
Amortisation expense	–	(22)	(234)	(67)	(457)	(780)
Balance at 31 December 2014	**8,323**	**27**	**1,860**	**50**	**599**	**10,859**
Additions	–	–	–	347	–	347
Exchange differences	1,013	1	206	11	59	1,290
Amortisation expense	–	(3)	(549)	(51)	(551)	(1,154)
Balance at 31 December 2015	**9,336**	**25**	**1,517**	**357**	**107**	**11,342**

Impairment of intangible assets

Goodwill relates to the acquisition of the business of Content Relevance in the United States. The recoverable amount of this business, at balance date, was estimated based on its value in use.

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

- Cashflows were projected from actual operating results over a 5 year period.
- Revenue growth rates of 15% for 2016 and 12% for 2017 to 2020 were used for revenue projections. This growth was based on 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.

11. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group	
	2015 $'000	2014 $'000
Trade payables	3,417	3,801
VAT payable	197	87
Other payables and accrued expenses	5,215	3,970
	8,829	**7,858**

Refer to Note 21 for further information on financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. CURRENT LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2015 $'000	Group 2014 $'000
Forward foreign exchange contracts	84	402
Foreign exchange contracts – collars	2	238
	86	**640**

Refer to Note 21 for further information on financial instruments.

Refer to Note 22 for further information on fair value measurement.

13. CURRENT LIABILITIES – INCOME TAX

	Group 2015 $'000	Group 2014 $'000
Provision for income tax	**1,376**	**66**

14. CURRENT LIABILITIES – PROVISIONS

	Group 2015 $'000	Group 2014 $'000
Annual leave	652	534
Deferred lease incentives	34	68
Lease make good	91	88
	777	**690**

Deferred lease incentives
The provision represents operating lease incentives received. The incentives are allocated to profit or loss in such a manner that the rent expense is recognised on a straight-line basis over the lease term.

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 – 2015	Deferred lease incentives $'000	Lease make good $'000
Carrying amount at the start of the year	68	88
Additional provisions recognised	–	3
Amounts used	(34)	–
Carrying amount at the end of the year	**34**	**91**

15. CURRENT LIABILITIES – OTHER

	Group	
	2015 $'000	**2014 $'000**
Revenue received in advance	**409**	**41**

16. NON-CURRENT LIABILITIES – DEFERRED TAX

	Group	
	2015 $'000	**2014 $'000**
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Platform development costs	289	–
Impairment of receivables	(13)	(20)
Property, plant and equipment	3	24
Intangible assets	945	670
Employee benefits	(767)	(270)
Accrued expenses	(187)	(137)
Work-in-progress	1,322	972
Initial Public Offering expense	(100)	(397)
Foreign currency revaluation and other expense	4	71
Deferred tax liability	**1,496**	**913**
Movements:		
Opening balance	913	–
Charged to profit or loss (Note 7)	583	913
Closing balance	**1,496**	**913**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. EQUITY – ISSUED CAPITAL

	Group			
	2015 Shares	2014 Shares	2015 $'000	2014 $'000
Ordinary shares - fully paid	96,280,001	94,846,001	19,077	18,476

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2014			
Management shares converted to ordinary shares	30 October 2014	7,475,412	$0.000	6,192
Share split in preparation of Initial Public Offering (8.18:1)	30 October 2014/	1,677,534	$0.000	2,413
	31 December 2014	65,718,157	$0.000	–
Issue of shares on completion of Initial Public Offering	24 December 2014	19,741,398	$0.500	9,871
Issue of shares on completion of Initial Public Offering	24 December 2014	233,500	$0.000	–
Balance	31 December 2014	**94,846,001**		**18,476**
Issue of bonus shares	12 February 2015	2,500	$0.000	–
Issue of shares on exercise of options	8 April 2015	409,000	$0.367	150
Issue of shares on exercise of options	8 April 2015	613,500	$0.428	263
Issue of shares on exercise of options	23 June 2015	204,500	$0.432	88
Issue of shares on exercise of options	23 June 2015	204,500	$0.489	100
Balance	31 December 2015	**96,280,001**		**19,077**

Movements in management shares

Details	Date	Shares	Issue price	$'000
Balance	1 January 2014	1,508,534		1,932
Issue of shares	1 May 2014	57,500	$3.530	203
Issue of shares	29 May 2014	24,000	$2.000	48
Issue of shares	29 May 2014	75,000	$2.500	187
Issue of shares	30 September 2014	12,500	$3.450	43
Management shares converted to ordinary shares	30 October 2014	(1,677,534)		(2,413)
Balance	31 December 2014	**–**		**–**
Balance	31 December 2015	**–**		**–**

17. 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 objective 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.

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 2014 Annual Report.

18. EQUITY - RESERVES

	Group	
	2015 $'000	2014 $'000
Common control reserve	(1,416)	(1,416)
Foreign currency translation reserve	3,363	2,038
Share-based payments reserve	1,204	1,041
Profits reserve	8,441	1,288
Other reserves	1,859	2,092
	13,451	**5,043**

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

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

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

Profits reserve
The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit 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 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.

18. EQUITY – RESERVES (CONTINUED)

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

Group	Common control reserve $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Profits reserve $'000	Other reserves $'000	Total $'000
Balance at 1 January 2014	(1,416)	1,273	833	861	2,333	3,884
Foreign currency translation	–	765	–	–	–	765
Share-based payments	–	–	208	–	–	208
Transfer from accumulated losses	–	–	–	1,615	–	1,615
Dividends paid	–	–	–	(1,188)	–	(1,188)
Initial Public Offering cost allocation	(241)	–	–	–	–	(241)
Balance at 31 December 2014	**(1,416)**	**2,038**	**1,041**	**1,288**	**2,092**	**5,043**
Foreign currency translation	–	1,325	–	–	–	1,325
Share-based payments	–	–	163	–	–	163
Transfer from accumulated losses	–	–	–	8,308	–	8,308
Dividends paid	–	–	–	(1,155)	–	(1,155)
Initial Public Offering cost allocation	–	–	–	–	(233)	(233)
Balance at 31 December 2015	**(1,416)**	**3,363**	**1,204**	**8,441**	**1,859**	**13,451**

19. EQUITY – ACCUMULATED LOSSES

	Group	
	2015 $'000	2014 $'000
Accumulated losses at the beginning of the financial year	(3,870)	(3,870)
Profit after income tax expense for the year	8,308	1,615
Transfer to profits reserve	(8,308)	(1,615)
Accumulated losses at the end of the financial year	**(3,870)**	**(3,870)**

Accumulated losses have been split in the current year between accumulated losses and a profits reserve. Prior year accumulated losses have been reclassified into these categories in the statement of changes in equity.

20. EQUITY – DIVIDENDS

Dividends
Dividends paid during the financial year were as follows:

	Group	
	2015 $'000	2014 $'000
Dividends paid out of the profits reserve for the year ended 31 December 2015 of 1.2 cents per ordinary share (2014: 13.0 cents per management share, prior to the restructuring of capital)	1,155	1,188

On 29 February 2016, the Company declared a final dividend for the year ended 31 December 2015 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 7 March 2016. The financial effect of these dividends has not been brought to account in the financial statements for the period ended 31 December 2015 and will be recognised in subsequent financial reports.

Franking credits

	Group	
	2015 $'000	2014 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	1,889	700

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

21. 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 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.

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.

21. FINANCIAL INSTRUMENTS (CONTINUED)

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted 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 contracts - collars at the reporting date were as follows:

	Buy Australian dollars		Average exchange rates	
	2015 $'000	2014 $'000	2015	2014
Sell United States dollars				
Foreign exchange forward contract maturity:				
0 - 3 months	3,741	2,470	0.7419	0.8754
3 - 6 months	1,234	1,899	0.7293	0.8752
6 - 12 months	1,710	2,687	0.7309	0.8465
Sell Euros				
Foreign exchange forward contract maturity:				
0 - 3 months	–	370	–	0.6759
3 - 6 months	–	223	–	0.6717
Sell Pound Sterling				
Foreign exchange forward contract maturity:				
0 - 3 months	–	742	–	0.5388

	Buy Australian dollars		Average exchange rates	
	2015 $'000	2014 $'000	2015	2014
Sell United States dollars				
Foreign exchange contracts - collars maturity:				
0 - 3 months	1,548	1,271	0.7105	0.8751
3 - 6 months	2,739	1,568	0.7302	0.8689
6 - 12 months	1,892	2,190	0.7135	0.8335
12 - 18 months	414	302	0.7243	0.8280

21. FINANCIAL INSTRUMENTS (CONTINUED)

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

	Average exchange rates		Reporting date exchange rates	
	2015	2014	2015	2014
Australian dollars				
United States Dollars	0.7530	0.9041	0.7294	0.8181
European Economic and Monetary Union Euro	0.6761	0.6777	0.6712	0.6756
United Kingdom Pound Sterling	0.4915	0.5468	0.4941	0.5249
Hong Kong Dollars	5.8375	7.0115	5.6535	6.3437
Philippine Pesos	34.1728	40.1563	34.2310	36.6351

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

	Assets		Liabilities	
Group	2015 $'000	2014 $'000	2015 $'000	2014 $'000
United States Dollars	23,000	6,205	3,701	2,114
European Economic and Monetary Union Euro	443	–	–	–
United Kingdom Pound Sterling	1,264	658	197	87
Hong Kong Dollars	12	9	–	–
Philippine Pesos	179	9	66	11
	24,898	**6,881**	**3,964**	**2,212**

The Group had net assets denominated in foreign currencies of $20,934,000 (assets $24,898,000 less liabilities $3,964,000) as at 31 December 2015 (2014: $4,669,000 (assets $6,881,000 less liabilities $2,212,000)).

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21. FINANCIAL INSTRUMENTS (CONTINUED)

Based on this exposure, had the Australian dollar strengthened by 5%/weakened by 5% (2014: strengthened by 5%/ weakened by 5%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year and equity would have been lower/higher by the following:

	AUD strengthened			AUD weakened		
Group - 2015	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
United States Dollars	5%	965	965	5%	(965)	(965)
European Economic and Monetary Union Euro	5%	22	22	5%	(22)	(22)
United Kingdom Pound Sterling	5%	53	53	5%	(53)	(53)
Hong Kong Dollars	5%	1	1	5%	(1)	(1)
Philippine Pesos	5%	6	6	5%	(6)	(6)
		1,047	**1,047**		**(1,047)**	**(1,047)**

	AUD strengthened			AUD weakened		
Group - 2014	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
United States Dollars	5%	205	205	5%	(205)	(205)
United Kingdom Pound Sterling	5%	29	29	5%	(29)	(29)
Hong Kong Dollars	5%	–	–	5%	–	–
Philippine Pesos	5%	–	–	5%	–	–
		234	**234**		**(234)**	**(234)**

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

Price risk
The Group is not exposed to any significant price risk.

Interest rate risk
The Group is not exposed to any significant interest rate risk.

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 consolidated statement of financial position and notes to the consolidated 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.

21. 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 consolidated statement of financial position.

Group - 2015	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	3,417	–	–	–	3,417
Other payables	–	727	–	–	–	727
Total non-derivatives	**–**	**4,144**	**–**	**–**	**–**	**4,144**
Derivatives						
Forward foreign exchange contracts net settled	–	84	–	–	–	84
Foreign exchange contracts - collars	–	2	–	–	–	2
Total derivatives	**–**	**86**	**–**	**–**	**–**	**86**

Group - 2014	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	3,801	–	–	–	3,801
Other payables	–	530	–	–	–	530
Total non-derivatives	**–**	**4,331**	**–**	**–**	**–**	**4,331**
Derivatives						
Forward foreign exchange contracts net settled	–	402	–	–	–	402
Foreign exchange contracts - collars	–	238	–	–	–	238
Total derivatives	**–**	**640**	**–**	**–**	**–**	**640**

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

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22. FAIR VALUE MEASUREMENT

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

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

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

Level 3: Unobservable inputs for the asset or liability

Group - 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Forward foreign exchange contracts	–	84	–	84
Foreign exchange contracts - collars	–	2	–	2
Total liabilities	**–**	**86**	**–**	**86**

Group - 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Forward foreign exchange contracts	–	402	–	402
Foreign exchange contracts - collars	–	238	–	238
Total liabilities	**–**	**640**	**–**	**640**

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.

23. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	Group	
	2015 $	2014 $
Short-term employee benefits	2,199,171	1,385,589
Post-employment benefits	170,997	99,313
Long-term benefits	91,680	65,113
Share-based payments	140,240	253,235
	2,602,088	**1,803,250**

24. REMUNERATION OF AUDITORS

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

	Group	
	2015 $	**2014 $**
Audit services – KPMG		
Audit or review of the financial statements	151,020	120,000
Other services – KPMG		
Taxation and compliance services – Australia	62,550	70,160
Compilation of subsidiary financial statements	22,500	–
Assurance services related to Initial Public Offering	–	70,000
Taxation and compliance services related to Initial Public Offering	–	120,580
	85,050	260,740
	236,070	**380,740**
Audit services – network firms		
Audit or review of the financial statements	20,188	15,000
Other services – network firms		
Taxation and compliance services – USA	139,654	79,070
Taxation services – Excise Tax Refund	–	301,715
	139,654	380,785
	159,842	**395,785**

25. CONTINGENT LIABILITIES

The Group has given bank guarantees as at 31 December 2015 of $122,000 (2014: $122,000) to various landlords.

26. COMMITMENTS

	Group	
	2015 $'000	**2014 $'000**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	439	368
One to five years	90	379
	529	**747**

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

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27. RELATED PARTY TRANSACTIONS

Parent entity
Appen Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 29.

Key management personnel
Disclosures relating to key management personnel are set out in Note 23 and the remuneration report in the directors' report.

Transactions with related parties
There were no transactions with related parties during the current financial year. Transactions with related parties during the previous financial year were as follows:

Jeremy Samuel is the managing director of Anacacia Capital Pty Limited ('Anacacia'). Anacacia was paid $120,000 in accordance with the terms of the previous shareholder agreement with the Company prior to listing. In addition, Anacacia was paid a one off fee of 2014: $120,000 in respect to services associated with the Company's listing in 2014.

Lisa Braden-Harder received $10,549,327 in consideration for the sale of the Butler Hill Group to Appen Limited in 2011.

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.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

28. PARENT ENTITY INFORMATION

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

Statement of profit or loss and other comprehensive income

	Company	
	2015 $'000	2014 $'000
Profit/(loss) after income tax	11,235	(2,622)
Total comprehensive income	**11,235**	**(2,622)**

Statement of financial position

	Company	
	2015 $'000	2014 $'000
Total current assets	4,160	2,100
Total assets	26,615	16,386
Total current liabilities	–	382
Total liabilities	–	382
Equity		
Issued capital	19,077	18,476
Share-based payments reserve	1,204	1,041
Profits reserve	10,080	–
Other reserves	1,859	2,092
Accumulated losses	(5,605)	(5,605)
Total equity	**26,615**	**16,004**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2015 and 31 December 2014.

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2015 and 31 December 2014.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 31 December 2015 and 31 December 2014.

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

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29. 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 2015 %	Ownership interest 2014 %
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%
Appen (Hong Kong) Limited*	Hong Kong	100.00%	100.00%

* Wholly-owned subsidiaries of Appen Butler Hill Pty Limited

30. EVENTS AFTER THE REPORTING PERIOD

Apart from the dividend declared as disclosed in Note 20, no other matter or circumstance has arisen since 31 December 2015 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.

31. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Group 2015 $'000	Group 2014 $'000
Profit after income tax expense for the year	8,308	1,615
Adjustments for:		
Depreciation and amortisation	1,427	973
Share-based payments	163	442
Foreign exchange differences	838	(277)
Change in fair value of contingent consideration	–	1,924
Impairment loss on receivables	37	73
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(8,467)	1,292
Increase in trade and other payables	1,478	1,832
Increase in employee benefits and provisions	215	199
Decrease in provision for income tax	(848)	(881)
Increase in deferred tax liabilities	511	1,072
Increase/(decrease) in unearned revenue	368	(9)
Net cash from operating activities	**4,030**	**8,255**

32. EARNINGS PER SHARE

	Group 2015 $'000	Group 2014 $'000
Profit after income tax attributable to the owners of Appen Limited	8,308	1,615

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	95,812,846	74,978,088
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,340,810	10,944,695
Weighted average number of ordinary shares used in calculating diluted earnings per share	97,153,656	85,922,783

	Cents	Cents
Basic earnings per share	8.67	2.16
Diluted earnings per share	8.55	1.88

33. 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 in 1/3 tranches over a three year period, subject to an Earnings per Shares non-market performance condition tested over a one year period. 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:

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

2015

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25/02/2015	01/03/2016	$0.000	–	225,960	–	–	225,960
25/02/2015	01/03/2017	$0.000	–	225,960	–	–	225,960
25/02/2015	01/03/2018	$0.000	–	225,960	–	–	225,960
29/07/2015	01/03/2016	$0.000	–	27,668	–	–	27,668
29/07/2015	01/03/2017	$0.000	–	57,550	–	–	57,550
29/07/2015	01/03/2018	$0.000	–	57,550	–	–	57,550
			–	**820,648**	**–**	**–**	**820,648**

33. SHARE-BASED PAYMENTS (CONTINUED)

Rights are performance based and participant needs to be employed at 1 January 2018 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 2.17 years (2014: nil years).

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Dividend yield	Risk-free interest rate	Fair value at grant date
25/02/2015	01/03/2016	$0.634	$0.000	40.00%	2.25%	$0.557
25/02/2015	01/03/2017	$0.634	$0.000	40.00%	2.25%	$0.557
25/02/2015	01/03/2018	$0.634	$0.000	40.00%	2.25%	$0.557
29/07/2015	01/03/2016	$0.695	$0.000	40.00%	2.25%	$0.613
29/07/2015	01/03/2017	$0.695	$0.000	40.00%	2.25%	$0.613
29/07/2015	01/03/2018	$0.695	$0.000	40.00%	2.25%	$0.613

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 Employee Share Option 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.

33. SHARE-BASED PAYMENTS (CONTINUED)

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

2015

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited***	Balance at the end of the year
01/03/2011	31/03/2015*	$0.428	613,500	–	(613,500)	–	–
08/08/2011	31/03/2015*	$0.367	183,396	–	(183,396)	–	–
26/07/2012	31/03/2015*	$0.367	112,802	–	(112,802)	–	–
26/07/2012	31/03/2015*	$0.367	112,802	–	(112,802)	–	–
31/08/2013	01/03/2018**	$0.412	173,825	–	–	–	173,825
31/08/2013	01/03/2019**	$0.494	173,825	–	–	–	173,825
31/03/2014	01/03/2018**	$0.432	337,425	–	(204,500)	–	132,925
31/03/2014	01/03/2019**	$0.489	337,425	–	(204,500)	–	132,925
24/12/2014	01/03/2020**	$0.500	850,000	–	–	(239,063)	610,937
24/12/2014	01/03/2021**	$0.500	850,000	–	–	(239,063)	610,937
			3,745,000	**–**	**(1,431,500)**	**(478,126)**	**1,835,374**
Weighted average exercise price			$0.459	$0.000	$0.413	$0.500	$0.485

* Options granted under the terms of the Subscription Deeds
** Options granted under the terms of the Employee Share Option Plan
*** Options forfeited due to participants leaving Appen

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33. SHARE-BASED PAYMENTS (CONTINUED)

2014

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Replaced/ modified***	Cash settled****	Expired/ forfeited/other	Balance at the end of the year
23/10/2009	31/07/2014*	$0.244	196,320	–	(196,320)	–	–	–	–
17/10/2010	31/03/2015*	$0.244	327,200	–	–	–	(327,200)	–	–
17/10/2010	31/03/2015*	$0.428	81,800	–	–	–	(81,800)	–	–
01/03/2011	31/07/2014*	$0.306	613,500	–	(613,500)	–	–	–	–
01/03/2011	31/03/2015*	$0.428	613,500	–	–	–	–	–	613,500
08/08/2011	31/03/2015*	$0.367	245,752	–	–	–	(62,356)	–	183,396
26/07/2012	31/03/2015*	$0.367	112,802	–	–	–	–	–	112,802
26/07/2012	31/03/2015*	$0.367	112,802	–	–	–	–	–	112,802
01/10/2012	01/03/2017*	$0.412	1,636,000	–	–	–	(1,216,775)	(419,225)	–
01/10/2012	01/03/2017*	$0.489	1,636,000	–	–	–	–	(1,636,000)	–
01/10/2012	01/03/2018*	$0.581	1,636,000	–	–	–	–	(1,636,000)	–
01/03/2013	01/03/2017*	$0.412	204,500	–	–	–	(204,500)	–	–
12/07/2013	01/03/2017*	$0.550	461,188	–	–	–	–	(461,188)	–
31/08/2013	01/03/2018**	$0.412	276,075	–	(51,125)	–	(51,125)	–	173,825
31/08/2013	01/03/2019**	$0.494	276,075	–	–	–	(51,125)	(51,125)	173,825
31/08/2013	01/03/2020**	$0.577	276,075	–	–	(276,075)	–	–	–
31/08/2013	01/03/2021**	$0.660	276,075	–	–	(276,075)	–	–	–
31/03/2014	01/03/2018**	$0.432	–	460,125	(51,125)	–	(71,575)	–	337,425
31/03/2014	01/03/2019**	$0.489	–	460,125	–	–	(51,125)	(71,575)	337,425
31/03/2014	01/03/2020**	$0.550	–	460,125	–	(460,125)	–	–	–
31/03/2014	01/03/2021**	$0.672	–	460,125	–	(460,125)	–	–	–
24/12/2014	01/03/2020**	$0.500	–	–	–	850,000	–	–	850,000
24/12/2014	01/03/2021**	$0.500	–	–	–	850,000	–	–	850,000
			8,981,664	**1,840,500**	**(912,070)**	**227,600**	**(2,117,581)**	**(4,275,113)**	**3,745,000**
Weighted average exercise price			$0.461	$0.536	$0.305	$0.237	$0.391	$0.523	$0.462

* Options granted under the terms of the Subscription Deeds

** Options granted under the terms of the Employee Share Option Plan

*** At the time of listing, all options vesting in 2016 and 2017 were replaced with new options taking into account the share split. These options have the same terms as those that were replaced. There was no incremental fair value on the replaced options based on a replacement date fair value Binomial option pricing model comparison.

**** Immediately before listing, existing option holders were provided with the opportunity to cash settle their fully vested options at the IPO price of $0.50. A number of employees opted for cash settlement. No fair value increment was recognised on modification date, as the liability for cash settlement was recognised less than the amount previously recognised in equity for these options.

33. SHARE-BASED PAYMENTS (CONTINUED)

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

Grant date	Expiry date	2015 Number	2014 Number
01/03/2011	31/07/2015	–	613,500
08/08/2011	31/03/2015	–	183,396
26/07/2012	31/03/2015	–	112,802
26/07/2012	31/03/2015	–	112,802
31/08/2013	01/03/2018	173,825	173,825
31/08/2013	01/03/2019	173,825	–
31/03/2014	01/03/2018	132,925	337,425
31/03/2014	01/03/2019	132,925	–
		613,500	**1,533,750**

The weighted average share price during the financial year was $0.954 (2014: $0.416).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.00 years (2014: 3.16 years).

DIRECTOR'S 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 2015 and of its performance for the financial 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.

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

29 February 2016
Sydney

INDEPENDENT AUDITOR'S REPORT

to the members of Appen Limited

KPMG

Independent auditor's report to the members of Appen Limited

Report on the financial report

We have audited the accompanying financial report of Appen Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2015, and 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 ended on that date, Notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

continued

Independent auditor's report to the members of Appen Limited (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 25 of the directors' report for the year ended 31 December 2015. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Appen Limited for the year ended 31 December 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Tony Nimac
Partner

Sydney

29 February 2016

SHAREHOLDER INFORMATION

31 December 2015

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 3 February 2016.

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
1 to 1,000	229	–
1,001 to 5,000	433	–
5,001 to 10,000	174	–
10,001 to 100,000	277	7
100,001 and over	46	6
	1,159	13
Holding less than a marketable parcel	–	–

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
ANACACIA PARTNERSHIP 1 LP	18,478,739	19.19
C & J VONWILLER PTY LIMITED	14,210,083	14.76
NATIONAL NOMINEES LIMITED	6,679,191	6.94
UBS NOMINEES PTY LTD	4,887,756	5.08
CITICORP NOMINEES PTY LIMITED	4,776,993	4.96
ANACACIA PTY LIMITED	4,510,461	4.68
CS FOURTH NOMINEES PTY LIMITED	3,531,953	3.67
MERRIL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	3,490,888	3.63
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,310,354	3.44
NEW GREENWICH PTY LTD	3,206,560	3.33
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,038,611	3.16
BRISPOT NOMINEES PTY LTD	2,142,085	2.22
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,593,557	1.66
PULVER SUPERANNUATION PTY LIMITED	1,214,967	1.26
MIJON INVESTMENTS PTY LTD	1,000,000	1.04
LISA BRADEN-HARDER	922,336	0.96
GINGA PTY LTD	824,000	0.86
UBS NOMINEES PTY LTD	490,000	0.51
LESLEY KAREN PEPPER	475,270	0.49
MR WILLIAM JOHN LAUKKA	441,060	0.46
	79,224,864	**82.30**

SHAREHOLDER INFORMATION

continued

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	1,835,374	13
Performance rights over ordinary shares issued	820,648	11

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ANACACIA PARTNERSHIP 1 LP	18,478,739	19.19
C & J VONWILLER PTY LIMITED	14,210,083	14.76
REGAL FUNDS MANAGEMENT	10,169,094	10.56
NATIONAL NOMINEES LIMITED	6,026,980	6.26

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.

RESTRICTED SECURITIES

Class	Expiry date	Number of shares
Voluntary Escrow - fully paid ordinary shares	The escrow period applying to these shares is until the day after the date on which the Company announces to ASX its results for the financial year ending 31 December 2015.	31,967,815

These shares are subject to voluntary escrow restrictions.

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
Jeremy Andrew Samuel
Deena Robyn Shiff

COMPANY SECRETARY

Leanne Ralph

NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of Appen Limited will be held on 27 May 2016 at a time and place to be confirmed at a later date.

REGISTERED OFFICE

Level 6
9 Help Street
Chatswood NSW 2067

Tel: 02 9468 6300

PRINCIPAL PLACE OF BUSINESS

Level 6
9 Help Street
Chatswood NSW 2067

SHARE REGISTER

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000

Telephone: 1300 554 474
Facsimile: (02) 9287 0303

AUDITOR

KPMG
10 Shelley Street
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

CORPORATE GOVERNANCE STATEMENT

http://investors.appen.com/investors/?page=Corporate-Governance

Level 6
9 Help Street
Chatswood NSW 2067

Tel: 02 9468 6300

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