Appen Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Appen Limited
ABN:	60 138 878 298
Reporting period:	For the year ended 31 December 2016
Previous period:	For the year ended 31 December 2015

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	34.2%	to	111,003
Profit from ordinary activities after tax attributable to the owners of Appen Limited	up	26.3%	to	10,489
Profit for the year attributable to the owners of Appen Limited	up	26.3%	to	10,489

Dividends

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the year ended 31 December 2016	2.00	2.00

Dividend declared
On 28 February 2017, the Company declared a final dividend for the year ended 31 December 2016 of 3.0 cents per share, fully franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 6 March 2017. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2016 and will be recognised in subsequent financial reports.

Comments
The profit for the Group after providing for income tax amounted to $10,489,000 (31 December 2015: $8,308,000).

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	21.47	17.99

4. Control gained over entities

Name of entities (or group of entities)	Mendip Media Group Limited
Date control gained	30 September 2016

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

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the year ended 31 December 2016	2.00	2.00

Dividend declared
On 28 February 2017, the Company declared a final dividend for the year ended 31 December 2016 of 3.0 cents per share, fully franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 6 March 2017. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2016 and will be recognised in subsequent financial reports.

Previous period

	Amount per security Cents	Franked amount per security Cents
Interim dividend paid for the year ended 31 December 2015	1.20	1.20

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Appen Limited for the year ended 31 December 2016 is attached.

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12. Signed

Signed ___________________________ Date: 28 February 2017

Mark Brayan
Managing Director
Sydney

Appen Limited

ABN 60 138 878 298

Annual Report - 31 December 2016

Directors	Christopher Charles Vonwiller - Chairman Mark Ronald Brayan - Managing Director and Chief Executive Officer Stephen John Hasker Robin Jane Low William Robert Pulver Deena Robyn Shiff
Company secretary	Leanne Ralph
Registered office	Level 6 9 Help Street Chatswood NSW 2067 Tel: 02 9468 6300
Principal place of business	Level 6 9 Help Street Chatswood NSW 2067
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: 1300 554 474 Facsimile: (02) 9287 0303
Auditor	KPMG Tower Three International Towers Sydney 300 Barangaroo Avenue Sydney NSW 2000
Solicitors	Norton Rose Fulbright Australia Level 18, Grosvenor Place 225 George Street Sydney NSW 2000
Stock exchange listing	Appen Limited shares are listed on the Australian Securities Exchange (ASX code: APX)
Website	www.appen.com
Corporate Governance Statement	http://investors.appen.com/investors/?page=Corporate-Governance

Dear Shareholders

I am pleased to report that 2016 was another successful year of profitable and strategic growth for our company.

Financial results

Excellent performance was achieved over 2016 in all major financial measures:

- Total revenue was $111.0m, an increase of 34% on FY2015 revenue of $82.7m
- Full year EBITDA was $17.2m, up 24% on FY2015 EBITDA of $13.8m
- Net Profit After Tax was $10.5m, up 26% compared to FY2015 figure of $8.3m

This full-year result has allowed the board to declare a final dividend of 3.0 cents per share. Coupled with the interim dividend of 2.0 cents per share paid in September 2016, this represents a total dividend of 5.0 cents for 2016, compared to 4.2 cents per share in 2015.

Appen's revenue is won by serving some of the world's largest and most sophisticated companies. We support most of the major global IT and Internet giants, as well as some major governments. Our customers demand excellence in the products and services they buy, and at the same time cost competitiveness. They require high agility to support the dynamic nature of their businesses.

We are proud of the strong relationships we have built with our clients, in most cases extending over many years. We are grateful for their choice of Appen as a global supplier and partner.

Growth opportunities

The future potential for Appen continues to be exciting. When Appen was founded in 1996, we had identified the emergence of machine learning computer systems and the need for quality datasets to train their algorithms. What was initially a niche opportunity has grown to become today a mainstream requirement – as evidenced by examples of artificial intelligence readily found in smart phones, automobiles, home appliance and office systems. Virtually every software system which interacts with humans or the physical world now incorporates this technology, and Appen is well positioned to maintain its position as one of the world leaders in the supply of data – speech, text, image and beyond – to help system providers produce their next generation products.

As elaborated in the CEO's report, our capabilities are being enhanced by ongoing investment in systems, people and facilities. These investments will drive cost reductions and responsiveness, as well as place us in locations closer to our existing and potential customers. Of particular note is the opening of Appen's presence in China and the strengthening of our resources in the UK.

The centrepiece of our strategy continues to be to exploit the many opportunities for organic growth. However, the board will pursue acquisitions where we are confident that this would be consistent with our strategy and where this would add value. During 2016, we completed one acquisition, Mendip Media Group in the UK. We have enjoyed a long and productive relationship with Mendip over several years, and this acquisition made sense strategically, financially, operationally and to our respective customers.

Board change

At the end of 2016, Jeremy Samuel stepped down as director. Jeremy served on the Appen board for some eight years, including during the IPO in early 2015. Through this period of extraordinary growth, Jeremy has contributed significantly to our company's direction and success. On behalf of the board, I would like to thank Jeremy for his support.

Staff

Our professional staff numbers continued to be strengthened in 2016, reaching some 280 employees at the end of the year. Our employees comprise a diverse set of nationalities, languages and professional skills, working as a global team. We have world-class talent, as evidenced by our ability to win business from the most advanced organisations internationally. I would like to publicly express the board's appreciation for their sustained contributions over the year.

Our staff are supported by our more than 400,000 crowd-sourced contractors, representing one of Appen's key strategic assets.

I acknowledge and thank my fellow directors. Our board has a strong mix of skills in governance, technology and international business, and we share a sense of excitement about Appen's future potential.

Finally, thank you as shareholders for your ongoing support. We are very conscious of our responsibilities to our investors and we value your loyalty and trust.

Sincerely

Chris Vonwiller
Chairman

Dear Shareholders,

2016 has been another strong year for Appen.

We delivered another year of high growth in revenue and earnings, we continued to provide high quality data and services to our customers, we supported the growth of our talented staff and crowd-based contractors and maintained and bettered our strong position in the growing natural language, machine learning and artificial intelligence markets.

Of note in the Company's 2016 financial performance is the growth of revenue and earnings on a constant currency basis, illustrating the strength of the underlying business. We also significantly improved our cash conversion through the year.

Revenue growth in 2016 was predominantly from Appen's existing and long-standing customer base. We count technology companies, automakers and government agencies amongst our customers, including eight of the world's largest technology companies[1], five of which are amongst the top six of all companies worldwide.

Our customers rely on us for high quality language and testing data for their machine-learning based applications that improve service to their customers in the areas of speech, search, social media and ecommerce. We continued to support existing programs in 2016 as well as adding a number of new projects as our customers increase their investments in natural language processing and machine learning.

We also added new customers in 2016 that will make contributions to our growth in 2017.

2017 will also benefit from investments in new areas, including our acquisition of Mendip Media Group (MMG) in October 2016. MMG, now Appen UK, gives us a foundation for growth in Europe and a highly secure facility and capability that supports existing work and positions us well for additional growth as our customers demand more security and protection for their data. Appen UK is both ISO 9001 and ISO 27001 accredited. The latter sets strict standards for information security.

We also invested in new locations in 2016, including Beijing, China to access growing Chinese technology firms and support their need for quality data, and Detroit, Michigan to support our customers and expand our presence in the auto sector.

The increase in volumes of work and data experienced in 2016 have necessitated the addition of more talented staff to our team, growth in our crowd-sourced contractors and investments in technology and infrastructure to improve productivity and support scale. The impact of these investments will be most keenly felt in 2017 but have proven to be timely, given the growing requirements of our customers.

Amongst these requirements are volume discounts on our pricing that dampened our margins in the second half of 2016. Productivity measures and cost controls implemented in late Q3 2016 are providing margin recovery in Q4 2016 and Q1 2017 and further improvement is expected to continue through 2017.

Looking forward at our markets, both natural language processing and machine learning are underpinning high growth in artificial intelligence. IDC forecast cognitive systems and artificial intelligence to be a US $47 billion market by 2020[2] and Forrester Research estimate that 7% of US jobs will be replaced by cognitive technologies by 2025[3].

In order to learn, software 'machines' such as speech engines, search engines, predictors and recommenders, must ingest vast amounts of data to help them find patterns and predict outcomes. The greater the volume and the higher the quality of data applied, the better the machine learns and performs.

Data truly is the 'unsung hero of artificial technology'. The increasing demand for data for machine learning purposes and Appen's scalable capability for the provision and structuring of high quality data for places us in a very strong position for future growth.

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[1] Appen previously reported nine of ten of the world's largest technology companies as customers. Appen has not lost any customers, the list of the top ten companies has changed.
[2] "Worldwide Semiannual Cognitive/Artificial Intelligence Systems Spending Guide", IDC, October 2016
[3] The Future of White-Collar Work. Sharing Your Cubicle With Robots", Forrester Research, June 2016

In addition to your valuable support and that of our customers, I would especially like to thank our talented, dedicated and hardworking staff. None of this would be possible without them. It's a privilege to be on their team.

Thank you for your continued support.

Sincerely,

Mark Brayan
Managing Director and Chief Executive Officer

The directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'Group') consisting of Appen Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2016.

Directors

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

Christopher Charles Vonwiller - Chairman
Mark Ronald Brayan
Stephen John Hasker
Robin Jane Low
William Robert Pulver
Deena Robyn Shiff
Jeremy Andrew Samuel (resigned on 29 November 2016)

Principal activities

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

Appen operates through two operating divisions being:

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

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

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

Dividends

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

	Group	
	2016 $'000	2015 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2015 of 3.0 cents per ordinary share (2015: 0 cents)	2,909	-
Interim dividend paid out of the profits reserve for the year ended 31 December 2016 of 2.0 cents per ordinary share (2015: 1.2 cents)	1,942	1,155
	4,851	1,155

Dividend declared

On 28 February 2017, the Company declared a final dividend for the year ended 31 December 2016 of 3.0 cents per share, fully franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 6 March 2017. The financial effect of these dividends has not been brought to account in the financial statements for the period ended 31 December 2016 and will be recognised in subsequent financial reports.

Review of operations

The profit for the Group after providing for income tax amounted to $10,489,000 (31 December 2015: $8,308,000).

Financial performance

	2016 $'000	2015 $'000	Change %	Change constant currency %
Language resources	37,727	31,913	18%	18%
Content relevance	73,216	50,730	44%	43%
Other	60	73		
Total revenue from principal activities	111,003	82,716	34%	33%
Net profit after tax (NPAT)	10,489	8,308	26%	23%
Add tax	5,542	4,102		
Add net interest (income)/expense	-	(17)		
EBIT*	16,031	12,393	29%	27%
Depreciation and amortisation	1,153	1,427		
Statutory EBITDA**	17,184	13,820	24%	22%
Add non-recurring items				
Transaction costs	131	214		
Adjusted EBITDA	17,315	14,034	23%	21%
% Statutory EBITDA/Sales	15.5%	16.7%		
% Adjusted EBITDA/Sales	15.6%	17.0%		
% Segment Profit/Sales				
Language Resources	39.3%	39.1%		
Content Relevance	14.4%	17.6%		

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

Total revenue for the financial year ended 31 December 2016 was $111,003,000 compared to 2015 revenue of $82,716,000. The drivers behind this change in revenue were:

- The Language Resources division recorded an 18% increase in revenue over the prior year, driven mainly by increased volumes across the technology sector; and
- The Content Relevance division delivered a 44% increase in revenue over the prior year. This was largely driven by significant increases in scope and volume from major customers.

The Company reported EBITDA of $17,184,000 representing a 24% increase from 2015. The Language Resources division maintained return on sales at 39.3% compared to 39.1% in the prior year, due to significant demand for value added data collection services. The Content Relevance division return of 14.4% was lower than the 2015 return of 17.6%, due to volume discounts resulting from a significant increase in revenue.

Adjusted EBITDA for the financial year ended 31 December 2016 increased 23% from $14,034,000 to $17,315,000. This was driven by the significant revenue increase and operating cost efficiency through scalability and continued globalisation of operations. Operating expenses (expenses excluding services purchased, depreciation, impairment, transaction costs and finance costs) for 2016 comprised 28% of revenue as compared to 32% in 2015.

The impact of foreign exchange on the translation of revenue and EBITDA was negligible. Growth over the prior year associated with foreign exchange translation amounted to only 1% in respect of revenue and 2% in respect of EBITDA.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations
The Group will continue to pursue its strategy to grow profitability in Content Relevance and Language Resources across a wider customer base.

Environmental regulation
The Group is not subject to any significant environmental regulation under Australian Commonwealth or State Law. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they may apply to the Group during the period covered by this report.

Information on directors

Name:	Christopher Charles Vonwiller
Title:	Non-Executive Chairman
Age:	74
Qualifications:	BSc, BE (Hons), MBA, FIE (Aust.), FTSE
Experience and expertise:	Chris is the Non-Executive Chairman of Appen having formerly served as Appen CEO from 1999-2010. Prior to joining Appen, Chris served for 20 years in senior executive positions with the Australian telecommunications carrier Telstra Corporation Limited, playing a leading role in the development and deployment of innovative internet services, multimedia, and pay television. Chris is a former Chairman of the Warren Centre for Advanced Engineering at The University of Sydney. For his work at Appen, Chris was named an Innovation Hero by the Warren Centre in June 2007.
Special responsibilities:	Chairman of the Board
Interests in shares:	13,060,083 ordinary shares (indirectly)

Name:	Mark Ronald Brayan
Title:	Managing Director and Chief Executive Officer
Age:	53
Qualifications:	MBA, BSurv (Hons)
Experience and expertise:	Mark joined Appen in July 2015 as CEO and is responsible for the company's leadership, strategy and culture. Mark has over twenty-five years' experience in technology and services. Prior to joining Appen, Mark was CEO of MST Global, a provider of technology solutions to the resources sector. Before that he was the CEO of Integrated Research Limited (ASX:IRI), an international software company listed on the Australian Stock exchange. Mark was also COO of the HR outsourcing company Talent2 (ASX:TWO) and CEO of Concept Systems (ASX:CSI) before its merger with Talent2. Mark has an MBA from the Australian Graduate School of Management and Bachelor of Surveying with 1st Class Honours from the University of NSW
Special responsibilities:	None
Interests in shares:	194,450 ordinary shares (directly/indirectly)
Interests in rights:	238,303 performance rights

Name:	William Robert Pulver
Title:	Non-Executive Director
Age:	57
Qualifications:	BCom (Marketing)
Experience and expertise:	William (Bill) Pulver originally joined Appen as Chief Executive Officer ('CEO') in April 2010 overseeing the merger of Appen and Butler Hill in 2011. In January 2013, Bill transitioned to a non-executive director role on the Appen board, after taking on the role of CEO of the Australian Rugby Union. Prior to joining Appen, Bill served as president and chief executive officer of NetRatings, Inc., a NASDAQ-listed company, headquartered in New York and specialising in Internet media and market research. Bill led NetRatings until it was bought by The Nielsen Company in June 2007 and was responsible for its extensive growth through organic product development and acquisitions.
Special responsibilities:	Chairman of Nominations and Remuneration Committee
Interests in shares:	2,300,266 ordinary shares (indirectly)

Name:	Robin Jane Low
Title:	Independent Non-Executive Director
Age:	55
Qualifications:	BCom, FCA, GAICD
Experience and expertise:	Robin is a non-executive director with a number of listed company, government and not-for-profit entities. Previously, Robin was a partner at PricewaterhouseCoopers with over 28 years' experience in financial services, assurance and risk management. Robin is a member of the Audit and Assurance Standards Board, a director of Australian Reinsurance Pool Corporation and is on the boards of a number of not-for-profit organisations: Sydney Medical School Foundation, Public Education Foundation and Primary Ethics. Robin holds a Bachelor of Commerce from The University of New South Wales, is a Fellow of the Institute of Chartered Accountants in Australia, and is a Graduate Member of the Australian Institute of Company Directors.
Other current directorships	Director of AUB Group Limited (ASX: AUB), CSG Limited (ASX: CSV) and IPH Limited (ASX: IPH)
Special responsibilities:	Chairman of the Audit and Risk Committee
Interests in shares:	165,014 ordinary shares (indirectly)

Name:	Stephen John Hasker
Title:	Non-Executive Director
Age:	47
Qualifications:	B.Com, MBA, MIA, ACAA
Experience and expertise:	Steve has been a Non-Executive Director of Appen since April 2015. He is the President and Chief Operating Officer of Nielsen Holdings plc, based in New York. Steve is also a Non-Executive Director of Global Eagle Entertainment (Nasdaq). Steve holds an MBA and Masters in International Affairs, both with honours, from Columbia University, and a Bachelor of Commerce from the University of Melbourne. He is a director of the Center of Communications, the International Radio and TV Society, the Advertising Research Foundation and the Jonnie Mac Tennis project. He is a member of the Institute of Chartered Accountants in Australia.
Special responsibilities:	None
Interests in shares:	50,000 ordinary shares (directly)

Name:	Deena Robyn Shiff
Title:	Non-Executive Director
Age:	62
Qualifications:	B.Sc. (Econ); B.A. (Law)
Experience and expertise:	Deena Shiff has been a Non-Executive Director since May 2015. Until 2013, Deena was a Group Managing Director at Telstra, in turn, running the Wholesale Division; establishing the business division, Telstra Business; and setting up and leading Telstra Ventures, Telstra's corporate venture capital arm. Prior to that Deena had a legal career including as in-house counsel at Telstra and as a partner at law firm Mallesons, Stephen Jacques. Since leaving Telstra Deena has served on the board of Australia's export credit agency, Efic, as Deputy Chair. She is currently the Chairman of global communications company, BAI Communications, which own Broadcast Australia in Australia, as well as communications companies in North America and Hong Kong. Deena is also Chairman of a health sciences Co-operative Research Centre and the Chairman of the Sydney Writers' Festival.
Other current directorships	Director of Citadel Group (ASX: CGL)
Special responsibilities:	None
Interests in shares:	50,000 ordinary shares (indirectly)

Name:	Jeremy Andrew Samuel
Title:	Non-Executive Director (resigned on 29 November 2016)
Age:	44
Qualifications:	MBA, BA, LLB
Experience and expertise:	Jeremy has been a Non-Executive Director of Appen since October 2009 until his resignation on 29 November 2016, 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 Big River and Yumi's Quality Foods at 31 December 2016 and was formerly a director of Rafferty's Garden, Home Appliances and Lomb Scientific.
Special responsibilities:	None
Interests in shares:	Anacacia Capital Pty Limited is the fund manager of Anacacia Partnership 1L which holds nil shares and the Wattle Fund that currently has a 2.2% interest. As at the date of this report, Jeremy Samuel does not have a relevant interest in these shares for the purposes of the Corporations Act.

Company secretaries
Mark Edmund Payton Byrne (B.Ec, MBA, CA, CSA, GAICD) was the Chief Financial Officer and Co-company Secretary until his resignation on 29 January 2016. Kevin Levine commenced employment on 4 January 2016 and was appointed Chief Financial Officer on 29 January 2016. Leanne Ralph was appointed as Co-company Secretary on 18 December 2014 and Company Secretary on 29 January 2016. Leanne brings a wealth of experience in company secretarial activities particularly with listed companies. She is currently the company secretary of 7 listed companies as well as a number of unlisted companies. Leanne is member of the Governance Institute.

Meetings of directors
The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2016, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Management Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Christopher Vonwiller	13	13	5	5	-	-
William Pulver	10	13	-	-	-	1
Mark Brayan	13	13	-	-	-	-
Deena Shiff	13	13	5	5	-	-
Stephen Hasker	12	13	-	-	1	1
Robin Low	13	13	5	5	1	1
Jeremy Samuel *	11	12	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Resigned on 29 November 2016

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 2016 ('Remuneration Report').

KMP have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including Directors of the Company and other executives. KMP comprise the Directors of the Company and executives of the Company and the consolidated entity.

This Remuneration Report has been audited and an opinion provided as required by section 308(3C) of the Corporations Act 2001 (Cth).

The remuneration report is set out under the following main headings:

1 Remuneration Philosophy – Governance & Principles
2 Nomination and Remuneration Committee
3 Audit and Risk Management Committee
4 Non-Executive Director Remuneration and Shareholding
5 Executive Remuneration
6 Executive Shareholdings

The figures are in Australian Dollars unless otherwise noted.

Details of key management personnel for 2016

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following directors of Appen Limited:

- C Vonwiller - Non-Executive Chairman
- S Hasker - Independent Non-Executive Director
- R Low - Independent Non-Executive Director
- W Pulver - Independent Non-Executive Director
- D Shiff - Independent Non-Executive Director
- J Samuel - Non-Executive Director (resigned on 29 November 2016)

And the following persons:

- M Brayan - Managing Director and Chief Executive Officer
- K Levine - Chief Financial Officer (appointed with effect from 4 January 2016)
- M Byrne - Chief Financial Officer and Co-company Secretary (resigned effective 29 January 2016)
- P Hall - Senior Vice-President, Language Resources
- T Garves - Senior Vice-President, Content Relevance
- T White - Senior Vice-President, eCommerce Solutions

1. Remuneration Philosophy – Governance & Principles

The Company's objective is to provide the maximum benefit to shareholders. The Board believes that the Company will achieve this objective by retaining a high quality Board and executive team remunerated fairly and appropriately.

The Company's remuneration philosophy is to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration should be linked to performance and appropriate for the results delivered. The Company's policies are designed to attract and maintain talented and motivated Directors and employees, thereby raising the level of performance of the Company and enhancing shareholder value.

The Company's remuneration policy is to:

- implement remuneration structures designed to attract and retain high quality directors and attract, retain and motivate senior executives with the expertise to enhance the performance and growth of the Company and create value for shareholders;
- ensure that:
  - executive directors and senior executives are encouraged to pursue the growth and success of the Company (both in the short-term and over the longer term), without taking undue risks; and
  - non-executive directors' remuneration is consistent with their obligation to bring an independent judgement to matters before the Board;
- review the employment conditions of Appen's employees on an ongoing basis to ensure the Company remains competitive in terms of remuneration and other incentives; and
- review employee incentive plans from time to time with a view to further aligning management and employees' interests with those of the Company and shareholders.

In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

2. Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee, which provides advice, recommendations and assistance to the Board in relation to compensation arrangements for Directors and executives.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and executive team. It is intended that any schemes or other structures chosen will be optimal for the recipient without creating undue cost for the Company.

The members of the Nomination and Remuneration Committee during the reporting period were:

William Pulver, Committee Chairman;
Robin Low; and
Stephen Hasker.

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

Further information about the Nomination and Remuneration Committee is set out in the Company's Corporate Governance Statement, which is available at http://investors.appen.com/investors/?page=Corporate-Governance.

3. Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee to assist the Board in fulfilling its statutory, corporate governance, risk management and compliance practices and responsibilities.

The Audit and Risk Management Committee monitors and reviews the integrity of the Company's internal financial reporting and external financial statements, the effectiveness of internal financial controls, the independence, objectivity and performance of external auditors; and the policies on risk oversight and management, and makes recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement.

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

Robin Low, Committee Chairman;
Chris Vonwiller; and
Deena Shiff.

The number of meetings of the Audit and Risk Committee held during the reporting period, and attendance by the Nomination and Remuneration Committee members, is set out in the 'Meetings of directors' section of the Directors' Report.

Further information about the Audit and Risk Management Committee is set out in the Company's Corporate Governance Statement, which is available at http://investors.appen.com/investors/?page=Corporate-Governance.

4. Non-Executive Director Remuneration and Shareholdings

Remuneration

Non-Executive Directors are remunerated by way of Board and Committee fees that were set prior to the Company's listing on the ASX. The current fee structure for Non-Executive Directors is as follows:

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

* All fees are inclusive of statutory superannuation.

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

The Non-Executive Directors are remunerated from the maximum aggregate amount approved by shareholders. The current fee pool limit of $450,000 was approved by shareholders prior to the Company's listing on ASX. Details of fees paid to directors in 2015 and 2016 are outlined below:

Director	2016 Fees $	2016 Super-annuation $	2016 Total $	2015 Fees $	2015 Super-annuation $	2015 Total $
C Vonwiller	67,500	22,500	90,000	54,000	36,000	90,000
W Pulver	59,361	5,639	65,000	59,361	5,639	65,000
R Low	63,927	6,073	70,000	63,927	6,073	70,000
D Shiff	50,228	4,772	55,000	36,667	-	36,667
S Hasker	55,000	-	55,000	41,250	-	41,250
J Samuel*	50,417	-	50,417	-	-	-
L Braden-Harder**	-	-	-	22,917	-	22,917
	346,433	38,984	385,417	278,122	47,712	325,834

* Jeremy Samuel resigned as Non-Executive Director on 29 November 2016.

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

The amount of aggregate remuneration sought to be approved by shareholders and the manner in that it is apportioned among Directors will be reviewed annually. The Board seeks to set aggregate Director remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, while incurring a cost that is acceptable to shareholders. The Board will consider fees paid to Non-Executive Directors of comparable companies when undertaking the annual review, as well as any additional time commitment of Directors who serve on one or more Committees, and any other assistance to the Company in respect of specific projects or transactions.

The remuneration packages of Non-Executive Directors are fee-based. Non-executive Directors do not participate in the schemes designed for the remuneration of executives, or performance-based schemes or awards such as options or bonus payments. Non-executive Directors are not entitled to any retirement benefits other than statutory superannuation.

Non-Executive Director Shareholdings

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

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

	Number of shares			
Director	1 January 2016	Purchased during the year	Sold during the year	31 December 2016
C Vonwiller	14,210,083	-	(1,150,000)	13,060,083
W Pulver	4,421,527	-	(2,121,261)	2,300,266
L Braden-Harder	922,336	-	(922,336)	-
M Brayan	174,450	20,000	-	194,450
R Low	150,344	14,670	-	165,014
D Shiff	50,000	-	-	50,000
S Hasker	-	50,000	-	50,000
J Samuel *	-	-	-	-
	19,928,740	84,670	(4,193,597)	15,819,813

* Jeremy Samuel is the managing director of Anacacia Capital Pty Limited, the fund manager of Anacacia Partnership 1LP which holds nil shares (2015: 18,478,739 shares amounting to 19.19% of share capital) and the Wattle Fund that has a 2.2% interest.

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

5. Executive Remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:
- reward executives by reference to both company and individual performance;
- align the interests of executives with those of shareholders;
- encourage retention of executives and other employees;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

In considering the Group's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee considered the following metrics over the last five years:

	2016 $	2015 $	2014 $	2013 $	2012 $
Net profit after tax	10,489,985	8,307,873	1,615,637	1,584,846	(1,925,786)
Adjusted EBIT*	16,159,769	12,392,919	5,701,441	6,114,339	3,071,353
Dividends	4,850,946	1,155,360	1,188,258	723,515	3,130,931
Basic earnings per share - after share split (cents per share)	10.81	8.67	2.15	2.15	(0.26)

* Earnings before interest, tax, and change in fair value of contingent consideration, transaction costs and excise tax refund

Executive remuneration comprises of:
- fixed remuneration;
- short term incentives; and
- long term incentives through equity based compensation.

Service Contracts
Remuneration and other terms of employment for KMP are formalised in service contracts. All executive KMP service contracts provide for immediate termination in the event of serious misconduct.

Details of other key terms are summarised below:

Executive	Role	Contract Term	Annual Salary Review	Notice Period by either party
M Brayan	Managing Director	No fixed term	1 March	6 months
K Levine	Chief Financial Officer	No fixed term	1 March	3 months
P Hall	SVP, Language Resources	No fixed term	1 March	13 weeks
T Garves	SVP, Content Relevance	No fixed term	1 March	90 days
T White	SVP, Strategy, Sales and Marketing	No fixed term	1 March	90 days

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

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

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

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

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

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

Fixed Remuneration
Fixed remuneration consists of base pay, superannuation and other non-monetary benefits and is designed to reward for:
- the scope of the executive's role;
- the executive's skills, experience and qualifications; and
- individual performance.

Executives are offered a competitive base pay. Reference is made to industry benchmarks to ensure that the base pay is set to reflect the market for a comparable role. Base pay is reviewed annually by reference to both the individual's and the consolidated entity's performance, and alignment with market remuneration levels. There are no guaranteed base pay increases included in any executive contracts.

Short Term Incentives
Executive service contracts recognise the potential for the award of short term incentives linked to specific performance criteria.

The Company operates an executive bonus plan that entitles certain executives of the Company to a cash bonus ranging from 0% to 150% of a target bonus, which is typically a percentage of the relevant executive's annual salary.

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

Performance Measure	2016 Weighting	2015 Weighting
Revenue	33%	33%
EBIT	67%	67%
EBIT Margin %	0%	0%

Therefore, if the Company achieves 50% of the revenue target and 100% of the EBIT target, the overall score for the purposes of the calculation of any bonus ('Financial Metric') that may be awarded would be 83.5% of the relevant executive's on-target bonus.

Any actual bonus that may be awarded is calculated on a sliding scale between 0% and 150% - for example:

Financial Metric	Potential Bonus amount - % of target bonus
Below 80%	Nil
80%	64%
90%	81%
122.25% or more	150%

Using the performance measures and personal performance objectives assessed against key performance indicators ('KPIs'), the Company ensures variable rewards are only paid when the relevant KMP have met or exceeded their agreed individual work plan objectives and value has been created for shareholders.

The Board reviews the Financial Metric on an annual basis. Any bonus payment is at the discretion of the Board and is subject to Board approval.

Performance and Remuneration Outcomes
At the end of the financial year, the Remuneration and Nomination Committee reviewed the performance against each of the metrics to determine a recommended short term incentive ('STI') payment for the relevant executive KMPs. This recommendation was subsequently reviewed and approved by the Board. The tables below outline the performance results against these metrics and the final STI payment made to the executives.

2016 Results and STI Payments

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

Weighted average performance payout is 127.3%

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

* Started 4 January 2016
** Includes superannuation for only Australian based executives

2015 Results and STI Payments

	Target	Actual	% Actual / Target	% Payout*
Revenue	$59,632,680	$82,716,153	139%	150%
EBIT	$6,453,299	$12,392,919	192%	150%

Weighted average performance payout is 150%

* % payout capped at 150%

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

* Started 13 July 2015
** Includes superannuation for only Australian based executives
*** Bonus calculated on base salary of USD$330,000 pro-rata for 7 months

Long Term Incentives

Long-term incentives to the Managing Director, other executive KMP and employees are to be provided by the Company's long-term incentive plan, which is designed to align the interests of management and shareholders and assist the Company in the attraction, motivation and retention of executives.

The Appen Long Term Incentive Plan ('LTIP') is intended as the primary vehicle for aligning the interests of the Company's senior management and shareholders, and for the retention of key executives. It is intended that the LTIP will be used to deliver awards to employees in all countries, subject to variations to meet specific legal or tax requirements.

Current LTI Plans

Performance Rights Plan

In addition to the replacement of the previous option plan, the Company developed a long term incentive plan that incorporates performance conditions and was effective from 1 January 2015.

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

- achievement of an Earnings Per Share (‘EPS’) performance condition which is tested over a one year performance period, for three consecutive years; and
- continuation of employment until the beginning of the calendar year coinciding with the third tranche. Once the initial performance period has ended shareholder alignment will continue through executives being incentivised to maintain the share price in order to maximise the value of any award, until the Performance Rights vest. In addition, generally if an executive leaves before Performance Rights vest (and despite one or multiple EPS condition being met), the Rights lapse. The plan also acts as a retentive tool.

Vested Performance Rights will convert to ordinary shares in the Company on a one-for-one basis for nil financial consideration.

The Board has adopted an EPS performance condition for the LTIP, the hurdle to be measured over a one year period, using a consistent EPS growth method – a consistent target that applies each year. Under this calculation method an annual EPS growth target is set at the beginning of each performance period.

The Board considers that this method acts more as a benchmark than an alternative annual EPS growth method, which would require the Board to set EPS outcomes each year. A key factor in the Board‘s considerations is that the LTIP should be both simple to understand and provide both a performance and retention element for participants. The Board considers that a consistent EPS growth method is best aligned to these principles and best provides a long term EPS element.

Performance Conditions

Earnings per share targets

	2015*	2016	2017	2018
Basic EPS Growth rate	4.3%	10.0%	10.0%	10.0%

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

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

* At the board’s discretion.

Based on the financial results for the 2016 financial year, the Board resolved that 2016 EPS growth rate target of 10.0% has been met. The number of performance rights allocated to executives are:

		Vesting Date			
Executive	Number of rights	1 March 2016	1 March 2017	1 March 2018	1 March 2019
M Brayan	238,303	27,668	89,395	89,395	31,845
K Levine	63,690	-	21,230	21,230	21,230
P Hall	153,318	34,122	51,106	51,106	16,984
T Garves	212,149	46,226	70,716	70,717	24,490
T White	194,105	41,288	64,702	64,701	23,414
	861,565	149,304	297,149	297,149	117,963

Option Plans

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

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

Details of this replacement option plan are noted below:

Executive	Number of options	Vesting date Expiry Exercise price	1 March 2016 1 March 2020 0.50 cents	1 March 2017 1 March 2021 0.50 cents
L Braden-Harder	425,000		212,500	212,500
M Byrne	212,500		106,250	106,250
P Hall	212,500		106,250	106,250
T Garves	212,500		106,250	106,250
T White	212,500		106,250	106,250
	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 1 January 2016	Exercised*	Forfeited	Held at 31 December 2016	Vested during the year	Vested and exercisable at 31 December 2016
M Byrne	417,000	(417,000)	-	-	-	-
P Hall	253,400	(147,150)	-	106,250	-	-
T Garves	212,500	(106,250)	-	106,250	-	-
T White	253,400	-	-	253,400	-	147,150

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

Executive	Number of options exercised No	Amount paid on options exercised $	Vested and Value of options at time of exercise $
M Byrne	417,000	146,530	537,350
P Hall	147,150	71,959	169,367
T Garves	106,250	53,125	211,438

Summary of Remuneration

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

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

* Appointed on 4 January 2016
** Resigned on 29 January 2016

	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		
2015	Cash salary $	STI $	Super-annuation $	Termination payments $	Leave entitlements $	Equity-settled $	Cash-settled $	Total $
L Braden-Harder*	282,124	191,733	-	40,737	10,851	-	-	525,445
M Brayan**	174,219	143,077	16,551	-	14,675	12,112	-	360,634
M Byrne	228,652	112,669	21,725	-	21,578	26,062	-	410,686
P Hall	195,313	96,241	18,555	-	24,016	30,442	-	364,567
T Garves	273,264	122,969	37,535	-	10,510	37,188	-	481,466
T White	261,318	117,593	35,894	-	10,051	34,436	-	459,292
	1,414,890	784,282	130,260	40,737	91,681	140,240	-	2,602,090

* Resigned on 31 July 2015 as Managing Director and appointed as Non-Executive Director, then resigned as Non-Executive Director on 31 December 2015
** Appointed on 13 July 2015

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

	Proportion of remuneration performance related		Value of equity as proportion of remuneration	
Name	2016	2015	2016	2015
M Brayan	33%	40%	10%	3%
L Braden-Harder	0%	36%	0%	0%
K Levine	26%	0%	7%	0%
M Byrne	0%	27%	10%	6%
P Hall	24%	26%	14%	8%
T Garves	23%	26%	14%	8%
T White	15%	26%	15%	7%

6. Executive Shareholdings

The table below outlines the current shares, rights and options held by the executive KMP as at 31 December 2016:

Executive	Number of ordinary shares currently held No	Security	Grant Date	Vesting Date	Number No	Option Price $	Expiry Date*
M Brayan	194,450	Rights	29/07/2015	01/03/2016	27,668	N/A	N/A
		Rights	29/07/2015	01/03/2017	57,550	N/A	N/A
		Rights	29/07/2015	01/03/2018	57,550	N/A	N/A
		Rights	01/03/2016	01/03/2017	31,845	N/A	N/A
		Rights	01/03/2016	01/03/2018	31,845	N/A	N/A
		Rights	01/03/2016	01/03/2019	31,845	N/A	N/A
K Levine	52,200	Rights	01/03/2016	01/03/2017	21,230	N/A	N/A
		Rights	01/03/2016	01/03/2018	21,230	N/A	N/A
		Rights	01/03/2016	01/03/2019	21,230	N/A	N/A
M Byrne	413,000						
P Hall	106,250	Options	24/12/2014	01/01/2017	106,250	0.500	01/03/2021
		Rights	25/02/2015	01/03/2016	34,122	N/A	N/A
		Rights	25/02/2015	01/03/2017	34,122	N/A	N/A
		Rights	25/02/2015	01/03/2018	34,122	N/A	N/A
		Rights	01/03/2016	01/03/2017	16,984	N/A	N/A
		Rights	01/03/2016	01/03/2018	16,984	N/A	N/A
		Rights	01/03/2016	01/03/2019	16,984	N/A	N/A
T Garves	-	Options	24/12/2014	01/01/2017	106,250	0.500	01/03/2021
		Rights	25/02/2015	01/03/2016	46,226	N/A	N/A
		Rights	25/02/2015	01/03/2017	46,226	N/A	N/A
		Rights	25/02/2015	01/03/2018	46,226	N/A	N/A
		Rights	01/03/2016	01/03/2017	24,490	N/A	N/A
		Rights	01/03/2016	01/03/2018	24,490	N/A	N/A
		Rights	01/03/2016	01/03/2019	24,490	N/A	N/A
T White	-	Options	01/03/2014	Fully vested	20,450	0.432	01/03/2018
		Options	01/03/2014	Fully vested	20,450	0.489	01/03/2019
		Options	24/12/2014	Fully vested	106,250	0.500	01/03/2020
		Options	24/12/2014	01/01/2017	106,250	0.500	01/03/2021
		Rights	25/02/2015	01/03/2016	41,288	N/A	N/A
		Rights	25/02/2015	01/03/2017	41,288	N/A	N/A
		Rights	25/02/2015	01/03/2018	41,288	N/A	N/A
		Rights	01/03/2016	01/03/2017	23,414	N/A	N/A
		Rights	01/03/2016	01/03/2018	23,414	N/A	N/A
		Rights	01/03/2016	01/03/2019	23,414	N/A	N/A

* Rights are automatically converted to shares on 1 March 2018 and 2019 respectively, assuming all conditions of the plan are met

It is company policy that Directors and KMP must not enter into transactions in associated products that operate to limit the economic risk of security holdings in the Company. A copy of the Company's Securities Dealing Policy is available at http://investors.appen.com/investors/?page=Corporate-Governance.

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

Expiry date	Exercise price	Number of options
1 March 2018	$0.412	81,800
1 March 2018	$0.432	20,450
1 March 2019	$0.494	81,800
1 March 2019	$0.489	20,450
1 March 2020	$0.500	119,531
1 March 2021	$0.500	438,281
		762,312

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

Executive	Number of rights
Mark Brayan	95,535
Kevin Levine	63,690
Philip Hall	50,952
Tammy Garves	73,470
Tom White	70,242
	353,889

Shares issued on the exercise of options
During the year, 900,406 ordinary shares of the Company were issued and fully paid for on the exercise of options during the year ended 31 December 2016 and up to the date of this Remuneration Report as outlined below (there are no amounts unpaid on the shares issued).

Shares issued on the exercise of performance rights
There were no ordinary shares of Appen Limited issued on the exercise of performance rights during the year ended 31 December 2016 and up to the date of this report.

This concludes the remuneration report, which has been audited.

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 transfer pricing, employee share scheme, 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 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Auditor

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

Rounding of amounts

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

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Chris Vonwiller

Christopher Vonwiller
Director

28 February 2017
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 year ended 31 December 2016 there have been:

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

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

KPMG

KPMG

Tony Nimac
Partner

Sydney

28 February 2017

	Note	Group 2016 $'000	Group 2015 $'000
Revenue	5	111,003	82,716
Expenses			
Services purchased - data collection		(62,273)	(41,855)
Employee benefits expense	6	(22,079)	(20,955)
Depreciation and amortisation expense	6	(1,153)	(1,427)
Impairment of assets	6	(63)	(37)
Travel expense		(1,197)	(971)
Professional fees		(1,515)	(1,078)
Rental expense		(524)	(503)
Communication expense		(347)	(322)
Transaction costs		(131)	(214)
Other expenses		(5,384)	(2,581)
Finance costs	6	(306)	(363)
Profit before income tax expense		16,031	12,410
Income tax expense	7	(5,542)	(4,102)
Profit after income tax expense for the year attributable to the owners of Appen Limited	18	10,489	8,308
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		309	1,325
Other comprehensive income for the year, net of tax		309	1,325
Total comprehensive income for the year attributable to the owners of Appen Limited		10,798	9,633
		Cents	Cents
Basic earnings per share	32	10.81	8.67
Diluted earnings per share	32	10.53	8.55

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

	Note	Group 2016 $'000	Group 2015 $'000
Assets			
Current assets			
Cash and cash equivalents	8	16,471	12,725
Trade and other receivables	9	21,861	17,278
Prepayments		415	285
Total current assets		38,747	30,288
Non-current assets			
Property, plant and equipment		725	379
Intangibles	10	14,543	11,342
Other deposits		12	8
Total non-current assets		15,280	11,729
Total assets		54,027	42,017
Liabilities			
Current liabilities			
Trade and other payables	11	12,177	8,829
Derivative financial instruments	12	199	86
Income tax		1,447	1,376
Provisions	13	884	777
Revenue received in advance		716	409
Total current liabilities		15,423	11,477
Non-current liabilities			
Borrowings		6	8
Deferred tax	14	2,778	1,496
Provisions	15	417	378
Total non-current liabilities		3,201	1,882
Total liabilities		18,624	13,359
Net assets		35,403	28,658
Equity			
Issued capital	16	19,510	19,077
Reserves	17	19,763	13,451
Accumulated losses	18	(3,870)	(3,870)
Total equity		35,403	28,658

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

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

Group	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2016	19,077	13,451	(3,870)	28,658
Profit after income tax expense for the year	-	-	10,489	10,489
Other comprehensive income for the year, net of tax	-	309	-	309
Total comprehensive income for the year	-	309	10,489	10,798
Transactions with owners in their capacity as owners:				
Transfer between reserves	-	10,489	(10,489)	-
Issue of ordinary shares (note 17)	433	-	-	433
Share-based payments	-	365	-	365
Dividends paid (note 19)	-	(4,851)	-	(4,851)
Balance at 31 December 2016	19,510	19,763	(3,870)	35,403

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

	Note	Group 2016 $'000	Group 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		106,836	72,511
Payments to suppliers and employees (inclusive of GST)		(90,103)	(67,650)
		16,733	4,861
Interest received		8	20
Interest paid		(7)	(3)
Income taxes paid		(4,055)	(848)
Net cash from operating activities	31	12,679	4,030
Cash flows from investing activities			
Payments for acquisition		(2,525)	-
Cash acquired on acquisition		396	-
Payments for property, plant and equipment		(654)	(320)
Payments for intangibles		(1,808)	(304)
Net cash used in investing activities		(4,591)	(624)
Cash flows from financing activities			
Proceeds from issue of shares	16	433	601
Dividends paid	19	(4,851)	(1,155)
Net cash used in financing activities		(4,418)	(554)
Net increase in cash and cash equivalents		3,670	2,852
Cash and cash equivalents at the beginning of the financial year		12,725	8,649
Effects of exchange rate changes on cash and cash equivalents		76	1,224
Cash and cash equivalents at the end of the financial year	8	16,471	12,725

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

Note 1. General information

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

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

Level 6
9 Help Street
Chatswood NSW 2067

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2017.

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 or amended Accounting Standards and Interpretations adopted

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

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

Basis of preparation

Statement of compliance
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, derivative financial instruments, which are measured at fair value.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

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 2016 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.

Note 2. Significant accounting policies (continued)

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 rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Revenue recognition

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

Services

Revenue from services represents the sale of contract service or licence products and database. Revenue is recognised in profit or loss progressively as the projects are completed and validated or approved by the customers. Stage of completion of transactions involving the rendering of services is determined by.the services performed to date as a percentage of total services to be performed. No revenue is recognised if there are either significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of disputes on service quality, or there is continuing management involvement with the products.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 2. Significant accounting policies (continued)

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 2. Significant accounting policies (continued)

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

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

Work-in-progress includes those projects fully completed or significantly completed by year-end, but invoices have been issued after year-end, due to the milestones for invoicing yet to be reached, or customers' approval procedure being delayed.

Other receivables are recognised at amortised cost, less any provision for impairment.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	Over the lease term
Fixtures and fittings	3 - 13 years
Computer equipment	1 - 4 years
Audio equipment	1 - 4 years
Make good	Over the lease term

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Note 2. Significant accounting policies (continued)

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method of amortisation and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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

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

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

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

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

Platform technology development
Platform technology development costs are capitalised at the direct costs incurred and amortised on a straight line basis over the period of their expected benefit being their finite life of 3 years. Amortisation starts at the time that the technology is activated and is used by both internal and external customers. The capitalised costs of platform technology include the direct costs of internal staff and any supporting software acquired from a third party.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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 wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for services.

The cost of equity-settled transactions 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.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

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

Fair value measurement

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

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Note 2. Significant accounting policies (continued)

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 the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

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

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

Earnings per share

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

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

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

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

Note 2. Significant accounting policies (continued)

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 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018 and the impact of its adoption is expected to be minimal.

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

IFRS 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the ‘operating lease’ and ‘finance lease’ classification required by AASB 117 ‘Leases’. Subject to exceptions, a ‘right-of-use’ asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a ‘right-of-use’ asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 January 2019 but the impact of its 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 of options is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. Performance rights are valued on a discounted dividend stream method. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy
The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

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

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

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

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

Note 4. Operating segments

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

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

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

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

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

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

Major customers
During the year ended 31 December 2016 approximately 83% (2015: 72%) of the Group's external revenue was derived from sales to five major customers.

Operating segment information

Group - 2016	Content Relevance $'000	Language Resources $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	73,216	37,727	-	110,943
Interest	-	-	8	8
Rent	-	-	52	52
Total revenue	73,216	37,727	60	111,003
Segment result	10,528	14,846	(1,621)	23,753
Corporate overhead				(6,139)
Foreign exchange				(300)
Transaction costs				(131)
Depreciation and amortisation				(1,153)
Interest				1
Profit before income tax expense				16,031
Income tax expense				(5,542)
Profit after income tax expense				10,489

Note 4. Operating segments (continued)

Group - 2015	Content Relevance $'000	Language Resources $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	50,730	31,913	-	82,643
Interest	-	-	20	20
Rent	-	-	53	53
Total revenue	50,730	31,913	73	82,716
Segment result	8,913	12,486	(1,109)	20,290
Corporate overhead				(6,256)
Foreign exchange				1
Initial Public Offer expenses				(214)
Depreciation and amortisation				(1,427)
Interest				16
Profit before income tax expense				12,410
Income tax expense				(4,102)
Profit after income tax expense				8,308

Segment profit for content relevance and language resources has been restated to reflect revised divisional allocation methodology effected in 2016. There is no change to total revenue and profit.

Geographical information

	Services revenue		Geographical non-current assets	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Australia	34,233	27,388	666	418
US	76,710	55,255	12,169	11,311
Others	-	-	2,445	-
	110,943	82,643	15,280	11,729

Note 5. Revenue

	Group	
	2016 $'000	2015 $'000
Sales revenue		
Services revenue	110,943	82,643
Other revenue		
Interest	8	20
Rent	52	53
	60	73
Revenue	111,003	82,716

Note 6. Expenses

	Group 2016 $'000	Group 2015 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	104	74
Fixtures and fittings	9	13
Computer equipment	220	150
Audio equipment	20	20
Make good	16	16
Total depreciation	369	273
Amortisation		
Patents and formation costs	3	3
Internal software and platform development	536	549
Licence, database and project development	136	51
Contracts	109	551
Total amortisation	784	1,154
Total depreciation and amortisation	1,153	1,427
Impairment		
Receivables	63	37
Finance costs		
Interest and finance charges paid/payable	7	3
Net foreign exchange loss	299	360
Finance costs expensed	306	363
Employee benefits expense		
Defined contribution superannuation expense	1,028	850
Share-based payments expense	365	163
Employee benefits expense	20,686	19,942
Total employee benefits expense	22,079	20,955

Note 7. Income tax expense

	Group 2016 $'000	Group 2015 $'000
Income tax expense		
Current tax	4,260	3,519
Deferred tax - origination and reversal of temporary differences	1,282	583
Aggregate income tax expense	5,542	4,102
Deferred tax included in income tax expense comprises:		
Increase in deferred tax liabilities (note 14)	1,282	583
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	16,031	12,410
Tax at the statutory tax rate of 30%	4,809	3,723
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	149	(227)
	4,958	3,496
Difference in overseas tax rates	584	606
Income tax expense	5,542	4,102

Note 8. Current assets - cash and cash equivalents

	Group 2016 $'000	Group 2015 $'000
Cash on hand	4	3
Cash at bank	16,341	12,533
Cash on deposit	126	189
	16,471	12,725

Note 9. Current assets - trade and other receivables

	Group 2016 $'000	Group 2015 $'000
Trade receivables	14,360	12,618
Less: Provision for impairment of receivables	(81)	(34)
	14,279	12,584
Other receivables	229	235
Work in progress	7,184	4,407
GST recoverable	169	52
	21,861	17,278

Impairment of receivables

The Group has recognised a loss of $63,000 (2015: $37,000) in profit or loss in respect of impairment of receivables for the year ended 31 December 2016.

Note 9. Current assets - trade and other receivables (continued)

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

	Group 2016 $'000	Group 2015 $'000
0 to 3 months overdue	81	-
Over 6 months overdue	-	34
	81	34

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

	Group 2016 $'000	Group 2015 $'000
Opening balance	34	61
Additional provisions recognised	63	37
Receivables written off during the year as uncollectable	(16)	(64)
Closing balance	81	34

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $2,149,000 as at 31 December 2016 ($1,109,000 as at 31 December 2015).

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

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

	Group 2016 $'000	Group 2015 $'000
0 to 3 months overdue	2,137	1,022
3 to 6 months overdue	12	13
Over 6 months overdue	-	74
	2,149	1,109

Note 10. Non-current assets - intangibles

	Group 2016 $'000	Group 2015 $'000
Goodwill - at cost	11,463	9,336
Patents and formation costs - at cost	300	300
Less: Accumulated amortisation	(278)	(275)
	22	25
Internal software and platform development - at cost	2,437	2,407
Less: Accumulated amortisation	(1,453)	(890)
	984	1,517
Licence, database and project development - at cost	2,215	357
Less: Accumulated amortisation	(141)	-
	2,074	357
Contracts - at cost	2,925	2,888
Less: Accumulated amortisation	(2,925)	(2,781)
	-	107
	14,543	11,342

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

Group	Goodwill $'000	Patents and formation costs $'000	Internal software and platform development $'000	Licence, database and project development $'000	Contracts $'000	Total $'000
Balance at 1 January 2015	8,323	27	1,860	50	599	10,859
Additions	-	-	-	347	-	347
Exchange differences	1,013	1	206	11	59	1,290
Amortisation expense	-	(3)	(549)	(51)	(551)	(1,154)
Balance at 31 December 2015	9,336	25	1,517	357	107	11,342
Additions	-	-	-	1,808	-	1,808
Additions through business combinations (note 28)	2,007	-	-	-	-	2,007
Exchange differences	120	-	3	45	2	170
Amortisation expense	-	(3)	(536)	(136)	(109)	(784)
Balance at 31 December 2016	11,463	22	984	2,074	-	14,543

Impairment of intangible assets
Goodwill relates to the acquisition of Butler Hill, Inc. in the United States, and Mendip Media Group Limited 'MMG') in the United Kingdom. The recoverable amount of this business, at balance date, was estimated based on its value in use.

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

- Cashflows were projected based on forecast operating results over a 5 year period.

Note 10. Non-current assets - intangibles (continued)

- Average revenue growth rates of 8% for 2017 to 2021 were used for revenue projections. This growth was based on the average annual historical growth rates over the past 4 years and the long-term growth rate of the industry. All future years of the model use a constant rate of 3%; and

- A pre-tax discount of 22% based on the weighted average cost of capital.

Note 11. Current liabilities - trade and other payables

	Group	
	2016 $'000	2015 $'000
Trade payables	5,842	3,417
VAT payable	131	197
Other payables and accrued expenses	6,204	5,215
	12,177	8,829

Refer to note 20 for further information on financial instruments.

Note 12. Current liabilities - derivative financial instruments

	Group	
	2016 $'000	2015 $'000
Forward foreign exchange contracts	92	84
Foreign exchange contracts - Collars	107	2
	199	86

Refer to note 20 for further information on financial instruments.

Refer to note 21 for further information on fair value measurement.

Note 13. Current liabilities - provisions

	Group	
	2016 $'000	2015 $'000
Annual leave	789	652
Deferred lease incentives	-	34
Lease make good	95	91
	884	777

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

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Note 13. 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:

Group - 2016	Deferred lease incentives $'000	Lease make good $'000
Carrying amount at the start of the year	34	91
Additional provisions recognised	-	4
Amounts used	(34)	-
Carrying amount at the end of the year	-	95

Note 14. Non-current liabilities - deferred tax

	Group	
	2016 $'000	2015 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Platform development costs	403	289
Impairment of receivables	(30)	(13)
Property, plant and equipment	(60)	3
Intangible assets	1,537	945
Employee benefits	(963)	(767)
Accrued expenses	(260)	(187)
Work-in-progress	2,155	1,322
Initial Public Offering expense	-	(100)
Foreign currency revaluation and other expense	(4)	4
Deferred tax liability	2,778	1,496
Movements:		
Opening balance	1,496	913
Charged to profit or loss (note 7)	1,282	583
Closing balance	2,778	1,496

Note 15. Non-current liabilities - provisions

	Group	
	2016 $'000	2015 $'000
Long service leave	417	378

Note 16. Equity - issued capital

	Group			
	2016 Shares	2015 Shares	2016 $'000	2015 $'000
Ordinary shares - fully paid	97,180,407	96,280,001	19,510	19,077

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2015	94,846,001		18,476
Issue of bonus shares	12 February 2015	2,500	$0.000	-
Issue of shares on exercise of options	8 April 2015	409,000	$0.367	150
Issue of shares on exercise of options	8 April 2015	613,500	$0.428	263
Issue of shares on exercise of options	23 June 2015	204,500	$0.432	88
Issue of shares on exercise of options	23 June 2015	204,500	$0.489	100
Balance	31 December 2015	96,280,001		19,077
Issue of shares on exercise of options	1 March 2016	51,125	$0.412	21
Issue of shares on exercise of options	1 March 2016	112,475	$0.432	49
Issue of shares on exercise of options	1 March 2016	112,475	$0.489	55
Issue of shares on exercise of options	1 March 2016	51,125	$0.494	26
Issue of shares on exercise of options	1 March 2016	358,593	$0.500	179
Issue of shares on exercise of options	16 March 2016	26,563	$0.500	13
Issue of shares on exercise of options	8 June 2016	106,250	$0.500	53
Issue of shares on exercise of options	10 November 2016	40,900	$0.412	17
Issue of shares on exercise of options	10 November 2016	40,900	$0.494	20
Balance	31 December 2016	97,180,407		19,510

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

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

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

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 31 December 2015 Annual Report.

Note 17. Equity - reserves

	Group 2016 $'000	Group 2015 $'000
Common control reserve	(1,416)	(1,416)
Foreign currency translation reserve	3,672	3,363
Share-based payments reserve	1,569	1,204
Profits reserve	14,079	8,441
Other reserves	1,859	1,859
	19,763	13,451

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

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

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

Profits reserve
The Profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate against prior year accumulated losses. Such profits are available to enable payment of franked dividends in the future should be the directors declare by resolution.

Other reserves
This reserve represents the equity settled portion of contingent consideration together with any capital raising expenses that are allocated to equity.

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

Group	Common control $'000	Foreign currency translation $'000	Share-based payments $'000	Profits $'000	Other $'000	Total $'000
Balance at 1 January 2015	(1,416)	2,038	1,041	1,288	2,092	5,043
Foreign currency translation	-	1,325	-	-	-	1,325
Share-based payments	-	-	163	-	-	163
Transfer from accumulated losses	-	-	-	8,308	-	8,308
Dividends paid	-	-	-	(1,155)	-	(1,155)
Initial Public Offering cost allocation	-	-	-	-	(233)	(233)
Balance at 31 December 2015	(1,416)	3,363	1,204	8,441	1,859	13,451
Foreign currency translation	-	309	-	-	-	309
Share-based payments	-	-	365	-	-	365
Transfer from accumulated losses	-	-	-	10,489	-	10,489
Dividends paid	-	-	-	(4,851)	-	(4,851)
Balance at 31 December 2016	(1,416)	3,672	1,569	14,079	1,859	19,763

Note 18. Equity - accumulated losses

	Group	
	2016 $'000	2015 $'000
Accumulated losses at the beginning of the financial year	(3,870)	(3,870)
Profit after income tax expense for the year	10,489	8,308
Transfer to Profits reserve	(10,489)	(8,308)
Accumulated losses at the end of the financial year	(3,870)	(3,870)

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

Note 19. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	Group	
	2016 $'000	2015 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2015 of 3.0 cents per ordinary share (2015: 0 cents)	2,909	-
Interim dividend paid out of the profits reserve for the year ended 31 December 2016 of 2.0 cents per ordinary share (2015: 1.2 cents)	1,942	1,155
	4,851	1,155

Dividend declared
On 28 February 2017, the Company declared a final dividend for the year ended 31 December 2016 of 3.0 cents per share, fully franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 6 March 2017. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2016 and will be recognised in subsequent financial reports.

Franking credits

	Group	
	2016 $'000	2015 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	2,461	1,889

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 20. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

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

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

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecast cash flows for the ensuing financial year. Appen’s policy is to hedge at least 80% of its US denominated revenues generated by its Language Resources division for the subsequent 12 months.

The maturity, settlement amounts and the average contractual exchange rates of the Group's outstanding forward foreign exchange contracts and foreign exchange contract - Collars at the reporting date were as follows:

	Sell Australian dollars		Average exchange rates	
	2016	2015	2016	2015
	$'000	$'000		
Sell United States dollars				
Foreign exchange forward contract maturity:				
0 - 3 months	1,580	3,741	0.7592	0.7419
3 - 6 months	395	1,234	0.7450	0.7293
6 - 12 months	-	1,710	-	0.7309

	Buy Australian dollars		Average exchange rates	
	2016	2015	2016	2015
	$'000	$'000		
Sell United States dollars				
Foreign exchange option contract maturity:				
0 - 3 months	4,683	1,548	0.7474	0.7105
3 - 6 months	2,043	2,739	0.7342	0.7302
6 - 12 months	-	1,892	-	0.7135
12 - 18 months	-	414	-	0.7243

Note 20. Financial instruments (continued)

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

	Average exchange rates		Reporting date exchange rates	
	2016	2015	2016	2015
Australian dollars				
United States Dollars	0.7422	0.7530	0.7202	0.7294
European Economic and Monetary Union Euro	0.6729	0.6761	0.6844	0.6712
United Kingdom Pound Sterling	0.5536	0.4915	0.5840	0.4941
Hong Kong Dollars	5.7603	5.8375	5.5846	5.6535
Philippine Pesos	35.3549	34.1728	35.7238	34.2310

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

	Assets		Liabilities	
Group	2016 $'000	2015 $'000	2016 $'000	2015 $'000
United States Dollars	27,411	23,000	5,754	3,701
European Economic and Monetary Union Euro	427	443	-	-
United Kingdom Pound Sterling	700	1,264	156	197
Hong Kong Dollars	1	12	-	-
Philippine Pesos	1,330	179	3	66
	29,869	24,898	5,913	3,964

The Group had net assets denominated in foreign currencies of $23,956,000 (assets $29,869,000 less liabilities $5,913,000) as at 31 December 2016 (2015: $20,934,000 (assets $24,898,000 less liabilities $3,964,000)).

Based on this exposure, had the Australian dollar strengthened by 5%/weakened by 5% (2015: strengthened by 5%/weakened by 5%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year and equity would have been lower/higher by the following:

	AUD strengthened			AUD weakened		
Group - 2016	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
United States Dollars	5%	1,083	1,083	5%	(1,083)	(1,083)
European Economic and Monetary Union Euro	5%	21	21	5%	(21)	(21)
United Kingdom Pound Sterling	5%	27	27	5%	(27)	(27)
Hong Kong Dollars	5%	-	-	5%	-	-
Philippine Pesos	5%	66	66	5%	(66)	(66)
		1,197	1,197		(1,197)	(1,197)

Note 20. Financial instruments (continued)

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

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

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

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

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the 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 20. Financial instruments (continued)

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

Group - 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	5,842	-	-	-	5,842
Other payables	-	545	-	-	-	545
Total non-derivatives		6,387	-	-	-	6,387
Derivatives						
Forward foreign exchange contracts net settled	-	92	-	-	-	92
Foreign exchange contracts - Collars	-	107	-	-	-	107
Total derivatives		199	-	-	-	199

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

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

Note 21. Fair value measurement

Fair value hierarchy
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Group - 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Forward foreign exchange contracts	-	92	-	92
Foreign exchange contracts - Collars	-	107	-	107
Total liabilities	-	199	-	199

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

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 22. Key management personnel disclosures

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

	Group 2016 $	Group 2015 $
Short-term employee benefits	2,242,968	2,199,172
Post-employment benefits	166,939	170,997
Long-term benefits	95,470	91,681
Share-based payments	326,047	140,240
	2,831,424	2,602,090

Note 23. Remuneration of auditors

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

	Group 2016 $	Group 2015 $
Audit services - KPMG		
Audit or review of the financial statements	150,000	151,020
Other services - KPMG		
Taxation and compliance services - Australia	256,375	62,550
Other services	7,500	22,500
	263,875	85,050
	413,875	236,070
Audit services - network firms		
Audit or review of the financial statements	14,548	20,188
Other services - network firms		
Taxation and compliance services - USA	69,480	139,654
	84,028	159,842

Note 24. Contingent liabilities

The Group has given bank guarantees as at 31 December 2016 of $122,000 (2015: $122,000) to various landlords.

Note 25. Commitments

	Group 2016 $'000	Group 2015 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	637	439
One to five years	2,314	90
	2,951	529

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

Note 26. Related party transactions

Parent entity
Appen Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

Key management personnel
Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

Transactions with related parties
There were no transactions with related parties during the current financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 27. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Company	
	2016 $'000	2015 $'000
Profit after income tax	6,316	11,235
Total comprehensive income	6,316	11,235

Statement of financial position

	Company	
	2016 $'000	2015 $'000
Total current assets	41	4,160
Total assets	28,878	26,615
Total current liabilities	-	-
Total liabilities	-	-
Equity		
Issued capital	19,510	19,077
Share-based payments reserve	1,569	1,204
Profits reserve	11,545	10,080
Other reserves	1,859	1,859
Accumulated losses	(5,605)	(5,605)
Total equity	28,878	26,615

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had a deed of cross guarantee in relation to the debts of its subsidiaries as at 31 December 2016.

Note 27. Parent entity information (continued)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2016 and 31 December 2015.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 31 December 2016 and 31 December 2015.

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 28. Business combinations

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

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

Details of the acquisition are as follows:

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

Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
Appen Butler Hill Pty Limited	Australia	100.00%	100.00%
Appen Butler Hill Inc. *	United States of America	100.00%	100.00%
Appen (Europe) Limited *	United Kingdom	100.00%	100.00%
Mendip Media Group Limited	United Kingdom	100.00%	-
Appen (Hong Kong) Limited *	Hong Kong	100.00%	100.00%

* Wholly-owned subsidiaries of Appen Butler Hill Pty Limited

Note 30. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Appen Limited
Appen Butler Hill Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Appen Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

Statement of profit or loss and other comprehensive income	2016 $'000	2015 $'000
Revenue	33,916	29,083
Services purchased - data collection	(8,325)	(7,041)
Employee benefits expense	(10,794)	(9,233)
Depreciation and amortisation expense	(285)	(274)
Impairment of assets	-	(37)
Travel expense	(865)	(712)
Professional fees	(785)	(705)
Rental expense	(322)	(356)
Communication expense	(230)	(214)
Transaction costs	-	(214)
Other expenses	(1,049)	(1,092)
Finance costs	(282)	(337)
Profit before income tax expense	10,979	8,868
Income tax expense	(3,318)	(1,681)
Profit after income tax expense	7,661	7,187
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	7,661	7,187

Note 30. Deed of cross guarantee (continued)

Equity - retained profits	2016 $'000	2015 $'000
Retained profits at the beginning of the financial year	-	-
Profit after income tax expense	7,661	7,187
Transfer to Profits reserve	(7,661)	(7,187)
Retained profits at the end of the financial year	-	-

Statement of financial position	2016 $'000	2015 $'000
Current assets		
Cash and cash equivalents	2,575	2,178
Trade and other receivables	22,699	17,856
Prepayments	163	105
	25,437	20,139
Non-current assets		
Investments accounted for using the equity method	18,241	18,241
Property, plant and equipment	466	273
Intangibles	200	26
	18,907	18,540
Total assets	44,344	38,679
Current liabilities		
Trade and other payables	3,059	2,148
Derivative financial instruments	199	86
Income tax	1,771	1,077
Provisions	545	473
Revenue received in advance	357	409
	5,931	4,193
Non-current liabilities		
Borrowings	6	8
Deferred tax	1,091	811
Provisions	417	378
	1,514	1,197
Total liabilities	7,445	5,390
Net assets	36,899	33,289
Equity		
Issued capital	19,510	19,077
Reserves	17,389	14,212
Total equity	36,899	33,289

Note 31. Reconciliation of profit after income tax to net cash from operating activities

	Group 2016 $'000	Group 2015 $'000
Profit after income tax expense for the year	10,489	8,308
Adjustments for:		
Depreciation and amortisation	1,153	1,427
Share-based payments	365	163
Foreign exchange differences	76	838
Impairment loss on receivables	63	37
Change in operating assets and liabilities:		
Increase in trade and other receivables	(4,715)	(8,467)
Increase in trade and other payables	3,444	1,478
Increase in employee benefits and provisions	143	215
Increase/(decrease) in provision for income tax	72	(848)
Increase in deferred tax liabilities	1,282	511
Increase in unearned revenue	307	368
Net cash from operating activities	12,679	4,030

Note 32. Earnings per share

	Group 2016 $'000	Group 2015 $'000
Profit after income tax attributable to the owners of Appen Limited	10,489	8,308
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	96,992,819	95,812,846
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	2,640,507	1,340,810
Weighted average number of ordinary shares used in calculating diluted earnings per share	99,633,326	97,153,656
	Cents	**Cents**
Basic earnings per share	10.81	8.67
Diluted earnings per share	10.53	8.55

Note 33. Share-based payments

Performance rights

Long-term incentive plan
The Company has developed a long term incentive plan ("LTIP") which incorporates performance conditions and was effective from 1 January 2015.

The long term incentive plan provides for awards of Performance Rights to senior management, vesting in 1/3 tranches over a three year period, subject to an Earnings per Shares non-market performance condition tested over a one year period. If the EPS target is satisfied the Performance Rights will continue, but will lapse if an employee ceases employment with the Company. Details are outlined in the table below:

Note 33. Share-based payments (continued)

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

2016

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25/02/2015	01/03/2016	225,960	-	-	-	225,960
25/02/2015	01/03/2017	225,960	-	-	-	225,960
25/02/2015	01/03/2018	225,960	-	-	-	225,960
29/07/2015	01/03/2016	27,668	-	-	-	27,668
29/07/2015	01/03/2017	57,550	-	-	-	57,550
29/07/2015	01/03/2018	57,550	-	-	-	57,550
01/07/2016	01/03/2017	-	26,101	-	-	26,101
01/07/2016	01/03/2018	-	26,101	-	-	26,101
01/03/2016	01/03/2019	-	26,101	-	-	26,101
01/03/2016	01/03/2017	-	155,424	-	-	155,424
01/03/2016	01/03/2018	-	155,424	-	-	155,424
01/03/2016	01/03/2019	-	155,424	-	-	155,424
		820,648	544,575	-	-	1,365,223

2015

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25/02/2015	01/03/2016	-	225,960	-	-	225,960
25/02/2015	01/03/2017	-	225,960	-	-	225,960
25/02/2015	01/03/2018	-	225,960	-	-	225,960
29/07/2015	01/03/2016	-	27,668	-	-	27,668
29/07/2015	01/03/2017	-	57,550	-	-	57,550
29/07/2015	01/03/2018	-	57,550	-	-	57,550
		-	820,648	-	-	820,648

Rights are performance based and participant needs to be employed at 1 January 2018 and 1 January 2019 respectively to be able to convert to shares.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 0.85 years (2015: 2.17 years).

Options

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

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

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

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

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

Note 33. Share-based payments (continued)

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:

2016

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited *	Balance at the end of the year
31/08/2013	01/03/2018	$0.412	173,825	-	(92,025)	-	81,800
31/08/2013	01/03/2019	$0.494	173,825	-	(92,025)	-	81,800
31/03/2014	01/03/2018	$0.432	132,925	-	(112,475)	-	20,450
31/03/2014	01/03/2019	$0.489	132,925	-	(112,475)	-	20,450
24/12/2014	01/03/2020	$0.500	610,937	-	(491,406)	-	119,531
24/12/2014	01/03/2021	$0.500	610,937	-	-	(172,656)	438,281
			1,835,374	-	(900,406)	(172,656)	762,312
Weighted average exercise price			$0.485	$0.000	$0.481	$0.500	$0.488

* Options forfeited due to participants leaving Appen

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

Note 33. Share-based payments (continued)

2015

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

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

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

Grant date	Expiry date	2016 Number	2015 Number
31/08/2013	01/03/2018	20,450	173,825
31/08/2013	01/03/2019	20,450	173,825
31/03/2014	01/03/2018	81,800	132,925
31/03/2014	01/03/2019	81,800	132,925
24/12/2014	01/03/2020	119,531	-
		324,031	613,500

The weighted average share price during the financial year was $2.646 (2015: $0.954).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.34 years (2015: 4.00 years).

Note 34. Events after the reporting period

Apart from the dividend declared as disclosed in note 19, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial year ended on that date;

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

- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 30 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Chris Vonwiller

Christopher Vonwiller
Director

28 February 2017
Sydney

Independent Auditor's Report

To the shareholders of Appen Limited

Report on the audit of the Financial Report

Opinion

In our opinion, the accompanying ***Financial Report*** of Appen Limited is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

We have audited the ***Financial Report*** of the Group.

The ***Group*** consists of Appen Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year.

The ***Financial Report*** comprises the:

- Consolidated statement of financial position as at 31 December 2016;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition ($111,003,485)

Refer to Note 5 to the financial report.

The key audit matter	How the matter was addressed in our audit

A substantial amount of the Group's revenue relates to revenue from the rendering of services.
 	
We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the varied revenue streams in the Appen Limited Group.
 	
Our audit attention focused on revenue recognition from the two largest revenue streams:
• Revenue from the rendering of language resource services; and
• Revenue from the rendering of content relevance services.
 	
Revenue generated from language resource services is accounted for using contract accounting which is based on management's calculation of:
• The expected total time and costs to complete a customer project; and
• The percentage completion of the project, which is typically a count of the number of lines or utterances completed compared to the total number of lines or utterances for the project as a whole.
 	
These contracts are mainly short term in nature and similar amongst customers.
 	
At year end, a significant amount of work in progress related to revenue generated from language resource services and receivables are
	Our procedures included, amongst others:
	• We tested controls in the Group's language resource project revenue process including, the review and approval by management of monthly project reporting.
	• We tested a statistical sample of language resource services revenue to underlying invoices to customers and cash receipts from customers.
	• We selected a risk based sample of language resource projects based on the quantitative value of work in progress at year end. For the sample selected, we performed the following procedures in relation to management's recognition of revenue:
	  ◦ We compared the total time and costs budgeted to complete a customer project against the customer contract and project details provided by project managers;
	  ◦ We recalculated the percentage completion by agreeing the number of lines or utterances completed at year end to underlying project records and compared this to the total number of lines or utterances to be completed for the project as a whole; and
	  ◦ We checked the logged performance date of the above project work for allocation of work across financial years

recognised on the balance sheet due to a high volume of projects spanning across year end. Revenue generated from content relevance services involved a high volume of transactions with customers, which are recognised as services are completed and approved by the customer. Our audit effort reflects the volume of projects and transactions for these revenue types.	• We assessed the accuracy of work in progress and receivables on balance sheet by matching underlying documentation of a sample of transaction activity subsequent to year end, such as invoices raised and cash receipts from customers, to relevant projects in work in progress and receivables at year end. • We tested a statistical sample of content relevance services revenue to underlying invoices to customers, checking for evidence of customer approval of services delivered, and cash receipts from customers.

Other Information

Other Information is financial and non-financial information in Appen Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Chairman's Report and the CEO's Report. The Directors are responsible for the Other Information.

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Appen Limited for the year ended 31 December 2016, complies with *Section 300A* of the *Corporations Act 2001*.

Director's responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 11 to 22 of the Director's report for the year ended 31 December 2016.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Tony Nimac

Partner

Sydney

28 February 2017

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 31 January 2017.

In accordance with ASX listing rule 4.10.19 the Company confirms that in its first two annual reports, after admission, it has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX in a way consistent with its business objectives.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares*
1 to 1,000	41	-
1,001 to 5,000	362	-
5,001 to 10,000	443	-
10,001 to 100,000	1,759	3
100,001 and over	1,491	5
	4,096	8
Holding less than a marketable parcel	169	-

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

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
C & J VONWILLER PTY LIMITED	13,060,083	13.44
CITICORP NOMINEES PTY LIMITED	10,983,835	11.30
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	8,471,382	8.72
NATIONAL NOMINEES LIMITED	8,124,473	8.36
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,193,685	7.40
J P MORGAN NOMINEES AUSTRALIA LIMITED	6,619,331	6.81
BRISPOT NOMINEES PTY LTD	3,816,834	3.93
UBS NOMINEES PTY LTD	3,550,612	3.65
NEW GREENWICH PTY LTD	2,300,266	2.37
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	2,270,963	2.34
ANACACIA PTY LIMITED	2,096,449	2.16
BNP PARIBAS NOMS PTY LTD	1,734,519	1.78
CS FOURTH NOMINEES PTY LIMITED	1,143,940	1.18
GINGA PTY LTD	873,425	0.90
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	630,203	0.65
MR WILLIAM JOHN LAUKKA	441,060	0.45
MS LESLEY KAREN PEPPER	416,117	0.43
MR MARK EDMUND BYRNE	413,000	0.42
MR WILLIAM JOHN LAUKKA & MRS ELIZABETH ANNE LAUKKA	400,300	0.41
SIDMOUTH PTY LTD	400,000	0.41
	74,940,477	77.11

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	1,835,374	13
Performance rights over ordinary shares issued	939,868	24

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
C & J VONWILLER PTY LIMITED	13,060,083	13.44
REGAL FUNDS MANAGEMENT PTY LTD	12,502,356	12.87
BANK OF AMERICA CORPORATION	7,262,196	7.47
UBS GROUP AG	5,822,464	5.99
ELLERSTON CAPITAL LIMITED	5,786,382	5.95
COPIA INVESTMENT PARTNERS LTD	4,948,437	5.09
FIL LIMITED	4,865,324	5.01

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

The Company had no restricted securities on issue as at 31 January 2017.

On-market buy-backs

There is no current on-market buy-back in relation to the Company's securities.