

# **Appen Limited**

**(Formerly known as Appen Holdings Pty Limited)**

**ABN 60 138 878 298**

## **Annual Report - 31 December 2014**

**Contents**

|                                                              |    |
|--------------------------------------------------------------|----|
| Corporate directory                                          | 2  |
| Directors' report                                            | 3  |
| Auditor's independence declaration                           | 20 |
| Statement of profit or loss and other comprehensive income   | 21 |
| Statement of financial position                              | 22 |
| Statement of changes in equity                               | 23 |
| Statement of cash flows                                      | 24 |
| Notes to the financial statements                            | 25 |
| Directors' declaration                                       | 63 |
| Independent auditor's report to the members of Appen Limited | 64 |
| Shareholder information                                      | 66 |

|                                  |                                                                                                                                               |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Directors                        | Christopher Charles Vonwiller - Chairman<br>Lisa Carol Braden-Harder<br>William Robert Pulver<br>Robin Jane Low<br>Jeremy Andrew Samuel       |
| Company secretaries              | Mark Edmund Payton Byrne<br>Leanne Ralph                                                                                                      |
| Notice of annual general meeting | The annual general meeting of Appen Limited will be held on Friday 22 May 2015 at a time and place to be confirmed later                      |
| Registered office                | Level 6<br>9 Help Street<br>Chatswood NSW 2067<br>Tel: 02 9468 6300                                                                           |
| Principal place of business      | Level 6<br>9 Help Street<br>Chatswood NSW 2067                                                                                                |
| Share register                   | Link Market Services Limited<br>Level 12<br>680 George Street<br>Sydney NSW 2000<br>Telephone: 1300 554 474<br>Facsimile: (02) 9287 0303      |
| Auditor                          | KPMG<br>10 Shelley Street<br>Sydney NSW 2000                                                                                                  |
| Solicitors                       | Norton Rose Fulbright Australia<br>Level 18, Grosvenor Place<br>225 George Street<br>Sydney NSW 2000                                          |
| Stock exchange listing           | Appen Limited shares are listed on the Australian Securities Exchange (ASX code: APX)                                                         |
| Website                          | <a href="http://www.appen.com">www.appen.com</a>                                                                                              |
| Corporate Governance Statement   | <a href="http://investors.appen.com/investors/?page=Corporate-Governance">http://investors.appen.com/investors/?page=Corporate-Governance</a> |

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Appen Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2014.

### 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  
 William Robert Pulver  
 Robin Jane Low (appointed on 30 October 2014)  
 Jeremy Andrew Samuel  
 Julia Patricia Mary Vonwiller (resigned on 1 December 2014)  
 Jonathan Shein (resigned on 1 December 2014)

### 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.
- Speech and Data Collection 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 in Sydney and merged with the Butler Hill Group which was based in the US in 2011. Appen listed on the Australian Securities Exchange on 7 January 2015.

### Dividends

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

|                                                                                                                                              | <b>Group</b>  |               |
|----------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                                              | <b>2014</b>   | <b>2013</b>   |
|                                                                                                                                              | <b>\$'000</b> | <b>\$'000</b> |
| Dividends paid for the year ended 31 December 2014 (2013: 31 December 2013) of 13.0 cents (2013: 8.0cents) per ordinary and management share | 1,188         | 724           |

The dividend was paid based on the shares on issue as at 20<sup>th</sup> June 2014, which was prior to the restructuring of capital described in note 23. There is no final dividend recommended for the year ended 31<sup>st</sup> December 2014.

## Review of operations

The profit for the Group after providing for income tax amounted to \$1,615k (31 December 2013: \$1,585k).

### Financial Performance

|                                                  | 2014          | 2013          |             |
|--------------------------------------------------|---------------|---------------|-------------|
|                                                  | \$'000        | \$'000        | %           |
| Speech and Data Collection                       | 22,777        | 22,752        | 0%          |
| Content Relevance                                | 28,229        | 37,953        | -26%        |
| <b>Total revenue from principal activities</b>   | <b>51,006</b> | <b>60,705</b> | <b>-16%</b> |
| Net profit after tax (NPAT)                      | 1,615         | 1,585         | 2%          |
| Add tax                                          | 2,070         | 2,659         | -22%        |
| Add interest expense/(income)                    | 131           | 148           | -11%        |
| <b>EBIT*</b>                                     | <b>3,816</b>  | <b>4,392</b>  | <b>-13%</b> |
| Depreciation and amortisation                    | 973           | 885           | 10%         |
| <b>Statutory EBITDA**</b>                        | <b>4,790</b>  | <b>5,277</b>  | <b>-9%</b>  |
| <i>Add non-recurring items</i>                   |               |               |             |
| Change in fair value of contingent consideration | 1,924         | 1,722         | 12%         |
| Initial public listing costs***                  | 1,112         | 0             | 0%          |
| Excise net tax refund****                        | (1,151)       | 0             | 0%          |
| <b>Adjusted EBITDA**</b>                         | <b>6,674</b>  | <b>6,999</b>  | <b>-5%</b>  |
| <br>                                             |               |               |             |
| % Sales / Statutory EBITDA                       | 9%            | 9%            |             |
| % Sales / Adjusted EBITDA                        | 13%           | 12%           |             |
| % Sales/ Segment Profit ****                     |               |               |             |
| Speech and Data Collection                       | 32%           | 15%           |             |
| Content Relevance                                | 18%           | 20%           |             |

\*EBIT is defined as earnings before tax and interest

\*\*EBITDA is EBIT before depreciation and amortisation

\*\*\* includes \$153,250 for one off bonus shares to employees as part of the public listing of the company

\*\*\*\* Segment profit is the profit of the segment prior to corporate overheads, tax and interest

\*\*\*\*\* this is the excise tax refund less a success fee paid to KPMG

The Company reported an adjusted EBITDA of \$6,674k representing a 5% decrease from 2013. The Speech and Data Collection division increased return on sales from 18% to 32% due to a favourable project mix towards higher margin transcription and data collection projects. The Content Relevance division return of 18% was lower than 2013 due to investment in the business in 2014.

Total revenue for the financial year ended 31 December 2014 was \$51,006k compared to 2013 revenue of \$60,705k. The drivers behind this change in revenue were:

- Speech and Data business was flat in 2014 on top of a record growth year in 2013 of 54%.
- Content relevance saw a 26% decline in revenues year on year. 2013 recorded an exceptional year due to a significant global initiative from a major customer. 2014 has been a year of reinvesting in this business through the extension of offerings to new customers including leading ecommerce and social media companies which resulted in an increase in new customer revenues in the fourth quarter.
- Expenses (excluding non-recurring items) of \$45,400k were 17% lower than 2013 impacted by reduced revenue offset by the company investing in technology and far-shoring operations to support improved delivery timelines and scalability of the business.
- US and Europe-based revenue benefited from favourable foreign exchange movements.

### **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.

As set out in the IPO Prospectus, the Company raised \$15,000k of funds through the issue of 30m new shares. The proceeds (after costs) from this raising was applied against contingent considerations associated the previous acquisition of the Butler Hill Group of \$2,200k, the buyback of outstanding options of \$5,400k and the sell down of shares of \$5,100k.

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**

Other than the IPO, no other matter or circumstance has arisen since 31 December 2014 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 Speech and Data collection 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:                      | 72                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Qualifications:           | Degrees in Science and Engineering (Hons) (University of Sydney), MBA ( Macquarie University)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 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:      | 17,210,083 ordinary shares (indirectly)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Interests in options:     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

**Name:** Lisa Carol Braden-Harder  
**Title:** Chief Executive Officer  
**Age:** 54  
**Qualifications:** MSc. (Computer Science), BSc (Computer Science)  
**Experience and expertise:** Lisa Braden-Harder founded the Butler Hill Group in 1993. After the merger with Appen, she became president of Appen Butler Hill North America. In January 2013, Lisa was promoted to chief executive officer, and the company changed its name back to Appen to reflect its unified approach to helping companies go global. For more than 20 years, Lisa has worked on technology and linguistics projects ranging from grammar checkers to search engines. Lisa has experience in applied research at the IBM Thomas J. Watson Research Centre, where she received the IBM Outstanding Technical Achievement Award, an IBM Research Division Award, and four patents. Lisa has attended two Dartmouth/Tuck executive MBA programs. She is also a member of a Vistage CEO mentoring group.

**Interests in shares:** 1,844,672 ordinary shares  
**Interests in options:** 1,243,000 options over ordinary shares

**Name:** William Robert Pulver  
**Title:** Non-Executive Director  
**Age:** 55  
**Qualifications:** BCom (Marketing)  
**Experience and expertise:** William (Bill) Pulver is a Non-Executive Director having 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:** 8,843,055 ordinary shares (indirectly)  
**Interests in options:** None

**Name:** Robin Jane Low  
**Title:** Independent Non-Executive Director (appointed on 30 October 2014)  
**Age:** 53  
**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 Austbrokers Holdings Limited (ASX: AUB), CSG Limited (ASX: CSV) and IPH Limited (ASX: IPH)  
**Special responsibilities:** Chairman of the Audit and Risk Committee  
**Interests in shares:** 100,000 ordinary shares (indirectly)  
**Interests in options:** None

Name: Jeremy Andrew Samuel  
Title: Non-Executive Director  
Age: 42  
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 1LP which holds 29,784,985 shares amounting to 31.4% of share capital. 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

### Company secretaries

Mark Edmund Payton Byrne (B.Ec, MBA, CA, CSA, GAICD) is the Chief Financial Officer and Co-company Secretary. Mark is responsible for Appen's financial operations and has worked in senior financial roles over the last 20 years. Leanne Ralph was appointed as Co-company Secretary on 18 December 2014. 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.

### Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2014 and the number of meetings attended by each director were:

|                       | Full board |      | Nomination and remuneration committee |      |
|-----------------------|------------|------|---------------------------------------|------|
|                       | Attended   | Held | Attended                              | Held |
| Christopher Vonwiller | 13         | 13   | 1                                     | 1    |
| Lisa Braden-Harder    | 13         | 13   | -                                     | -    |
| William Pulver        | 11         | 13   | 1                                     | 1    |
| Jeremy Samuel         | 13         | 13   | -                                     | -    |
| Julia Vonwiller*      | 11         | 11   | -                                     | -    |
| Jonny Shein*          | 9          | 11   | -                                     | -    |
| Robin Low**           | 3          | 3    | 1                                     | 1    |

\* Resigned on 1 December 2014

\*\* Appointed on 30 October 2014

### 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 2014.

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.

The remuneration report has been audited 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. Non-Executive Director Remuneration and Shareholding
4. Executive Remuneration
5. Executive Shareholdings

The figures are in Australian dollars unless noted.

#### **Details of Key Management Personnel for 2014**

|                 |                                                                             |
|-----------------|-----------------------------------------------------------------------------|
| C Vonwiller     | Non-Executive Chairman                                                      |
| L Braden-Harder | Managing Director                                                           |
| W Pulver        | Non-Executive Director                                                      |
| R Low           | Independent Non-Executive Director (appointed 1 <sup>st</sup> October 2014) |
| J Vonwiller     | Non-Executive Director (resigned 1 <sup>st</sup> December 2014)             |
| J Shein         | Non-Executive Director (resigned 1 <sup>st</sup> December 2014)             |
| J Samuel        | Non-Executive Director                                                      |
| M Byrne         | Chief Financial Officer & Co-company Secretary                              |
| T White         | Senior Vice-President, Strategy, Sales & Marketing                          |
| T Garves        | Senior Vice-President, Content Relevance                                    |
| P Hall          | Senior Vice-President, Speech & Data Collection                             |

#### **1. Remuneration Philosophy – Governance & Principles**

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board and executive team by remunerating Directors and key executives fairly and appropriately, taking into account relevant employment market conditions.

The remuneration policy is designed to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration is intimately connected to performance and is intended to be appropriate for the results delivered. The Company's policies are designed to attract and maintain talented and motivated Directors and employees as well as raising the level of performance of the Company.

The Company's remuneration philosophy and 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 security holders;
- Ensure that:
  - In the case of executive directors and senior executives, encourage them to pursue the growth and success of the Company (both in the short-term and over the longer term), without taking undue risks; and
  - In the case of non-executive directors, do not conflict with their obligation to bring an independent judgement to matters before the Board; and
- Review the employment conditions of Appen's employees on an ongoing basis to ensure Appen 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 & 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 & Remuneration Committee during the reporting period were:  
 William Pulver, Chairman;  
 Chris Vonwiller; and  
 Robin Low.

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

### 3. Non-Executive Director Remuneration and Shareholdings

#### Remuneration

Non-Executive Directors are remunerated by way of Board and Committee fees which were set prior to Appen'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 has waived entitlement to director's 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 Appen's listing on ASX. Details of fees paid to directors in 2013 and 2014 are outlined below:

#### Amounts paid to Non-Executive Directors

| Director           | Role                               | 2014    |                |         | 2013    |                |         | Comments                    |
|--------------------|------------------------------------|---------|----------------|---------|---------|----------------|---------|-----------------------------|
|                    |                                    | Fees    | Superannuation | Total   | Fees    | Superannuation | Total   |                             |
| Chris Vonwiller*   | Chairman                           | 26,962  | 33,038         | 60,000  | 33,349  | 26,651         | 60,000  |                             |
| William Pulver**** | Non-Executive Director             | 21,943  | 2,057          | 24,000  | 173,362 | 15,094         | 188,456 |                             |
| Robin Low***       | Independent Non-Executive Director | 15,981  | 1,519          | 17,500  | -       | -              | -       | appointed 30th October 2014 |
| Jeremy Samuel**    | Non-Executive Director             | -       | -              | -       | -       | -              | -       |                             |
| Julia Vonwiller*   | Non-Executive Director             | 26,962  | 33,038         | 60,000  | 33,349  | 26,651         | 60,000  | resigned 1st December 2014  |
| Jonny Shein        | Non-Executive Director             | 20,117  | 1,883          | 22,000  | 21,994  | 2,006          | 24,000  | resigned 1st December 2014  |
|                    |                                    | 111,965 | 71,535         | 183,500 | 262,054 | 70,402         | 332,456 |                             |

\* paid to C & J Vonwiller Pty Limited in accordance to the terms of the previous shareholder agreement with the Company prior to listing

\*\* Anacacia Capital Pty Limited (of which Jeremy Samuel is Managing Director) was paid \$120,000 (2013 :\$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

\*\*\*appointed a non-executive director on 1st October 2014

\*\*\*\*includes 2013 bonus of \$129,583 and final pay of \$36,873 as Managing Director which he resigned on 31st January 2013

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors will be reviewed annually. The Board seeks to set aggregate Director remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which 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

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

| Director              | Number of Securities |                                      |                    |
|-----------------------|----------------------|--------------------------------------|--------------------|
|                       | 1st January 2014     | Securities purchased during the year | 31st December 2014 |
| Christopher Vonwiller | 17,210,083           | -                                    | 17,210,083         |
| William Pulver        | 8,843,055            | -                                    | 8,843,055          |
| Robin Low             | -                    | 100,000                              | 100,000            |
| Jeremy Samuel*        | -                    | -                                    | -                  |

\*Jeremy Samuel is the managing director of Anacacia Capital Pty Limited, the fund manager of Anacacia Partnership 1LP which holds 29,784,985 shares amounting to 31.4% of share capital. 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.

#### 4. 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:

#### Shareholder Historical Performance

|                                                      | 2014      | 2013      | 2012        | 2011**    | 2010      |
|------------------------------------------------------|-----------|-----------|-------------|-----------|-----------|
| Net profit after tax                                 | 1,615,637 | 1,584,846 | (1,925,786) | 2,226,598 | 1,527,505 |
| Basic earnings per share (after share split) - cents | 2.15      | 2.15      | (0.26)      | 0.37      | 0.29      |
| Adjusted EBIT*                                       | 5,701,441 | 6,114,339 | 3,071,353   | 3,841,284 | 2,556,725 |
| Dividends                                            | 1,188,258 | 723,515   | 3,130,931   | 894,890   | 520,792   |

\* 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 of:

- Fixed Remuneration;
- Short term incentives; and
- Long term incentives through equity based compensation.

### **Service Contracts**

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

| Executive          | Role                               | Contract Term | Annual Salary Review | Notice Period by either party |
|--------------------|------------------------------------|---------------|----------------------|-------------------------------|
| Lisa Braden-Harder | Managing Director                  | No fixed term | 1st January          | 90 days                       |
| Mark Byrne         | CFO and Company Secretary          | No fixed term | 1st January          | 6 weeks                       |
| Philip Hall        | SVP, Speech and Data Collection    | No fixed term | 1st March            | 13 weeks                      |
| Tammy Garves       | SVP, Content Relevance             | No fixed term | 1st March            | 90 days                       |
| Tom White***       | SVP, Strategy, Sales and Marketing | No fixed term | 1st March            | 90 days                       |

### **Fixed Remuneration**

The remuneration arrangements for executive KMPs were disclosed in the IPO prospectus and were unchanged throughout the financial year ended 31 December.

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 which 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 | 2013 Weighting | 2014 Weighting |
|---------------------|----------------|----------------|
| Revenue             | 25%            | 25%            |
| EBIT                | 0%             | 50%            |
| EBIT Margin %       | 0%             | 25%            |
| EBITDA              | 50%            | 0%             |
| EBITDA Margin %     | 25%            | 0%             |

If the Company achieves 80% of the revenue target, 100% of the EBIT target and 80% of the EBIT margin percentage, the overall score for the purposes of the calculation of any bonus ('Financial Metric') that may be awarded would be 90% 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 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.

### Appen's 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 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.

## 2014 Results and STI Payments

### Short Term Incentive Performance 2014

| 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

## 2013 Results and STI Payments

### Short Term Incentive Performance 2013

| AUD           | Target       | Actual        | % Actual / Target | % Payout |
|---------------|--------------|---------------|-------------------|----------|
| Revenue       | \$41,200,513 | \$ 60,535,305 | 147%              | 216%     |
| EBITDA        | \$ 4,094,938 | \$ 6,848,833  | 167%              | 280%     |
| EBITDA Margin | 9.94%        | 11.31%        | 114%              | 130%     |

Weighted Ave Performance Payout % **226%**

| Executive          | Currency | Fixed Remuneration** | STI Target | Performance Payout % (Max 150%) | STI Payout | Special Bonus*** | Total STI Payout | Total STI Payout (AUD) |
|--------------------|----------|----------------------|------------|---------------------------------|------------|------------------|------------------|------------------------|
| Lisa Braden-Harder | USD      | \$ 249,988           | 50%        | 150.0%                          | \$ 187,491 | \$ 27,038        | \$ 214,529       | \$ 221,598             |
| Mark Byrne         | AUD      | \$ 178,655           | 20%        | 150.0%                          | \$ 53,597  | \$ 36,313        | \$ 89,910        | \$ 89,910              |
| Philip Hall        | AUD      | \$ 188,985           | 30%        | 150.0%                          | \$ 85,043  | \$ 36,458        | \$ 121,502       | \$ 121,502             |
| Tammy Garves       | USD      | \$ 182,479           | 30%        | 150.0%                          | \$ 82,115  | \$ 24,233        | \$ 106,348       | \$ 109,853             |
| Tom White*         | USD      | \$ 47,250            | 30%        | 150.0%                          | \$ 21,262  | \$ -             | \$ 21,262        | \$ 21,963              |

\* started 13st September 2013

\*\* this includes superannuation for only Australian based executives

\*\*\* due to exceeding 150% performance, executives were granted 5,000 shares ( 40,900 after shares split) which has been grossed up to reflect pre tax value

### **Long Term Incentives**

Long-term incentives to the Managing Director, other 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 Appen'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.

#### **Pre-Listing Long Term Incentives - Options**

Prior to the listing of the Company, there existed and the Company operated an annual option plan which was focused on the retention of the Managing Director and other KMP. Under these plans, the participants were awarded a number of options which were not performance based, and vesting over a 4 year period with an exercise period of 4 years. The Board considered that an option plan was the most appropriate structure at this time, taking into account the Company's stage of development and the key consideration of the need to retain identified employees prior to any public offer.

#### **2014 Option Plan**

| Executive        | No of options | Grant Date     | 1/03/2014 | 1/03/2014 | 1/03/2014 | 1/03/2014 | Value of Options |
|------------------|---------------|----------------|-----------|-----------|-----------|-----------|------------------|
|                  |               | Expiry         | 1/03/2018 | 1/03/2019 | 1/03/2020 | 1/03/2021 |                  |
|                  |               | Exercise Price | 0.432     | 0.489     | 0.550     | 0.672     |                  |
| Lisa Braden-Hard | 818,000       |                | 204,500   | 204,500   | 204,500   | 204,500   | 144,722          |
| Mark Byrne       | 204,500       |                | 51,125    | 51,125    | 51,125    | 51,125    | 36,180           |
| Philip Hall      | 81,800        |                | 20,450    | 20,450    | 20,450    | 20,450    | 14,472           |
| Tammy Garves     | 204,500       |                | 51,125    | 51,125    | 51,125    | 51,125    | 36,180           |
| Tom White        | 81,800        |                | 20,450    | 20,450    | 20,450    | 20,450    | 14,472           |
|                  | 1,390,600     |                | 347,650   | 347,650   | 347,650   | 347,650   | 246,027          |

#### **2013 Option Plan**

| Executive    | No of options | Grant Date     | 31/08/2013 | 31/08/2013 | 31/08/2013 | 31/08/2013 | 31/08/2013 | Value of Options |
|--------------|---------------|----------------|------------|------------|------------|------------|------------|------------------|
|              |               | Expiry         | 1/03/2017  | 1/03/2018  | 1/03/2019  | 1/03/2020  | 1/03/2021  |                  |
|              |               | Exercise Price | 0.412      | 0.412      | 0.494      | 0.577      | 0.660      |                  |
| Tammy Garves | 409,000       |                | 204,500    | 51,125     | 51,125     | 51,125     | 51,125     | 72,267           |
| Mark Byrne   | 204,500       |                |            | 51,125     | 51,125     | 51,125     | 51,125     | 37,365           |
| Total        | 613,500       |                | 204,500    | 102,250    | 102,250    | 102,250    | 102,250    | 109,632          |

The price and number of options noted in two tables above are prior to the share split as disclosed in Note 23 of the Annual Report.

#### **Post Listing Long Term Incentive Plans (LTIP)**

##### **Current LTI Plans**

At the time of listing the company offered to buy back all options held by the relevant executives that vested out to 1/03/2015 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 2 years at the listing price with similar vesting and expiry dates to the replaced options.

Details of this replacement option plan are noted below:

| Executive        | No of options | Grant Date     | 24/12/2014 | 24/12/2014 |
|------------------|---------------|----------------|------------|------------|
|                  |               | Expiry         | 1/03/2020  | 1/03/2021  |
|                  |               | Exercise Price | 0.50       | 0.50       |
| Lisa Braden-Hard | 425,000       |                | 212,500    | 212,500    |
| Mark Byrne       | 212,500       |                | 106,250    | 106,250    |
| Philip Hall      | 212,500       |                | 106,250    | 106,250    |
| Tammy Garves     | 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 2014 | Granted as compensation | Exercised*** | Bought back by the company* | Existing Plan replace | Replacement option issue | Held at 31st December 2014 | Vested during the Year | Vested and Exercisable at 31st December 2014 |
|------------------|--------------------------|-------------------------|--------------|-----------------------------|-----------------------|--------------------------|----------------------------|------------------------|----------------------------------------------|
| Lisa Braden-Hard | 24,050,322               | 818,000                 |              | (24,050,322)                | (409,000)             | 425,000                  | 834,000                    | 204,500                | 409,000                                      |
| Mark Byrne       | 1,431,500                | 204,500                 | (613,500)    |                             | (204,500)             | 212,500                  | 1,030,500                  | 102,250                | 818,000                                      |
| Philip Hall      | 343,560                  | 81,800                  | (179,960)    | (163,600)                   | (40,900)              | 212,500                  | 253,400                    | 20,450                 | 40,900                                       |
| Tammy Garves     | 409,000                  | 204,500                 |              | (409,000)                   | (204,500)             | 212,500                  | 212,500                    | 102,250                |                                              |
| Tom White        |                          | 81,800                  |              |                             | (40,900)              | 212,500                  | 253,400                    | 20,450                 | 40,900                                       |

\*this transaction was part of the initial public offering

\*\* refer details on STI options plans noted earlier in report

\*\*\* 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 |
|-------------|-------------------------|----------------------------------|--------------------------------------|
| Mark Byrne  | 613,500                 | \$ 187,500                       | \$ 264,750                           |
| Philip Hall | 179,960                 | \$ 44,000                        | \$ 77,660                            |

### Summary of Executive Remuneration

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

| 2014               | Short Term Benefits |         |                 | Post Employment Benefits | Long Term Benefits    | Share Based Payment |                 |           |
|--------------------|---------------------|---------|-----------------|--------------------------|-----------------------|---------------------|-----------------|-----------|
| Executive          | Cash Salary \$      | STI \$  | Non-Monetary \$ | Superannuation \$        | Long Service Leave \$ | Equity Settled \$   | Cash Settled \$ | Total \$  |
| Lisa Braden-Harder | 283,761             | 129,036 | -               | 29,644                   | 10,914                | 97,675              | -               | 551,029   |
| Mark Byrne         | 188,400             | 37,483  | -               | 17,669                   | 18,172                | 41,175              | -               | 302,899   |
| Philip Hall        | 176,662             | 52,720  | -               | 16,564                   | 20,389                | 9,767               | 26,800          | 302,902   |
| Tammy Garves       | 207,839             | 56,707  | -               | 29,644                   | 7,994                 | 41,175              | 26,875          | 370,235   |
| Tom White          | 198,753             | 54,228  | -               | 5,792                    | 7,644                 | 9,767               | -               | 276,185   |
|                    | 1,055,415           | 330,174 | -               | 99,313                   | 65,113                | 199,560             | 53,675          | 1,803,250 |

| 2013               | Short Term Benefits |         |                 | Post Employment Benefits | Long Term Benefits    | Share Based Payment |           |
|--------------------|---------------------|---------|-----------------|--------------------------|-----------------------|---------------------|-----------|
| Executive          | Cash Salary \$      | STI \$  | Non-Monetary \$ | Superannuation \$        | Long Service Leave \$ | Equity Settled \$   | Total \$  |
| Lisa Braden-Harder | 258,226             | 221,598 | -               | 34,604                   | 9,932                 | -                   | 524,359   |
| Mark Byrne         | 163,713             | 89,910  | -               | 14,942                   | 14,937                | 10,443              | 293,945   |
| Philip Hall        | 173,175             | 121,502 | -               | 15,810                   | 20,080                | -                   | 330,567   |
| Tammy Garves       | 188,492             | 109,853 | -               | 28,706                   | 7,250                 | 45,345              | 379,645   |
| Tom White*         | 48,807              | 21,963  | -               | -                        | 1,877                 | -                   | 72,647    |
|                    | 832,412             | 564,826 | -               | 94,062                   | 54,076                | 55,787              | 1,601,163 |

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

| 2014               | Proportion of remuneration performance related |      | Value of equity as proportion of remuneration |      |
|--------------------|------------------------------------------------|------|-----------------------------------------------|------|
| Executive          | 2014                                           | 2013 | 2014                                          | 2013 |
| Lisa Braden-Harder | 23%                                            | 42%  | 18%                                           | 0%   |
| Mark Byrne         | 12%                                            | 31%  | 14%                                           | 4%   |
| Philip Hall        | 19%                                            | 37%  | 4%                                            | 0%   |
| Tammy Garves       | 17%                                            | 29%  | 12%                                           | 12%  |
| Tom White          | 20%                                            | 30%  | 4%                                            | 0%   |

## 5. Executive Shareholdings

The table below outlines the current shares and options held the by executive KMP as at 31 December 2014

| Executive          | No of Ordinary Shares currently held | No of Options Currently Held |               |         |              |             |
|--------------------|--------------------------------------|------------------------------|---------------|---------|--------------|-------------|
|                    |                                      | Grant Date                   | Vesting Date  | Number  | Option Price | Expiry Date |
| Lisa Braden-Harder | 1,844,672                            | 1/03/2014                    | Fully Vested  | 204,500 | \$ 0.432     | 1/03/2018   |
|                    |                                      | 1/03/2014                    | Fully Vested  | 204,500 | \$ 0.489     | 1/03/2019   |
|                    |                                      | 24/08/2014                   | 1/03/2016     | 212,500 | \$ 0.500     | 1/03/2020   |
|                    |                                      | 24/08/2014                   | 1/03/2017     | 212,500 | \$ 0.500     | 1/03/2021   |
| Mark Byrne         | 1,022,500                            | 1/03/2011                    | Fully Vested* | 613,500 | \$ 0.428     | 1/03/2015   |
|                    |                                      | 31/08/2013                   | Fully Vested  | 51,125  | \$ 0.412     | 1/03/2018   |
|                    |                                      | 1/03/2014                    | Fully Vested  | 51,125  | \$ 0.432     | 1/03/2018   |
|                    |                                      | 31/08/2013                   | Fully Vested  | 51,125  | \$ 0.494     | 1/03/2019   |
|                    |                                      | 1/03/2014                    | Fully Vested  | 51,125  | \$ 0.489     | 1/03/2019   |
|                    |                                      | 24/08/2014                   | 1/03/2016     | 106,250 | \$ 0.500     | 1/03/2020   |
| Phil Hall          | 875,270                              | 24/08/2014                   | 1/03/2017     | 106,250 | \$ 0.500     | 1/03/2021   |
|                    |                                      | 1/03/2014                    | Fully Vested  | 20,450  | \$ 0.432     | 1/03/2018   |
|                    |                                      | 1/03/2014                    | Fully Vested  | 20,450  | \$ 0.489     | 1/03/2019   |
|                    |                                      | 1/03/2016                    | 1/03/2016     | 106,250 | \$ 0.500     | 1/03/2020   |
| Tammy Garves       | 10,225                               | 1/03/2017                    | 1/03/2017     | 106,250 | \$ 0.500     | 1/03/2021   |
|                    |                                      | 1/03/2016                    | 1/03/2016     | 106,250 | \$ 0.500     | 1/03/2020   |
| Tom White          | -                                    | 1/03/2014                    | Fully Vested  | 20,450  | \$ 0.432     | 1/03/2018   |
|                    |                                      | 1/03/2014                    | Fully Vested  | 20,450  | \$ 0.489     | 1/03/2019   |
|                    |                                      | 1/03/2016                    | 1/03/2016     | 106,250 | \$ 0.500     | 1/03/2020   |
|                    |                                      | 1/03/2017                    | 1/03/2017     | 106,250 | \$ 0.500     | 1/03/2021   |

\* These securities relates to options issued to the executive in 2011 as part of the executive's initial investment in the company.

It is Company policy that Directors and KMP must not enter into transactions in associated products which operate to limit the economic risk of security holdings in the Company.

### Shares under option

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

| Expiry Date    | Exercise Price | No of Options |
|----------------|----------------|---------------|
| 1st March 2015 | \$ 0.412       | 613,500       |
| 1st March 2015 | \$ 0.367       | 183,396       |
| 1st March 2015 | \$ 0.367       | 112,802       |
| 1st April 2015 | \$ 0.367       | 112,802       |
| 1st March 2018 | \$ 0.412       | 173,825       |
| 1st March 2019 | \$ 0.494       | 173,825       |
| 1st March 2018 | \$ 0.432       | 337,425       |
| 1st March 2019 | \$ 0.489       | 337,425       |
| 1st March 2020 | \$ 0.500       | 850,000       |
| 1st March 2021 | \$ 0.500       | 850,000       |
| Total          |                | 3,745,000     |

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

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

| Executive          | No. of Options |
|--------------------|----------------|
| Lisa Braden-Harder | 1,243,000      |
| Mark Byrne         | 417,000        |
| Philip Hall        | 294,300        |
| Tammy Garves       | 417,000        |
| Tom White          | 294,300        |

### Shares issued on the exercise of options

During the year 912,070 ordinary shares of Appen Limited were issued and fully paid for on the exercise of options during the year ended 31 December 2014 and up to the date of this report as outlined below (there are no amounts unpaid on the shares issued):

| Exercise Price | No of Options |
|----------------|---------------|
| \$ 0.244       | 196,320       |
| \$ 0.306       | 613,500       |
| \$ 0.412       | 51,125        |
| \$ 0.432       | 51,125        |

This concludes the end of the audited section of the Directors' report.

### New LTI Plan - Unaudited

In addition to the replacement of the previous option plan, the Company has developed a long term incentive plan which incorporates performance conditions and will be effective from 1<sup>st</sup> 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 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. 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.

As the Performance Rights vest over a three year period it will take time before senior management receive full value under the LTIP. Assuming the total amount of Performance Rights vest, after the end of the Year 3 under the LTIP, senior management would expect to receive three tranches of Performance Rights vesting each year (in respect of three respective performance years).

The Board has adopted an Earnings per Share ('EPS') performance condition for the proposed Long 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.

#### Earning per Share Targets

| Year        | 2015* | 2016  | 2017  |
|-------------|-------|-------|-------|
| Growth rate | 4.3%  | 10.0% | 10.0% |

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

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

\* at the board's discretion. No Performance rights will be allocated if the EPS Target does not achieve the 2015 EPS Target as per the prospectus.

#### Allocation of Performance Rights

| Executive          | No of Rights | Vesting Date |           |           |
|--------------------|--------------|--------------|-----------|-----------|
|                    |              | 1/03/2016    | 1/03/2017 | 1/03/2018 |
| Lisa Braden-Harder | 213,510      | 71,170       | 71,170    | 71,170    |
| Mark Byrne         | 100,000      | 33,333       | 33,333    | 33,333    |
| Philip Hall        | 138,360      | 46,120       | 46,120    | 46,120    |
| Tammy Garves       | 120,047      | 40,016       | 40,016    | 40,016    |
| Tom White          | 126,101      | 42,034       | 42,034    | 42,034    |
|                    | 698,018      | 232,673      | 232,673   | 232,673   |

These were granted on the 25th February 2015

#### Indemnity and insurance of officers

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

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

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

#### Indemnity and insurance of auditor

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

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

#### Proceedings on behalf of the Company

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

**Auditor independence and non-audit services**

The directors received an independence declaration from KPMG as required under section 307C of the Corporations Act 2001. It is set out 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 30 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

27<sup>th</sup> February 2015  
Sydney



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

To: the directors of Appen Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2014 there have been:

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

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Carlo Pasqualini'.

Carlo Pasqualini  
*Partner*

Sydney

27 February 2015

**Appen Limited**  
**(Formerly known as Appen Holdings Pty Limited)**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2014**



|                                                                                                 |             | <b>Group</b>           |                        |
|-------------------------------------------------------------------------------------------------|-------------|------------------------|------------------------|
|                                                                                                 | <b>Note</b> | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| <b>Revenue</b>                                                                                  | 5           | 51,006                 | 60,705                 |
| <b>Expenses</b>                                                                                 |             |                        |                        |
| Services purchased - data collection                                                            |             | (21,756)               | (31,029)               |
| Employee benefits expense                                                                       | 6           | (17,921)               | (17,921)               |
| Depreciation and amortisation expense                                                           | 6           | (973)                  | (885)                  |
| Impairment of assets                                                                            | 6           | (73)                   | (27)                   |
| Travel expense                                                                                  |             | (911)                  | (904)                  |
| Professional fees                                                                               |             | (917)                  | (613)                  |
| Rental expense                                                                                  |             | (437)                  | (393)                  |
| Communication expense                                                                           |             | (278)                  | (239)                  |
| Transaction costs                                                                               |             | (959)                  | -                      |
| Change in fair value of contingent consideration                                                |             | (1,924)                | (1,722)                |
| Excise tax refunds                                                                              |             | 1,500                  | -                      |
| Other expenses                                                                                  |             | (2,324)                | (2,096)                |
| Finance costs                                                                                   | 6           | (348)                  | (632)                  |
| <b>Profit before income tax expense</b>                                                         |             | 3,685                  | 4,244                  |
| Income tax expense                                                                              | 7           | (2,070)                | (2,659)                |
| <b>Profit after income tax expense for the year attributable to the owners of Appen Limited</b> | 25          | 1,615                  | 1,585                  |
| <b>Other comprehensive income</b>                                                               |             |                        |                        |
| <i>Items that may be reclassified subsequently to profit or loss</i>                            |             |                        |                        |
| Foreign currency translation                                                                    |             | 765                    | 1,259                  |
| Other comprehensive income for the year, net of tax                                             |             | 765                    | 1,259                  |
| <b>Total comprehensive income for the year attributable to the owners of Appen Limited</b>      |             | <u>2,380</u>           | <u>2,844</u>           |
|                                                                                                 |             | <b>Cents</b>           | <b>Cents</b>           |
| Basic earnings per share                                                                        | 38          | 2.16                   | 2.15                   |
| Diluted earnings per share                                                                      | 38          | 1.88                   | 1.93                   |

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

**Appen Limited**  
**(Formerly known as Appen Holdings Pty Limited)**  
**Statement of financial position**  
**As at 31 December 2014**



|                                  |             | <b>Group</b>           |                        |
|----------------------------------|-------------|------------------------|------------------------|
|                                  | <b>Note</b> | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| <b>Assets</b>                    |             |                        |                        |
| <b>Current assets</b>            |             |                        |                        |
| Cash and cash equivalents        | 8           | 8,649                  | 5,771                  |
| Trade and other receivables      | 9           | 10,062                 | 11,702                 |
| Other                            | 10          | 211                    | 174                    |
| Total current assets             |             | <u>18,922</u>          | <u>17,647</u>          |
| <b>Non-current assets</b>        |             |                        |                        |
| Property, plant and equipment    | 11          | 358                    | 373                    |
| Intangibles                      | 12          | 10,859                 | 10,033                 |
| Deferred tax                     | 13          | -                      | 159                    |
| Total non-current assets         |             | <u>11,217</u>          | <u>10,565</u>          |
| <b>Total assets</b>              |             | <u>30,139</u>          | <u>28,212</u>          |
| <b>Liabilities</b>               |             |                        |                        |
| <b>Current liabilities</b>       |             |                        |                        |
| Trade and other payables         | 14          | 7,858                  | 7,016                  |
| Borrowings                       | 15          | -                      | 478                    |
| Derivative financial instruments | 16          | 640                    | 372                    |
| Income tax                       | 17          | 66                     | 135                    |
| Provisions                       | 18          | 690                    | 7,089                  |
| Other                            | 19          | 41                     | 50                     |
| Total current liabilities        |             | <u>9,295</u>           | <u>15,140</u>          |
| <b>Non-current liabilities</b>   |             |                        |                        |
| Borrowings                       | 20          | -                      | 2,604                  |
| Deferred tax                     | 21          | 913                    | -                      |
| Provisions                       | 22          | 282                    | 2,330                  |
| Total non-current liabilities    |             | <u>1,195</u>           | <u>4,934</u>           |
| <b>Total liabilities</b>         |             | <u>10,490</u>          | <u>20,074</u>          |
| <b>Net assets</b>                |             | <u>19,649</u>          | <u>8,138</u>           |
| <b>Equity</b>                    |             |                        |                        |
| Issued capital                   | 23          | 18,476                 | 8,124                  |
| Reserves                         | 24          | 3,755                  | 3,023                  |
| Accumulated losses               | 25          | (2,582)                | (3,009)                |
| <b>Total equity</b>              |             | <u>19,649</u>          | <u>8,138</u>           |

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

**Appen Limited**  
**(Formerly known as Appen Holdings Pty Limited)**  
**Statement of changes in equity**  
**For the year ended 31 December 2014**



| <b>Group</b>                                                 | <b>Issued capital<br/>\$'000</b> | <b>Reserves<br/>\$'000</b> | <b>Accumulated losses<br/>\$'000</b> | <b>Total equity<br/>\$'000</b> |
|--------------------------------------------------------------|----------------------------------|----------------------------|--------------------------------------|--------------------------------|
| Balance at 1 January 2013                                    | 7,994                            | 1,563                      | (3,689)                              | 5,868                          |
| Profit after income tax expense for the year                 | -                                | -                          | 1,585                                | 1,585                          |
| Other comprehensive income for the year, net of tax          | -                                | 1,259                      | -                                    | 1,259                          |
| <b>Total comprehensive income for the year</b>               | <b>-</b>                         | <b>1,259</b>               | <b>1,585</b>                         | <b>2,844</b>                   |
| <i>Transactions with owners in their capacity as owners:</i> |                                  |                            |                                      |                                |
| Issue of management shares (note 23)                         | 190                              | -                          | -                                    | 190                            |
| Own shares acquired (note 23)                                | (60)                             | -                          | (181)                                | (241)                          |
| Share-based payments                                         | -                                | 201                        | -                                    | 201                            |
| Dividends paid (note 26)                                     | -                                | -                          | (724)                                | (724)                          |
| <b>Balance at 31 December 2013</b>                           | <b>8,124</b>                     | <b>3,023</b>               | <b>(3,009)</b>                       | <b>8,138</b>                   |
| <b>Group</b>                                                 | <b>Issued capital<br/>\$'000</b> | <b>Reserves<br/>\$'000</b> | <b>Accumulated losses<br/>\$'000</b> | <b>Total equity<br/>\$'000</b> |
| Balance at 1 January 2014                                    | 8,124                            | 3,023                      | (3,009)                              | 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                            |
| <b>Total comprehensive income for the year</b>               | <b>-</b>                         | <b>765</b>                 | <b>1,615</b>                         | <b>2,380</b>                   |
| <i>Transactions with owners in their capacity as owners:</i> |                                  |                            |                                      |                                |
| Issue of ordinary shares (note 23)                           | 9,870                            | -                          | -                                    | 9,870                          |
| Issue of management shares (note 23)                         | 482                              | -                          | -                                    | 482                            |
| Transaction costs, net of tax                                | -                                | (241)                      | -                                    | (241)                          |
| Share-based payments                                         | -                                | 208                        | -                                    | 208                            |
| Dividends paid (note 26)                                     | -                                | -                          | (1,188)                              | (1,188)                        |
| <b>Balance at 31 December 2014</b>                           | <b>18,476</b>                    | <b>3,755</b>               | <b>(2,582)</b>                       | <b>19,649</b>                  |

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

**Appen Limited**  
**(Formerly known as Appen Holdings Pty Limited)**  
**Statement of cash flows**  
**For the year ended 31 December 2014**



|                                                                  |             | <b>Group</b>           |                        |
|------------------------------------------------------------------|-------------|------------------------|------------------------|
|                                                                  | <b>Note</b> | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| <b>Cash flows from operating activities</b>                      |             |                        |                        |
| Receipts from customers (inclusive of GST)                       |             | 58,871                 | 63,635                 |
| Payments to suppliers and employees (inclusive of GST)           |             | (49,605)               | (55,367)               |
|                                                                  |             | 9,266                  | 8,268                  |
| Interest received                                                |             | 17                     | 127                    |
| Interest and other finance costs paid                            |             | (147)                  | (275)                  |
| Income taxes paid                                                |             | (881)                  | (2,370)                |
| Net cash from operating activities                               | 37          | 8,255                  | 5,750                  |
| <b>Cash flows from investing activities</b>                      |             |                        |                        |
| Payments for property, plant and equipment                       | 11          | (172)                  | (143)                  |
| Payments for intangibles                                         | 12          | (705)                  | (1,231)                |
| Payment for contingent consideration                             |             | (10,549)               | (400)                  |
| Net cash used in investing activities                            |             | (11,426)               | (1,774)                |
| <b>Cash flows from financing activities</b>                      |             |                        |                        |
| Proceeds from issue of shares                                    | 23          | 10,352                 | 190                    |
| Payments for share buy-backs                                     |             | (233)                  | (241)                  |
| Proceeds from borrowings (USD loan)                              |             | 2,149                  | 5,968                  |
| Repayment of borrowings (USD loan)                               |             | (5,702)                | (5,091)                |
| Dividends paid                                                   | 26          | (1,188)                | (724)                  |
| Net cash from financing activities                               |             | 5,378                  | 102                    |
| Net increase in cash and cash equivalents                        |             | 2,207                  | 4,078                  |
| Cash and cash equivalents at the beginning of the financial year |             | 5,771                  | 1,223                  |
| Effects of exchange rate changes on cash and cash equivalents    |             | 671                    | 470                    |
| Cash and cash equivalents at the end of the financial year       | 8           | 8,649                  | 5,771                  |

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

## **Note 1. General information**

The financial statements cover Appen Limited as a Group consisting of Appen Limited and its subsidiaries. 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') listing on 7 January 2015 under the ASX code 'APX'. On 13 October 2014 the company changed its name from Appen Holdings Pty Limited to Appen Limited.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2015.

## **Note 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').

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, certain classes of property, plant and equipment and 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 34.

## **Note 2. Significant accounting policies (continued)**

### **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 2014 and the results of all subsidiaries for the year then ended. Appen Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

### **Operating segments**

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

### **Foreign currency translation**

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

#### *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 rate at the date of the transaction, 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.

## **Note 2. Significant accounting policies (continued)**

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

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

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

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

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

### **Current and non-current classification**

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

## **Note 2. Significant accounting policies (continued)**

An asset is current when: it is 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 current when: it is 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 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.

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.

## **Note 2. Significant accounting policies (continued)**

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.

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

#### *Contracts*

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

#### *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.

## **Note 2. Significant accounting policies (continued)**

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 recognised in current liabilities in respect of employees' services up to the reporting date and 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 recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is 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.

## **Note 2. Significant accounting policies (continued)**

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

### **Fair value measurement**

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

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. 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 each reporting date and transfers between levels are determined based on a reassessment of the lowest level 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.

## **Note 2. Significant accounting policies (continued)**

### **Issued capital**

Ordinary shares are classified as equity.

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

### **Dividends**

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

### **Business combinations**

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

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

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

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

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

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

### **Earnings per share**

#### *Basic earnings per share*

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

#### *Diluted earnings per share*

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

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

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

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

## **Note 2. Significant accounting policies (continued)**

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

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

### **Rounding of amounts**

The Company is of a kind referred to in 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 2014. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### ***AASB 9 Financial Instruments (December 2014) and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9***

These standards are applicable to annual reporting periods beginning on or after 1 January 2018. AASB 9 has been revised and reissued and completes the project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. The reissued standard supersedes the December 2009 (as amended) and December 2010 (as amended) versions of AASB 9. AASB 2014-7 makes consequential amendments to accounting standards and interpretations arising from the reissue of AASB 9.

AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows where the contractual cash flows arise on specified dates and are solely payments of principal and interest based on the principal outstanding. A financial asset shall be measured at fair value through other comprehensive income if the financial asset is held within a business model whose objective is to both hold assets in order to collect contractual cash flows (as per amortised cost) and sell financial assets. 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. 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 other comprehensive income (unless it would create an accounting mismatch). This removes situations where gains caused by a deterioration in own credit risk on financial liabilities held are no longer recognised in profit or loss. New hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities undertaken by entities enabling entities to better reflect these activities through enhanced disclosure.

New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance meaning that it is no longer necessary for a credit event to have occurred before credit losses are recognised. This will therefore bring forward the timing of recognising impairment losses. Impairment will be measured at either an amount equal to the 12-month expected credit losses, being the portion of lifetime expected credit losses that represent the expected credit losses resulting from events of default that could occur within the 12 months of reporting date, or the full lifetime expected credit losses which are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses shall be measured under the 12-month expected credit losses method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime expected credit loss method is adopted. The amendments add extensive new disclosures relating to the ECL provisions.

The Group will adopt these standards from 1 January 2018 but the impact of their adoption is yet to be assessed by the Group.

## **Note 2. Significant accounting policies (continued)**

### *AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards Arising from AASB 15*

These standards are applicable to annual reporting periods beginning on or after 1 January 2017. AASB 15 provides a single standard for revenue recognition whilst AASB 2014-5 makes consequential amendments to accounting standards and interpretations arising from the issuance of AASB 15. The core principle of AASB 15 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 judgments 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 these standards from 1 January 2017 but the impact of their adoption is yet to be assessed by the Group.

## **Note 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.

### *Provision for impairment of receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

### *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.

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

#### *Goodwill and other indefinite life intangible assets*

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

#### *Estimation of useful lives of assets*

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

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

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

#### *Income tax*

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

#### *Recovery of deferred tax assets*

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

#### *Lease make good provision*

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

### **Note 4. Operating segments**

#### *Identification of reportable operating segments*

The Group is organised into two operating segments: Content Relevance and Speech and Data Collection. 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.

#### **Note 4. Operating segments (continued)**

##### *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 2014 approximately 83% (2013: 87%) of the Group's external revenue was derived from sales to 5 major customers.

##### *Operating segment information*

#### **Group - 2014**

##### **Revenue**

|                      | Content<br>Relevance<br>\$'000 | Speech and<br>Data<br>Collection<br>\$'000 | Intersegment<br>eliminations/<br>unallocated<br>\$'000 | Total<br>\$'000 |
|----------------------|--------------------------------|--------------------------------------------|--------------------------------------------------------|-----------------|
| Services revenue     | 28,229                         | 22,702                                     | -                                                      | 50,931          |
| Rent                 | -                              | -                                          | 58                                                     | 58              |
| Interest             | -                              | -                                          | 17                                                     | 17              |
| <b>Total revenue</b> | <b>28,229</b>                  | <b>22,702</b>                              | <b>75</b>                                              | <b>51,006</b>   |

##### **Segment result profit**

|                                                  |              |              |           |              |
|--------------------------------------------------|--------------|--------------|-----------|--------------|
| Corporate overhead                               |              |              |           | (4,683)      |
| Initial Public Offer expenses                    |              |              |           | (959)        |
| Depreciation and amortisation                    |              |              |           | (973)        |
| Interest                                         |              |              |           | (147)        |
| Change in fair value of contingent consideration |              |              |           | (1,925)      |
| <b>Profit before income tax expense</b>          | <b>5,074</b> | <b>7,223</b> | <b>75</b> | <b>3,685</b> |
| Income tax expense                               |              |              |           | (2,070)      |
| <b>Profit after income tax expense</b>           |              |              |           | <b>1,615</b> |

#### **Group - 2013**

##### **Revenue**

|                      | Content<br>Relevance<br>\$'000 | Speech and<br>Data<br>Collection<br>\$'000 | Intersegment<br>eliminations/<br>unallocated<br>\$'000 | Total<br>\$'000 |
|----------------------|--------------------------------|--------------------------------------------|--------------------------------------------------------|-----------------|
| Services revenue     | 37,953                         | 22,582                                     | -                                                      | 60,535          |
| Rent                 | -                              | -                                          | 43                                                     | 43              |
| Interest             | -                              | -                                          | 127                                                    | 127             |
| <b>Total revenue</b> | <b>37,953</b>                  | <b>22,582</b>                              | <b>170</b>                                             | <b>60,705</b>   |

##### **Segment result profit**

|                                                  |              |              |            |              |
|--------------------------------------------------|--------------|--------------|------------|--------------|
| Corporate overhead                               |              |              |            | (4,051)      |
| Depreciation and amortisation                    |              |              |            | (885)        |
| Interest                                         |              |              |            | (275)        |
| Change in fair value of contingent consideration |              |              |            | (1,722)      |
| <b>Profit before income tax expense</b>          | <b>7,671</b> | <b>3,336</b> | <b>170</b> | <b>4,244</b> |
| Income tax expense                               |              |              |            | (2,659)      |
| <b>Profit after income tax expense</b>           |              |              |            | <b>1,585</b> |

#### Note 4. Operating segments (continued)

##### Geographical information

|           | Services revenue |                | Geographical non-current assets |                |
|-----------|------------------|----------------|---------------------------------|----------------|
|           | 2014<br>\$'000   | 2013<br>\$'000 | 2014<br>\$'000                  | 2013<br>\$'000 |
| Australia | 19,101           | 17,497         | 358                             | 532            |
| US        | 31,830           | 43,038         | 10,859                          | 10,033         |
|           | <u>50,931</u>    | <u>60,535</u>  | <u>11,217</u>                   | <u>10,565</u>  |

#### Note 5. Revenue

|                  | Group          |                |
|------------------|----------------|----------------|
|                  | 2014<br>\$'000 | 2013<br>\$'000 |
| Sales revenue    |                |                |
| Services revenue | 50,931         | 60,535         |
| Other revenue    |                |                |
| Interest         | 17             | 127            |
| Rent             | 58             | 43             |
|                  | <u>75</u>      | <u>170</u>     |
| Revenue          | <u>51,006</u>  | <u>60,705</u>  |

**Note 6. Expenses**

|                                                                    | <b>Group</b>  |               |
|--------------------------------------------------------------------|---------------|---------------|
|                                                                    | <b>2014</b>   | <b>2013</b>   |
|                                                                    | <b>\$'000</b> | <b>\$'000</b> |
| Profit before income tax includes the following specific expenses: |               |               |
| <i>Depreciation</i>                                                |               |               |
| Leasehold improvements                                             | 57            | 43            |
| Fixtures and fittings                                              | 10            | 9             |
| Computer equipment                                                 | 83            | 84            |
| Audio equipment                                                    | 27            | 26            |
| Make good                                                          | 16            | 16            |
|                                                                    | <hr/>         | <hr/>         |
| Total depreciation                                                 | 193           | 178           |
| <i>Amortisation</i>                                                |               |               |
| Patents                                                            | 1             | 1             |
| Internal software                                                  | 234           | 37            |
| Licence and database                                               | 67            | 222           |
| Contracts                                                          | 478           | 447           |
|                                                                    | <hr/>         | <hr/>         |
| Total amortisation                                                 | 780           | 707           |
|                                                                    | <hr/>         | <hr/>         |
| Total depreciation and amortisation                                | 973           | 885           |
| <i>Impairment</i>                                                  |               |               |
| Receivables                                                        | 73            | 27            |
|                                                                    | <hr/>         | <hr/>         |
| <i>Finance costs</i>                                               |               |               |
| Interest and finance charges paid/payable                          | 147           | 275           |
| Net foreign exchange loss                                          | 201           | 357           |
|                                                                    | <hr/>         | <hr/>         |
| Finance costs expensed                                             | 348           | 632           |
| <i>Employee benefits expense</i>                                   |               |               |
| Defined contribution superannuation expense                        | 859           | 817           |
| Share-based payments expense                                       | 55            | 201           |
| Employee benefits expense                                          | 17,007        | 16,903        |
|                                                                    | <hr/>         | <hr/>         |
| Total employee benefits expense                                    | 17,921        | 17,921        |

**Note 7. Income tax expense**

|                                                                                      | <b>Group</b>           |                        |
|--------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                      | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| <i>Income tax expense</i>                                                            |                        |                        |
| Current tax                                                                          | 998                    | 2,351                  |
| Deferred tax - origination and reversal of temporary differences                     | 1,072                  | 308                    |
| Aggregate income tax expense                                                         | <u>2,070</u>           | <u>2,659</u>           |
| Deferred tax included in income tax expense comprises:                               |                        |                        |
| Decrease in deferred tax assets (note 13)                                            | 159                    | 308                    |
| Increase in deferred tax liabilities (note 21)                                       | 913                    | -                      |
| Deferred tax - origination and reversal of temporary differences                     | <u>1,072</u>           | <u>308</u>             |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>  |                        |                        |
| Profit before income tax expense                                                     | <u>3,685</u>           | <u>4,244</u>           |
| Tax at the statutory tax rate of 30%                                                 | 1,106                  | 1,273                  |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: |                        |                        |
| Non-deductible expenses                                                              | <u>952</u>             | <u>1,311</u>           |
| Difference in overseas tax rates                                                     | <u>2,058</u>           | <u>2,584</u>           |
|                                                                                      | <u>12</u>              | <u>75</u>              |
| Income tax expense                                                                   | <u>2,070</u>           | <u>2,659</u>           |

**Note 8. Current assets - cash and cash equivalents**

|                 | <b>Group</b>           |                        |
|-----------------|------------------------|------------------------|
|                 | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Cash on hand    | 2                      | 2                      |
| Cash at bank    | 8,523                  | 5,685                  |
| Cash on deposit | 124                    | 84                     |
|                 | <u>8,649</u>           | <u>5,771</u>           |

**Note 9. Current assets - trade and other receivables**

|                                               | <b>Group</b>  |               |
|-----------------------------------------------|---------------|---------------|
|                                               | <b>2014</b>   | <b>2013</b>   |
|                                               | <b>\$'000</b> | <b>\$'000</b> |
| Trade receivables                             | 4,630         | 9,486         |
| Less: Provision for impairment of receivables | (61)          | (29)          |
|                                               | <u>4,569</u>  | <u>9,457</u>  |
| Other receivables                             | 623           | 173           |
| Work in progress                              | 3,241         | 2,071         |
| GST recoverable                               | 129           | 1             |
| Other refunds                                 | 1,500         | -             |
|                                               | <u>10,062</u> | <u>11,702</u> |

*Impairment of receivables*

The Group has recognised a loss of \$73,000 (2013: \$27,000) in profit or loss in respect of impairment of receivables for the year ended 31 December 2014.

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

|                       | <b>Group</b>  |               |
|-----------------------|---------------|---------------|
|                       | <b>2014</b>   | <b>2013</b>   |
|                       | <b>\$'000</b> | <b>\$'000</b> |
| Over 6 months overdue | <u>61</u>     | <u>29</u>     |

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

|                                                          | <b>Group</b>  |               |
|----------------------------------------------------------|---------------|---------------|
|                                                          | <b>2014</b>   | <b>2013</b>   |
|                                                          | <b>\$'000</b> | <b>\$'000</b> |
| Opening balance                                          | 29            | 1             |
| Additional provisions recognised                         | 105           | 55            |
| Receivables written off during the year as uncollectable | (73)          | (27)          |
| Closing balance                                          | <u>61</u>     | <u>29</u>     |

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$2,716,000 as at 31 December 2014 (\$1,050,000 as at 31 December 2013).

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

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

|                       | <b>Group</b>  |               |
|-----------------------|---------------|---------------|
|                       | <b>2014</b>   | <b>2013</b>   |
|                       | <b>\$'000</b> | <b>\$'000</b> |
| 0 to 3 months overdue | 2,614         | 914           |
| 3 to 6 months overdue | 16            | 47            |
| Over 6 months overdue | 86            | 89            |
|                       | <u>2,716</u>  | <u>1,050</u>  |

**Note 10. Current assets - other**

|             | <b>Group</b>           |                        |
|-------------|------------------------|------------------------|
|             | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Prepayments | 211                    | 174                    |

**Note 11. Non-current assets - property, plant and equipment**

|                                  | <b>Group</b>           |                        |
|----------------------------------|------------------------|------------------------|
|                                  | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Leasehold improvements - at cost | 282                    | 261                    |
| Less: Accumulated depreciation   | (170)                  | (113)                  |
|                                  | 112                    | 148                    |
| Fixtures and fittings - at cost  | 151                    | 141                    |
| Less: Accumulated depreciation   | (95)                   | (84)                   |
|                                  | 56                     | 57                     |
| Computer equipment - at cost     | 743                    | 673                    |
| Less: Accumulated depreciation   | (644)                  | (599)                  |
|                                  | 99                     | 74                     |
| Audio equipment - at cost        | 292                    | 255                    |
| Less: Accumulated depreciation   | (227)                  | (200)                  |
|                                  | 65                     | 55                     |
| Make good - at cost              | 88                     | 84                     |
| Less: Accumulated depreciation   | (62)                   | (45)                   |
|                                  | 26                     | 39                     |
|                                  | 358                    | 373                    |

**Reconciliations**

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

| <b>Group</b>                | <b>Leasehold<br/>improvements<br/>\$'000</b> | <b>Fixtures and<br/>fittings<br/>\$'000</b> | <b>Computer<br/>equipment<br/>\$'000</b> | <b>Audio<br/>equipment<br/>\$'000</b> | <b>Make<br/>good<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|-----------------------------|----------------------------------------------|---------------------------------------------|------------------------------------------|---------------------------------------|---------------------------------|-------------------------|
| Balance at 1 January 2013   | 150                                          | 61                                          | 75                                       | 70                                    | 52                              | 408                     |
| Additions                   | 41                                           | 5                                           | 83                                       | 11                                    | 3                               | 143                     |
| Disposals                   | -                                            | -                                           | (59)                                     | -                                     | -                               | (59)                    |
| Exchange differences        | -                                            | -                                           | 59                                       | -                                     | -                               | 59                      |
| Depreciation expense        | (43)                                         | (9)                                         | (84)                                     | (26)                                  | (16)                            | (178)                   |
| Balance at 31 December 2013 | 148                                          | 57                                          | 74                                       | 55                                    | 39                              | 373                     |
| Additions                   | 19                                           | 9                                           | 104                                      | 37                                    | 3                               | 172                     |
| Exchange differences        | 2                                            | -                                           | 4                                        | -                                     | -                               | 6                       |
| Depreciation expense        | (57)                                         | (10)                                        | (83)                                     | (27)                                  | (16)                            | (193)                   |
| Balance at 31 December 2014 | 112                                          | 56                                          | 99                                       | 65                                    | 26                              | 358                     |

**Note 12. Non-current assets - intangibles**

|                                | <b>Group</b>           |                        |
|--------------------------------|------------------------|------------------------|
|                                | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Goodwill - at cost             | 8,323                  | 7,627                  |
| Patents - at cost              | 245                    | 245                    |
| Less: Accumulated amortisation | (225)                  | (224)                  |
|                                | 20                     | 21                     |
| Internal software - at cost    | 1,602                  | 1,292                  |
| Less: Accumulated amortisation | (321)                  | (61)                   |
|                                | 1,281                  | 1,231                  |
| Licence and database - at cost | 2,453                  | 2,453                  |
| Less: Accumulated amortisation | (2,403)                | (2,335)                |
|                                | 50                     | 118                    |
| Contracts - at cost            | 2,574                  | 2,359                  |
| Less: Accumulated amortisation | (1,975)                | (1,348)                |
|                                | 599                    | 1,011                  |
| Formation costs - at cost      | 52                     | 84                     |
| Less: Accumulated amortisation | (45)                   | (59)                   |
|                                | 7                      | 25                     |
| Platform development - at cost | 579                    | -                      |
|                                | <u>10,859</u>          | <u>10,033</u>          |

**Reconciliations**

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

| <b>Group</b>                | <b>Goodwill<br/>\$'000</b> | <b>Patents and<br/>formation<br/>costs<br/>\$'000</b> | <b>Internal<br/>software and<br/>platform<br/>development<br/>\$'000</b> | <b>Licence and<br/>database<br/>\$'000</b> | <b>Contracts<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|-----------------------------|----------------------------|-------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------|-----------------------------|-------------------------|
| Balance at 1 January 2013   | 6,689                      | 66                                                    | 44                                                                       | 218                                        | 1,265                       | 8,282                   |
| Additions                   | -                          | -                                                     | 1,109                                                                    | 122                                        | -                           | 1,231                   |
| Exchange differences        | 938                        | 1                                                     | 115                                                                      | -                                          | 173                         | 1,227                   |
| Amortisation expense        | -                          | (21)                                                  | (37)                                                                     | (222)                                      | (427)                       | (707)                   |
| Balance at 31 December 2013 | 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 | <u>8,323</u>               | <u>27</u>                                             | <u>1,860</u>                                                             | <u>50</u>                                  | <u>599</u>                  | <u>10,859</u>           |

**Impairment of intangible assets**

Goodwill relates to the acquisition of the business of the Content Relevance in US. The recoverable amount of this business was estimated based on its value in use.

## **Note 12. Non-current assets - intangibles (continued)**

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

- Cashflows were projected based on actual operating results over a projected 5 year period.
- An average revenue growth rate of 5.2% was used for revenue projections for years 2015 to 2019. 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% which does not exceed the long-term average growth rate of the industry; and
- A pre-tax discount of 22% based on weighted average cost of capital.

## **Note 13. Non-current assets - deferred tax**

|                                                                            | <b>Group</b>           |                        |
|----------------------------------------------------------------------------|------------------------|------------------------|
|                                                                            | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| <i>Deferred tax asset comprises temporary differences attributable to:</i> |                        |                        |
| Amounts recognised in profit or loss:                                      |                        |                        |
| Impairment of receivables                                                  | -                      | 10                     |
| Property, plant and equipment                                              | -                      | 13                     |
| Intangible assets                                                          | -                      | (86)                   |
| Employee benefits                                                          | -                      | (97)                   |
| Accrued expenses                                                           | -                      | 184                    |
| Work-in-progress                                                           | -                      | (170)                  |
| Foreign currency revaluation and other expense                             | -                      | 305                    |
| Deferred tax asset                                                         | <u>-</u>               | <u>159</u>             |
| Movements:                                                                 |                        |                        |
| Opening balance                                                            | 159                    | 467                    |
| Charged to profit or loss (note 7)                                         | <u>(159)</u>           | <u>(308)</u>           |
| Closing balance                                                            | <u>-</u>               | <u>159</u>             |

## **Note 14. Current liabilities - trade and other payables**

|                                     | <b>Group</b>           |                        |
|-------------------------------------|------------------------|------------------------|
|                                     | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Trade payables                      | 3,801                  | 2,904                  |
| VAT payable                         | 87                     | -                      |
| Other payables and accrued expenses | <u>3,970</u>           | <u>4,112</u>           |
|                                     | <u>7,858</u>           | <u>7,016</u>           |

Refer to note 27 for further information on financial instruments.

**Note 15. Current liabilities - borrowings**

|            | Group          |                |
|------------|----------------|----------------|
|            | 2014<br>\$'000 | 2013<br>\$'000 |
| Bank loans | -              | 478            |

Refer to note 20 for further information on assets pledged as security and financing arrangements.

Refer to note 27 for further information on financial instruments.

**Note 16. Current liabilities - derivative financial instruments**

|                                             | Group          |                |
|---------------------------------------------|----------------|----------------|
|                                             | 2014<br>\$'000 | 2013<br>\$'000 |
| Forward foreign exchange contracts          | 402            | 329            |
| Option foreign exchange contracts - Collars | 238            | 43             |
|                                             | 640            | 372            |

Refer to note 27 for further information on financial instruments.

Refer to note 28 for further information on fair value measurement.

**Note 17. Current liabilities - income tax**

|                          | Group          |                |
|--------------------------|----------------|----------------|
|                          | 2014<br>\$'000 | 2013<br>\$'000 |
| Provision for income tax | 66             | 135            |

**Note 18. Current liabilities - provisions**

|                           | Group          |                |
|---------------------------|----------------|----------------|
|                           | 2014<br>\$'000 | 2013<br>\$'000 |
| Annual leave              | 534            | 505            |
| Long service leave        | -              | 114            |
| Contingent consideration  | -              | 6,283          |
| Deferred lease incentives | 68             | 103            |
| Lease make good           | 88             | 84             |
|                           | 690            | 7,089          |

*Contingent consideration*

The provision represents the obligation to pay contingent consideration following the acquisition of the Butler Hill Group in 2011. It is measured at the present value of the estimated liability.

*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.

**Note 18. Current liabilities - provisions (continued)**

*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:

|                                                              | Contingent<br>consideration<br>\$'000 | Deferred<br>lease<br>incentives<br>\$'000 | Lease make<br>good<br>\$'000 |
|--------------------------------------------------------------|---------------------------------------|-------------------------------------------|------------------------------|
| <b>Group - 2014</b>                                          |                                       |                                           |                              |
| Carrying amount at the start of the year                     | 6,283                                 | 103                                       | 84                           |
| Additional provisions recognised                             | -                                     | -                                         | 4                            |
| Amounts transferred from non-current                         | 2,212                                 | -                                         | -                            |
| Amounts used                                                 | -                                     | (35)                                      | -                            |
| Change in fair value                                         | 1,925                                 | -                                         | -                            |
| Foreign exchange revaluation                                 | 130                                   | -                                         | -                            |
| Payments for 2013 performance                                | (2,888)                               | -                                         | -                            |
| Initial Public Offering payment for contingent consideration | (7,662)                               | -                                         | -                            |
|                                                              | <u>-</u>                              | <u>68</u>                                 | <u>88</u>                    |
| Carrying amount at the end of the year                       | -                                     | 68                                        | 88                           |

**Note 19. Current liabilities - other**

|                             | <b>Group</b>           |                        |
|-----------------------------|------------------------|------------------------|
|                             | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Revenue received in advance | <u>41</u>              | <u>50</u>              |

**Note 20. Non-current liabilities - borrowings**

|            | <b>Group</b>           |                        |
|------------|------------------------|------------------------|
|            | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Bank loans | <u>-</u>               | <u>2,604</u>           |

Refer to note 27 for further information on financial instruments.

*Total secured liabilities*

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

|            | <b>Group</b>           |                        |
|------------|------------------------|------------------------|
|            | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Bank loans | <u>-</u>               | <u>3,082</u>           |

**Note 20. Non-current liabilities - borrowings (continued)**

*Assets pledged as security*

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

*Financing arrangements*

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

|                              | <b>Group</b>           |                        |
|------------------------------|------------------------|------------------------|
|                              | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Total facilities             |                        |                        |
| Bank loans                   | -                      | 3,082                  |
| Used at the reporting date   |                        |                        |
| Bank loans                   | -                      | 3,082                  |
| Unused at the reporting date |                        |                        |
| Bank loans                   | -                      | -                      |

**Note 21. Non-current liabilities - deferred tax**

|                                                                                | <b>Group</b>           |                        |
|--------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| <i>Deferred tax liability comprises temporary differences attributable to:</i> |                        |                        |
| Amounts recognised in profit or loss:                                          |                        |                        |
| Impairment of receivables                                                      | (20)                   | -                      |
| Property, plant and equipment                                                  | 24                     | -                      |
| Intangible assets                                                              | 670                    | -                      |
| Employee benefits                                                              | (270)                  | -                      |
| Accrued expenses                                                               | (137)                  | -                      |
| Work-in-progress                                                               | 972                    | -                      |
| Initial Public Offering expense                                                | (397)                  | -                      |
| Foreign currency revaluation and other expense                                 | 71                     | -                      |
| Deferred tax liability                                                         | <u>913</u>             | <u>-</u>               |
| <i>Movements:</i>                                                              |                        |                        |
| Credited to profit or loss (note 7)                                            | <u>913</u>             | <u>-</u>               |

**Note 22. Non-current liabilities - provisions**

|                          | <b>Group</b>           |                        |
|--------------------------|------------------------|------------------------|
|                          | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Long service leave       | 282                    | 118                    |
| Contingent consideration | -                      | 2,212                  |
|                          | <u>282</u>             | <u>2,330</u>           |

*Contingent consideration*

The provision represents the obligation to pay contingent consideration following the acquisition of a business or assets. It is measured at the present value of the estimated liability.

**Note 22. Non-current liabilities - provisions (continued)**

*Movements in provisions*

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

|                                          | Contingent<br>consideration<br>\$'000 |
|------------------------------------------|---------------------------------------|
| <b>Group - 2014</b>                      |                                       |
| Carrying amount at the start of the year | 2,212                                 |
| Amounts transferred to current           | <u>(2,212)</u>                        |
| Carrying amount at the end of the year   | <u><u>-</u></u>                       |

**Note 23. Equity - issued capital**

|                                | 2014<br>Shares    | Group<br>2013<br>Shares | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------|-------------------|-------------------------|----------------|----------------|
| Ordinary shares - fully paid   | 94,846,002        | 7,475,412               | 18,476         | 6,192          |
| Management shares - fully paid | -                 | 1,508,534               | -              | 1,932          |
|                                | <u>94,846,002</u> | <u>8,983,946</u>        | <u>18,476</u>  | <u>8,124</u>   |

*Movements in ordinary share capital*

| Details                                                        | Date                                | Shares            | Issue price | \$'000        |
|----------------------------------------------------------------|-------------------------------------|-------------------|-------------|---------------|
| Balance                                                        | 1 January 2013                      | 7,475,412         |             | 6,192         |
| Balance                                                        | 31 December 2013                    | 7,475,412         |             | 6,192         |
| Management shares converted to ordinary shares                 | 30 October 2014                     | 1,677,534         | \$0.000     | 2,413         |
| Share split in preparation of Initial Public Offering (8.18:1) | 30 October 2014/<br>1 December 2014 | 65,718,158        | \$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                    | <u>94,846,002</u> |             | <u>18,476</u> |

**Note 23. Equity - issued capital (continued)**

*Movements in management shares*

| Details                                        | Date              | Shares      | Issue price | \$'000  |
|------------------------------------------------|-------------------|-------------|-------------|---------|
| Balance                                        | 1 January 2013    | 1,431,096   |             | 1,802   |
| Issue of shares on exercise of options         | 31 January 2013   | 81,058      | \$0.000     | -       |
| Issue of shares                                | 12 July 2013      | 56,380      | \$3.370     | 190     |
| Issue of shares on exercise of options         | 11 September 2013 | 28,000      | \$2.000     | 56      |
| Share buy-back                                 | 1 November 2013   | (88,000)    | \$1.320     | (116)   |
| Balance                                        | 31 December 2013  | 1,508,534   |             | 1,932   |
| Issue of shares                                | 1 May 2014        | 57,500      | \$3.530     | 203     |
| Issue of shares on exercise of options         | 29 May 2014       | 24,000      | \$2.000     | 48      |
| Issue of shares on exercise of options         | 29 May 2014       | 75,000      | \$2.500     | 187     |
| Issue of shares on exercise of options         | 30 September 2014 | 12,500      | \$3.450     | 43      |
| Management shares converted to ordinary shares | 30 October 2014   | (1,677,534) | \$0.000     | (2,413) |
| Balance                                        | 31 December 2014  | -           |             | -       |

*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.

*Management shares*

Management 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. Management shares were converted to ordinary shares and facilitate the transition to a public listed company.

Management shares do not have any voting rights.

*Share buy-back*

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

*Capital risk management*

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

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.

**Note 24. Equity - reserves**

|                                      | <b>Group</b>           |                        |
|--------------------------------------|------------------------|------------------------|
|                                      | <b>2014<br/>\$'000</b> | <b>2013<br/>\$'000</b> |
| Common control reserve               | (1,416)                | (1,416)                |
| Foreign currency translation reserve | 2,038                  | 1,273                  |
| Share-based payments reserve         | 1,041                  | 833                    |
| Other reserves                       | 2,092                  | 2,333                  |
|                                      | <u>3,755</u>           | <u>3,023</u>           |

*Common control reserve*

The reserve is 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.

*Other reserves*

This reserve represents the equity settled portion of contingent consideration.

*Movements in reserves*

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

| <b>Group</b>                            | <b>Common<br/>control<br/>\$'000</b> | <b>Foreign<br/>currency<br/>translation<br/>\$'000</b> | <b>Share-based<br/>payments<br/>\$'000</b> | <b>Other<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|-----------------------------------------|--------------------------------------|--------------------------------------------------------|--------------------------------------------|-------------------------|-------------------------|
| Balance at 1 January 2013               | (1,416)                              | 14                                                     | 632                                        | 2,333                   | 1,563                   |
| Foreign currency translation            | -                                    | 1,259                                                  | -                                          | -                       | 1,259                   |
| Share-based payments                    | -                                    | -                                                      | 201                                        | -                       | 201                     |
| Balance at 31 December 2013             | (1,416)                              | 1,273                                                  | 833                                        | 2,333                   | 3,023                   |
| Foreign currency translation            | -                                    | 765                                                    | -                                          | -                       | 765                     |
| Share-based payments                    | -                                    | -                                                      | 208                                        | -                       | 208                     |
| Initial Public Offering cost allocation | -                                    | -                                                      | -                                          | (241)                   | (241)                   |
| Balance at 31 December 2014             | <u>(1,416)</u>                       | <u>2,038</u>                                           | <u>1,041</u>                               | <u>2,092</u>            | <u>3,755</u>            |

**Note 25. Equity - accumulated losses**

|                                                           | <b>Group</b>   |                |
|-----------------------------------------------------------|----------------|----------------|
|                                                           | <b>2014</b>    | <b>2013</b>    |
|                                                           | <b>\$'000</b>  | <b>\$'000</b>  |
| Accumulated losses at the beginning of the financial year | (3,009)        | (3,689)        |
| Profit after income tax expense for the year              | 1,615          | 1,585          |
| Dividends paid (note 26)                                  | (1,188)        | (724)          |
| Own shares acquired                                       | -              | (181)          |
|                                                           | <u>(2,582)</u> | <u>(3,009)</u> |
| Accumulated losses at the end of the financial year       |                |                |

**Note 26. Equity - dividends**

*Dividends*

Dividends paid during the financial year were as follows:

|                                                                                                                                                  | <b>Group</b>  |               |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                                                  | <b>2014</b>   | <b>2013</b>   |
|                                                                                                                                                  | <b>\$'000</b> | <b>\$'000</b> |
| Interim dividend for the year ended 31 December 2014 (2013: 31 December 2013) of 13.0 cents (2013: 8.12 cents) per ordinary and management share | <u>1,188</u>  | <u>724</u>    |

*Franking credits*

|                                                                                      | <b>Group</b>  |               |
|--------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                      | <b>2014</b>   | <b>2013</b>   |
|                                                                                      | <b>\$'000</b> | <b>\$'000</b> |
| Franking credits available for subsequent financial years based on a tax rate of 30% | <u>700</u>    | <u>418</u>    |

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

**Note 27. 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.

## Note 27. Financial instruments (continued)

### Market risk

#### Foreign currency risk

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

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

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable 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 Speech and Data Collection 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 option contracts at the reporting date were as follows:

|                                             | Buy Australian dollars |        | Average exchange rates |        |
|---------------------------------------------|------------------------|--------|------------------------|--------|
|                                             | 2014                   | 2013   | 2014                   | 2013   |
|                                             | \$'000                 | \$'000 |                        |        |
| <b>Sell United States dollars</b>           |                        |        |                        |        |
| Foreign exchange forward contract maturity: |                        |        |                        |        |
| 0 - 3 months                                | 2,470                  | 2,787  | 0.8754                 | 0.9794 |
| 3 - 6 months                                | 1,899                  | 442    | 0.8752                 | 0.9620 |
| 6 - 12 months                               | 2,687                  | 1,035  | 0.8465                 | 0.9181 |
| <b>Sell Euros</b>                           |                        |        |                        |        |
| Foreign exchange forward contract maturity: |                        |        |                        |        |
| 0 - 3 months                                | 370                    | 153    | 0.6759                 | 0.6525 |
| 3 - 6 months                                | 223                    | -      | 0.6717                 | -      |
| <b>Sell Pound Sterling</b>                  |                        |        |                        |        |
| Foreign exchange forward contract maturity: |                        |        |                        |        |
| 0 - 3 months                                | 742                    | -      | 0.5388                 | -      |
|                                             | Buy Australian dollars |        | Average exchange rates |        |
|                                             | 2014                   | 2013   | 2014                   | 2013   |
|                                             | \$'000                 | \$'000 |                        |        |
| <b>Sell United States dollars</b>           |                        |        |                        |        |
| Foreign exchange option contract maturity:  |                        |        |                        |        |
| 0 - 3 months                                | 1,271                  | 755    | 0.8751                 | 0.9277 |
| 3 - 6 months                                | 1,568                  | 476    | 0.8689                 | 0.9455 |
| 6 - 12 months                               | 2,190                  | 852    | 0.8335                 | 0.8799 |
| 12 - 18 months                              | 302                    | -      | 0.8280                 | -      |
| <b>Sell Euros</b>                           |                        |        |                        |        |
| Foreign exchange option contract maturity:  |                        |        |                        |        |
| 3 - 6 months                                | -                      | 159    | -                      | 0.6300 |

**Note 27. Financial instruments (continued)**

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

|                               | Average exchange rates |         | Reporting date exchange rates |         |
|-------------------------------|------------------------|---------|-------------------------------|---------|
|                               | 2014                   | 2013    | 2014                          | 2013    |
| <b>Australian dollars</b>     |                        |         |                               |         |
| United States Dollars         | 0.9041                 | 0.9703  | 0.8181                        | 0.8928  |
| United Kingdom Pound Sterling | 0.5468                 | 0.6213  | 0.5249                        | 0.5387  |
| Hong Kong Dollars             | 7.0115                 | 7.5298  | 6.3437                        | 6.9227  |
| Philippine Pesos              | 40.1563                | 40.5730 | 36.6351                       | 39.6400 |

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

| Group                         | Assets         |                | Liabilities    |                |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | 2014<br>\$'000 | 2013<br>\$'000 | 2014<br>\$'000 | 2013<br>\$'000 |
| United States Dollars         | 6,205          | 12,764         | 2,114          | 2,690          |
| United Kingdom Pound Sterling | 658            | 177            | 87             | 43             |
| Hong Kong Dollars             | 9              | 9              | -              | 3              |
| Philippine Pesos              | 9              | 51             | 11             | -              |
|                               | <u>6,881</u>   | <u>13,001</u>  | <u>2,212</u>   | <u>2,736</u>   |

The Group had net assets denominated in foreign currencies of \$4,669,000 (assets \$6,881,000 less liabilities \$2,212,000) as at 31 December 2014 (2013: \$10,265,000 (assets \$13,001,000 less liabilities \$2,736,000)).

Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2013: weakened by 5%/strengthened 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:

| Group - 2014                  | % change | AUD strengthened<br>Effect on<br>profit before<br>tax |            | % change | AUD weakened<br>Effect on<br>profit before<br>tax |              |
|-------------------------------|----------|-------------------------------------------------------|------------|----------|---------------------------------------------------|--------------|
|                               |          | Effect on<br>equity                                   |            |          | Effect on<br>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%)     | -                                                 | -            |
|                               |          | <u>234</u>                                            | <u>234</u> |          | <u>(234)</u>                                      | <u>(234)</u> |

| Group - 2013                  | % change | AUD strengthened<br>Effect on<br>profit before<br>tax |            | % change | AUD weakened<br>Effect on<br>profit before<br>tax |              |
|-------------------------------|----------|-------------------------------------------------------|------------|----------|---------------------------------------------------|--------------|
|                               |          | Effect on<br>equity                                   |            |          | Effect on<br>equity                               |              |
| United States Dollars         | 5%       | 504                                                   | 504        | (5%)     | (504)                                             | (504)        |
| United Kingdom Pound Sterling | 5%       | 7                                                     | 7          | (5%)     | (7)                                               | (7)          |
| Hong Kong Dollars             | 5%       | -                                                     | -          | (5%)     | -                                                 | -            |
| Philippine Pesos              | 5%       | 3                                                     | 3          | (5%)     | (3)                                               | (3)          |
|                               |          | <u>514</u>                                            | <u>514</u> |          | <u>(514)</u>                                      | <u>(514)</u> |

## Note 27. Financial instruments (continued)

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.

The actual foreign exchange loss for the year ended 31 December 2014 was \$200,000 (2013: \$357,000).

### Price risk

The Group is not exposed to any significant price risk.

### Interest rate risk

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

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

| Group                                        | 2014                             |                | 2013                             |                |
|----------------------------------------------|----------------------------------|----------------|----------------------------------|----------------|
|                                              | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| Bank loans                                   | -%                               | -              | 3.48%                            | 3,082          |
| Net exposure to cash flow interest rate risk |                                  | -              |                                  | 3,082          |

For the Group the net exposure to interest rate risk totalled \$nil (2013: \$3,082,000). Monthly cash outlays of approximately \$nil (2013: \$13,000) per month are required to service the interest payments on bank loans.

### Credit risk

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

### Liquidity risk

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

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

**Note 27. Financial instruments (continued)**

*Remaining contractual maturities*

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

| <b>Group - 2014</b>          | <b>Weighted<br/>average<br/>interest rate<br/>%</b> | <b>1 year or less<br/>\$'000</b> | <b>Between 1<br/>and 2 years<br/>\$'000</b> | <b>Between 2<br/>and 5 years<br/>\$'000</b> | <b>Over 5 years<br/>\$'000</b> | <b>Remaining<br/>contractual<br/>maturities<br/>\$'000</b> |
|------------------------------|-----------------------------------------------------|----------------------------------|---------------------------------------------|---------------------------------------------|--------------------------------|------------------------------------------------------------|
| <b>Non-derivatives</b>       |                                                     |                                  |                                             |                                             |                                |                                                            |
| <i>Non-interest bearing</i>  |                                                     |                                  |                                             |                                             |                                |                                                            |
| Trade payables               | -%                                                  | 3,801                            | -                                           | -                                           | -                              | 3,801                                                      |
| Other payables               | -%                                                  | 530                              | -                                           | -                                           | -                              | 530                                                        |
| <b>Total non-derivatives</b> |                                                     | <b>4,331</b>                     | <b>-</b>                                    | <b>-</b>                                    | <b>-</b>                       | <b>4,331</b>                                               |

|                                                |    |            |          |          |          |            |
|------------------------------------------------|----|------------|----------|----------|----------|------------|
| <b>Derivatives</b>                             |    |            |          |          |          |            |
| Forward foreign exchange contracts net settled | -% | 402        | -        | -        | -        | 402        |
| Option foreign exchange contracts              | -% | 238        | -        | -        | -        | 238        |
| <b>Total derivatives</b>                       |    | <b>640</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>640</b> |

| <b>Group - 2013</b>                  | <b>Weighted<br/>average<br/>interest rate<br/>%</b> | <b>1 year or less<br/>\$'000</b> | <b>Between 1<br/>and 2 years<br/>\$'000</b> | <b>Between 2<br/>and 5 years<br/>\$'000</b> | <b>Over 5 years<br/>\$'000</b> | <b>Remaining<br/>contractual<br/>maturities<br/>\$'000</b> |
|--------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------------------------|---------------------------------------------|--------------------------------|------------------------------------------------------------|
| <b>Non-derivatives</b>               |                                                     |                                  |                                             |                                             |                                |                                                            |
| <i>Non-interest bearing</i>          |                                                     |                                  |                                             |                                             |                                |                                                            |
| Trade payables                       | -%                                                  | 2,904                            | -                                           | -                                           | -                              | 2,904                                                      |
| Other payables                       | -%                                                  | 503                              | -                                           | -                                           | -                              | 503                                                        |
| <i>Interest-bearing - fixed rate</i> |                                                     |                                  |                                             |                                             |                                |                                                            |
| Bank loans                           | 3.48%                                               | 478                              | 2,604                                       | -                                           | -                              | 3,082                                                      |
| <b>Total non-derivatives</b>         |                                                     | <b>3,885</b>                     | <b>2,604</b>                                | <b>-</b>                                    | <b>-</b>                       | <b>6,489</b>                                               |

|                                                |    |            |          |          |          |            |
|------------------------------------------------|----|------------|----------|----------|----------|------------|
| <b>Derivatives</b>                             |    |            |          |          |          |            |
| Forward foreign exchange contracts net settled | -% | 329        | -        | -        | -        | 329        |
| Option foreign exchange contracts              | -% | 43         | -        | -        | -        | 43         |
| <b>Total derivatives</b>                       |    | <b>372</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>372</b> |

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

**Fair value of financial instruments**

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 28. Fair value measurement

### Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

| <b>Group - 2014</b>                         | <b>Level 1<br/>\$'000</b> | <b>Level 2<br/>\$'000</b> | <b>Level 3<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|---------------------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| <i>Liabilities</i>                          |                           |                           |                           |                         |
| Forward foreign exchange contracts          | -                         | 402                       | -                         | 402                     |
| Option foreign exchange contracts - Collars | -                         | 238                       | -                         | 238                     |
| Total liabilities                           | -                         | 640                       | -                         | 640                     |

| <b>Group - 2013</b>                         | <b>Level 1<br/>\$'000</b> | <b>Level 2<br/>\$'000</b> | <b>Level 3<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|---------------------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| <i>Liabilities</i>                          |                           |                           |                           |                         |
| Forward foreign exchange contracts          | -                         | 329                       | -                         | 329                     |
| Option foreign exchange contracts - Collars | -                         | 43                        | -                         | 43                      |
| Total liabilities                           | -                         | 372                       | -                         | 372                     |

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.

## Note 29. Key management personnel disclosures

### Compensation

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

|                              | <b>Group</b>       |                    |
|------------------------------|--------------------|--------------------|
|                              | <b>2014<br/>\$</b> | <b>2013<br/>\$</b> |
| Short-term employee benefits | 1,385,589          | 1,397,238          |
| Post-employment benefits     | 99,313             | 94,062             |
| Long-term benefits           | 62,524             | 53,468             |
| Share-based payments         | 199,560            | 55,787             |
|                              | <b>1,746,986</b>   | <b>1,600,555</b>   |

### Note 30. Remuneration of auditors

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

|                                                                     | <b>Group</b>   |               |
|---------------------------------------------------------------------|----------------|---------------|
|                                                                     | <b>2014</b>    | <b>2013</b>   |
|                                                                     | <b>\$</b>      | <b>\$</b>     |
| <i>Audit services - KPMG</i>                                        |                |               |
| Audit or review of the financial statements                         | 120,000        | 76,000        |
| <i>Other services - KPMG</i>                                        |                |               |
| Assurance services related to Initial Public Offering               | 70,000         | -             |
| Taxation and compliance services - Australia                        | 70,160         | 12,180        |
| Taxation and compliance services related to Initial Public Offering | 120,580        | -             |
|                                                                     | 260,740        | 12,180        |
|                                                                     | <u>380,740</u> | <u>88,180</u> |
| <i>Audit services - network firms</i>                               |                |               |
| Audit or review of the financial statements                         | 15,000         | -             |
| <i>Other services - network firms</i>                               |                |               |
| Taxation and compliance services - USA                              | 79,070         | 61,223        |
| Taxation services - Excise Tax Refund                               | 301,715        | -             |
|                                                                     | 380,785        | 61,223        |
|                                                                     | <u>395,785</u> | <u>61,223</u> |

### Note 31. Contingent liabilities

The Group has given bank guarantees as at 31 December 2014 of \$122,000 (2013: \$78,000) to various landlords.

### Note 32. Commitments

|                                                                             | <b>Group</b>  |               |
|-----------------------------------------------------------------------------|---------------|---------------|
|                                                                             | <b>2014</b>   | <b>2013</b>   |
|                                                                             | <b>\$'000</b> | <b>\$'000</b> |
| <i>Lease commitments - operating</i>                                        |               |               |
| Committed at the reporting date but not recognised as liabilities, payable: |               |               |
| Within one year                                                             | 368           | 358           |
| One to five years                                                           | 379           | 757           |
|                                                                             | 747           | 1,115         |

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 lease have various escalation clauses. On renewal, the terms of the lease are renegotiated.

### **Note 33. Related party transactions**

#### *Parent entity*

Appen Limited is the parent entity.

#### *Subsidiaries*

Interests in subsidiaries are set out in note 35.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 29 and the remuneration report in the directors' report.

#### *Transactions with related parties*

Jeremy Samuel is the managing director of Anacacia Capital Pty Limited ('Anacacia'). Anacacia was paid \$120,000 (2013: \$120,000) in accordance to the terms of the previous shareholder agreement with the Company prior to listing. In addition, Anacacia was paid a one off fee of \$120,000 in respect to services associated with the Company's listing in 2014.

Lisa Braden-Harder received \$10,549,327 (2013: \$400,150) 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.

### **Note 34. Parent entity information**

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

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

|                                | <b>Company</b> |               |
|--------------------------------|----------------|---------------|
|                                | <b>2014</b>    | <b>2013</b>   |
|                                | <b>\$'000</b>  | <b>\$'000</b> |
| Profit/(loss) after income tax | (2,622)        | 441           |
| Total comprehensive income     | (2,622)        | 441           |

**Note 34. Parent entity information (continued)**

*Statement of financial position*

|                              | <b>Company</b> |               |
|------------------------------|----------------|---------------|
|                              | <b>2014</b>    | <b>2013</b>   |
|                              | <b>\$'000</b>  | <b>\$'000</b> |
| Total current assets         | 2,100          | 4,294         |
| Total assets                 | 16,386         | 15,877        |
| Total current liabilities    | 382            | 3,584         |
| Total liabilities            | 382            | 6,188         |
| Equity                       |                |               |
| Issued capital               | 18,476         | 8,124         |
| Share-based payments reserve | 1,041          | 833           |
| Other reserves               | 2,092          | 2,333         |
| Accumulated losses           | (5,605)        | (1,601)       |
| Total equity                 | 16,004         | 9,689         |

*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 2014 and 31 December 2013.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 31 December 2014 and 31 December 2013.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment at as 31 December 2014 and 31 December 2013.

*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.

**Note 35. 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:

| <b>Name</b>                   | <b>Principal place of business /<br/>Country of incorporation</b> | <b>Ownership interest</b> |             |
|-------------------------------|-------------------------------------------------------------------|---------------------------|-------------|
|                               |                                                                   | <b>2014</b>               | <b>2013</b> |
|                               |                                                                   | <b>%</b>                  | <b>%</b>    |
| 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

**Note 36. Events after the reporting period**

On 7 January 2015, the Company listed on the Australian Securities Exchange (ASX code: APX).

No other matter or circumstance has arisen since 31 December 2014 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.

**Note 37. Reconciliation of profit after income tax to net cash from operating activities**

|                                                    | <b>Group</b>  |               |
|----------------------------------------------------|---------------|---------------|
|                                                    | <b>2014</b>   | <b>2013</b>   |
|                                                    | <b>\$'000</b> | <b>\$'000</b> |
| Profit after income tax expense for the year       | 1,615         | 1,585         |
| Adjustments for:                                   |               |               |
| Depreciation and amortisation                      | 973           | 885           |
| Share-based payments                               | 442           | 201           |
| Foreign exchange differences                       | (277)         | 603           |
| Change in fair value of contingent consideration   | 1,924         | 2,065         |
| Impairment loss on receivables                     | 73            | 27            |
| Income tax expense                                 | 2,070         | 2,659         |
| Change in operating assets and liabilities:        |               |               |
| Decrease/(increase) in trade and other receivables | 1,292         | (2,952)       |
| Increase in prepayments                            | (37)          | -             |
| Increase in trade and other payables               | 81            | 2,971         |
| Increase in employee benefits and provisions       | 199           | 120           |
| Increase in other operating liabilities            | 920           | -             |
| Decrease in unearned revenue                       | (9)           | (44)          |
| Interest received                                  | 17            | -             |
| Interest and other finance costs paid              | (147)         | -             |
| Income taxes paid                                  | (881)         | (2,370)       |
| Net cash from operating activities                 | <u>8,255</u>  | <u>5,750</u>  |

**Note 38. Earnings per share**

|                                                                                           | <b>Group</b>      |                   |
|-------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                           | <b>2014</b>       | <b>2013</b>       |
|                                                                                           | <b>\$'000</b>     | <b>\$'000</b>     |
| Profit after income tax attributable to the owners of Appen Limited                       | <u>1,615</u>      | <u>1,585</u>      |
|                                                                                           | <b>Number</b>     | <b>Number</b>     |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 74,978,088        | 73,865,862        |
| Adjustments for calculation of diluted earnings per share:                                |                   |                   |
| Options over ordinary shares                                                              | 10,944,695        | 8,055,612         |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>85,922,783</u> | <u>81,921,474</u> |
|                                                                                           | <b>Cents</b>      | <b>Cents</b>      |
| Basic earnings per share                                                                  | 2.16              | 2.15              |
| Diluted earnings per share                                                                | 1.88              | 1.93              |

### **Note 39. Share-based payments**

#### *Subscription deeds*

The Options may be exercised for the exercise price specified on grant of the Option. The Options may only be exercised during the designated exercise period for the relevant tranche of Options. The Options may be exercised by lodging the option certificate, a signed exercise notice and an amount equal to the exercise price multiplied by the number of Options being exercised at the Company's registered office. On exercise, the holder will be issued one ordinary share for each Option exercised.

The Options lapse automatically:

- if the Subscriber ceases to be a full-time employee of the Company, subject to the discretion of the Board; or
- at the end of the designated exercise period for the relevant tranche of Options.

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

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

The Company may, with 5 days' written notice, elect to purchase all of the Options held by the holder for the "option value", being the value of the shares that would be issued on exercise of the Options, less the relevant exercise price.

#### *Employee Share Option Plan*

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

The Options may be exercised for the exercise price specified in the relevant invitation. The Options may only be exercised during a specified exercise period, after the vesting conditions and any other exercise conditions specified in the invitation have been met. The Options may be exercised by delivering an exercise notice to the Company and paying the exercise price. On exercise, the holder will be issued one ordinary share for each Option exercised. Each share acquired on exercise of an Option ranks equally in all respects with all other Shares.

All unvested Options lapse automatically if the holder ceases to be employed by the Company. Any vested Options lapse automatically:

- if the holder leaves the Company in circumstances which make them a "non-qualifying leaver" including termination for a material breach of their employment agreement, non-performance, fraud, wilful or serious misconduct; or
- on the earlier of the expiry date of the Options set out in the invitation and the fifth anniversary of the grant of the Options.

In the event of a reconstruction of share capital prior to the exercise of the Options, the number of Shares to be issued on the exercise of the Option and/or the exercise price must be reconstructed accordingly.

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

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

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                      | 01/01/2010 ** | \$0.500        | -                                | -                | -                | 850,000                | -                  | -                         | 850,000                        |
|                                 |               |                | <u>8,981,664</u>                 | <u>1,840,500</u> | <u>(912,070)</u> | <u>227,600</u>         | <u>(2,117,581)</u> | <u>(4,275,113)</u>        | <u>3,745,000</u>               |
| Weighted average exercise price |               |                | \$0.461                          | \$0.536          | \$0.305          | \$0.237                | \$0.3906           | \$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 was less than the amount previously recognised in equity for these options.

All options were exercisable at the end of the financial year.

2013

| Grant date                      | Expiry date   | Exercise price | Balance at the start of the year | Granted   | Exercised   | Expired/ forfeited/ other | Balance at the end of the year |
|---------------------------------|---------------|----------------|----------------------------------|-----------|-------------|---------------------------|--------------------------------|
| 23/10/2009                      | 31/07/2014 *  | \$0.244        | 261,760                          | -         | (65,440)    | -                         | 196,320                        |
| 17/10/2010                      | 31/03/2015 *  | \$0.244        | 490,800                          | -         | (163,600)   | -                         | 327,200                        |
| 17/10/2010                      | 31/03/2015 *  | \$0.428        | 81,800                           | -         | -           | -                         | 81,800                         |
| 13/04/2010                      | 01/01/2014 *  | \$0.244        | 2,045,000                        | -         | (2,045,000) | -                         | -                              |
| 01/03/2011                      | 31/07/2014 *  | \$0.306        | 613,500                          | -         | -           | -                         | 613,500                        |
| 01/03/2011                      | 31/07/2015 *  | \$0.428        | 613,500                          | -         | -           | -                         | 613,500                        |
| 08/08/2011                      | 31/03/2015 *  | \$0.367        | 245,752                          | -         | -           | -                         | 245,752                        |
| 26/07/2012                      | 01/04/2014 *  | \$0.367        | 818,000                          | -         | (818,000)   | -                         | -                              |
| 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                        | -         | -           | -                         | 1,636,000                      |
| 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   | -           | -                         | 276,075                        |
| 31/08/2013                      | 01/03/2019 ** | \$0.494        | -                                | 276,075   | -           | -                         | 276,075                        |
| 31/08/2013                      | 01/03/2020 ** | \$0.577        | -                                | 276,075   | -           | -                         | 276,075                        |
| 31/08/2013                      | 01/03/2021 ** | \$0.660        | -                                | 276,075   | -           | -                         | 276,075                        |
|                                 |               |                | 10,969,404                       | 1,104,300 | (3,092,040) | -                         | 8,981,664                      |
| Weighted average exercise price |               |                | \$0.401                          | \$0.536   | \$0.277     | \$0.000                   | \$0.461                        |

\* Options granted under the terms of the Subscription Deeds

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

All options were exercisable at the end of the financial year.

The weighted average share price during the financial year was \$0.416 (2013: \$0.367).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.16 years (2013: 3.10 years).

For the options granted during the current financial year, the Binominal 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 | Expected volatility * | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|-----------------------|----------------|-------------------------|--------------------------|
| 31/08/2013 | 01/03/2018  | \$0.412                   | \$0.412        | 50.00%                | -%             | 3.14%                   | \$0.180                  |
| 31/08/2013 | 01/03/2019  | \$0.412                   | \$0.494        | 50.00%                | -%             | 3.14%                   | \$0.180                  |
| 31/08/2013 | 01/03/2020  | \$0.412                   | \$0.577        | 50.00%                | -%             | 3.14%                   | \$0.180                  |
| 31/08/2013 | 01/03/2021  | \$0.412                   | \$0.660        | 50.00%                | -%             | 3.14%                   | \$0.180                  |
| 31/03/2014 | 01/03/2018  | \$0.432                   | \$0.432        | 50.00%                | -%             | 3.14%                   | \$0.180                  |
| 31/03/2014 | 01/03/2019  | \$0.432                   | \$0.489        | 50.00%                | -%             | 3.14%                   | \$0.170                  |
| 31/03/2014 | 01/03/2020  | \$0.432                   | \$0.489        | 50.00%                | -%             | 3.14%                   | \$0.180                  |
| 31/03/2014 | 01/03/2021  | \$0.432                   | \$0.550        | 50.00%                | -%             | 3.14%                   | \$0.170                  |
| 24/12/2014 | 01/03/2020  | \$0.500                   | \$0.500        | 50.00%                | -%             | 2.50%                   | \$0.110                  |
| 24/12/2014 | 01/03/2021  | \$0.500                   | \$0.500        | 50.00%                | -%             | 2.50%                   | \$0.160                  |

\* The volatility has been based on previous rates used historically over the last three years reflecting the volatilities of comparable companies during this period.

In the directors' opinion:

- the attached financial statements and notes thereto 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 thereto 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 thereto give a true and fair view of the Group's financial position as at 31 December 2014 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



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Christopher Vonwiller  
Director

27 February 2015  
Sydney



## 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 2014, 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 39 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 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 2014 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 7 to 17 of the directors' report for the year ended 31 December 2014. 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 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Carlo Pasqualini  
*Partner*

Sydney

27 February 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 19 February 2015.

### **Distribution of equitable securities**

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

|                                       | <b>Number of holders of ordinary shares</b> | <b>Number of holders of options over ordinary shares</b> |
|---------------------------------------|---------------------------------------------|----------------------------------------------------------|
| 1 to 1,000                            | 66                                          | -                                                        |
| 1,001 to 5,000                        | 87                                          | -                                                        |
| 5,001 to 10,000                       | 48                                          | -                                                        |
| 10,001 to 100,000                     | 162                                         | 10                                                       |
| 100,001 and over                      | 47                                          | 3                                                        |
|                                       | <b>410</b>                                  | <b>13</b>                                                |
| 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:

|                                                   | <b>Number held</b> | <b>Ordinary shares<br/>% of total<br/>shares<br/>issued</b> |
|---------------------------------------------------|--------------------|-------------------------------------------------------------|
| ANACACIA PARTNERSHIP 1 LP                         | 29,784,985         | 31.40                                                       |
| C & J VONWILLER PTY LIMITED                       | 17,210,083         | 18.15                                                       |
| NEW GREENWICH PTY LTD                             | 6,413,120          | 6.76                                                        |
| ANACACIA PTY LTD                                  | 4,000,000          | 4.22                                                        |
| UBS NOMINEES PTY LTD                              | 3,134,904          | 3.31                                                        |
| NATIONAL NOMINEES LIMITED                         | 3,000,000          | 3.16                                                        |
| BRISPOT NOMINEES PTY LTD                          | 2,631,810          | 2.77                                                        |
| PULVER SUPERANNUATION PTY LIMITED                 | 2,429,935          | 2.56                                                        |
| CITICORP NOMINEES PTY LIMITED                     | 2,377,735          | 2.51                                                        |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3 | 2,034,190          | 2.14                                                        |
| LISA BRADEN-HARDER                                | 1,844,672          | 1.94                                                        |
| J P MORGAN NOMINEES AUSTRALIA LIMITED             | 1,842,200          | 1.94                                                        |
| MIJON INVESTMENTS PTY LTD                         | 1,000,000          | 1.05                                                        |
| LESLEY KAREN PEPPER                               | 875,270            | 0.92                                                        |
| CS FOURTH NOMINEES PTY LTD                        | 789,610            | 0.83                                                        |
| MRS SARAH GILLIAN CAMERON                         | 780,000            | 0.82                                                        |
| MARK BYRNE                                        | 654,400            | 0.69                                                        |
| TRUEBELL CAPITAL PTY LTD                          | 465,000            | 0.49                                                        |
| GREGORY DUNHAM                                    | 458,514            | 0.48                                                        |
| GINGA PTY LTD                                     | 450,000            | 0.47                                                        |
|                                                   | <b>82,176,428</b>  | <b>86.61</b>                                                |

*Unquoted equity securities*

|                                     | <b>Number<br/>on issue</b> | <b>Number<br/>of holders</b> |
|-------------------------------------|----------------------------|------------------------------|
| Options over ordinary shares issued | 3,745,000                  | 18                           |

The following persons holds 20% or more of unquoted equity securities:

| <b>Name</b>        | <b>Class</b> | <b>Number held</b> |
|--------------------|--------------|--------------------|
| Lisa Braden-Harder | Options      | 834,000            |
| Mark Byrne         | Options      | 1,030,500          |

**Substantial holders**

Substantial holders in the Company are set out below:

|                                                       | <b>Ordinary shares<br/>% of total<br/>shares<br/>issued</b> |
|-------------------------------------------------------|-------------------------------------------------------------|
| <b>Number held</b>                                    |                                                             |
| ANACACIA PARTNERSHIP 1 LP                             | 29,784,985                                                  |
| C & J VONWILLER PTY LIMITED                           | 17,210,083                                                  |
| NEW GREENWICH PTY LTD & PULVER SUPERANNUATION PTY LTD | 8,843,055                                                   |
| REGAL FUNDS MANAGEMENT PTY LTD                        | 5,100,594                                                   |
|                                                       | 31.40                                                       |
|                                                       | 18.15                                                       |
|                                                       | 9.32                                                        |
|                                                       | 5.38                                                        |

**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**

| <b>Class</b>                                  | <b>Expiry date</b>                                                                                                                                                           | <b>Number<br/>of shares</b> |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 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. | 63,935,630                  |

These shares are subject to voluntary escrow restrictions.

However, escrowed shareholders will be permitted to an early release of a portion of their escrowed shares in the following circumstances:

15,983,908 ordinary shares when:

- Financial results for FY14 released; and
- VWAP in any 10 consecutive trading days following release of those financial results exceeds the Offer Price by more than 20%.

15,983,908 ordinary shares when:

- Financial results for 1H15F released; and
- VWAP in any 10 consecutive trading days following release of those financial results exceeds the Offer Price by more than 20%.

13,967,815 remaining shares if the above two tranches are released.