

**Appen Holdings Pty Limited and its controlled
entities**

ABN 60 138 878 298

Special Purpose Financial Report

31 December 2013

Appen Holdings Pty Limited and its controlled entities

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Appen Holdings Pty Limited and its controlled entities

Directors' report

For the year ended 31 December 2013

The directors present their report together with the consolidated financial statements of the Group comprising of Appen Holdings Pty Limited (the Company), and its subsidiaries (the Group) for the financial year ended 31 December 2013 and the auditor's report thereon.

1 Directors

The directors of the Company at any time during or since the end of the financial year are:

Director	Appointed
Julia Patricia Mary Vonwiller	14 August 2009
Christopher Charles Vonwiller	14 August 2009
Jeremy Samuel	23 October 2009
William Pulver	19 April 2010
Jonathan Shein	25 June 2010
Lisa Braden-Harder	10 March 2011

Unless otherwise stated, the directors held office for the entire period.

2 Principal activities

The principal activities of the Group during the course of the financial year were the provision of language, search and social technology services.

There were no significant changes in the nature of the activities of the Group during the year.

3 Operating and financial review

The Group increased revenue to \$60,535,306 for the year ended 31 December 2013 compared to \$33,269,042 for the year ended 31 December 2012 and made an operating EBITDA profit for the year before non-cash expenses of \$7,556,782 (2012: \$4,327,246). The profit for the year before tax for the Group was \$4,244,284 (2012: \$802,526 loss).

4 Significant changes in the state of affairs

Appen (Hong Kong) Limited commenced operations in the Philippines via a branch structure on 19 March 2013.

Other than the matter noted above, in the opinion of the directors there were no other significant changes in the state of affairs of the Group that occurred during the financial year under review.

5 Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, 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.

Appen Holdings Pty Limited and its controlled entities

Directors' report (continued)

For the year ended 31 December 2013

6 Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year was \$723,516 (2012: \$2,499,621).

7 Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

8 Likely developments

The Group will continue to pursue its policy of profitable growth based upon satisfactory margins and increasing market share during the next financial year.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

9 Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the current directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

During the financial year the Group has paid premiums on behalf of the Company in respect of directors' and officers' liability and legal expenses insurance contracts for the year ended 31 December 2013 and since the financial year, the Group has paid or agreed to pay on behalf of the Company, premiums in respect of such insurance contracts for the year ending 31 December 2014. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Company.

The directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

10 Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the financial year ended 31 December 2013.

This report is made in accordance with a resolution of the directors:



Lisa Braden-Harder

Director

Dated at Sydney this 1 day of May 2014.



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

To: the directors of Appen Holdings Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2013, there have been:

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

A handwritten signature in blue ink, appearing to read 'KPMG' or a similar stylized name.

KPMG

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

Carlo Pasqualini
Partner

Sydney

1 May 2014

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

<i>In AUD</i>	<i>Note</i>	2013	2012
Revenue	4	60,535,306	33,269,042
Services purchased - data collection		(31,028,681)	(13,888,530)
Gross profit		29,506,625	19,380,512
Other income	5	42,961	45,056
Employee expenses	6	(17,719,814)	(11,767,678)
Travel expense		(904,197)	(589,927)
Professional fees		(613,304)	(710,516)
Rental expense		(392,767)	(297,429)
Communication expense		(238,787)	(212,067)
Impairment loss on receivables		(27,424)	-
Loss on disposal of property, plant and equipment		-	(1,849)
Other expenses		(2,096,511)	(1,518,856)
Operating profit before interest, tax, depreciation, amortisation, fair value adjustments and share based payments		7,556,782	4,327,246
Finance income		126,977	305,566
Finance costs		(631,534)	(800,750)
Net finance costs	7	(504,557)	(495,184)
Change in fair value of contingent consideration		(1,722,190)	(3,378,493)
Share based payments expense	6	(201,193)	(344,494)
Depreciation and amortisation expenses		(884,558)	(911,601)
Profit/(loss) before income tax		4,244,284	(802,526)
Income tax expense		(2,659,438)	(1,123,260)
Profit/(loss) for the year		1,584,846	(1,925,786)
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences - foreign operations		1,258,971	(3,518)
Other comprehensive income for the year, net of tax		1,258,971	(3,518)
Total comprehensive income for the year		2,843,817	(1,929,304)
Profit/(loss) attributable to:			
Owners of the Company		1,584,846	(1,925,786)
Profit/(loss) for the year		1,584,846	(1,925,786)
Total comprehensive income attributable to:			
Owners of the Company		2,843,817	(1,929,304)
Total comprehensive income for the year		2,843,817	(1,929,304)

The notes on pages 10 to 28 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of financial position

As at 31 December 2013

In AUD

	Note	2013	2012
Assets			
Cash and cash equivalents	8	5,771,126	1,223,424
Trade and other receivables	9	11,875,047	8,788,662
Total current assets		<u>17,646,173</u>	<u>10,012,086</u>
Deferred tax assets		159,114	467,158
Property, plant and equipment	10	374,174	407,772
Intangible assets and goodwill	11	10,032,499	8,281,713
Total non-current assets		<u>10,565,787</u>	<u>9,156,643</u>
Total assets		<u>28,211,960</u>	<u>19,168,729</u>
Liabilities			
Trade and other payables	12	13,857,474	9,029,492
Loans and borrowings	13	478,274	781,220
Employee benefits	14	618,997	461,098
Current tax payable		135,227	153,990
Unearned income		49,773	94,210
Total current liabilities		<u>15,139,745</u>	<u>10,520,010</u>
Trade and other payables	12	2,211,883	1,902,424
Loans and borrowings	13	2,604,184	723,494
Employee benefits	14	117,598	155,185
Total non-current liabilities		<u>4,933,665</u>	<u>2,781,103</u>
Total liabilities		<u>20,073,410</u>	<u>13,301,113</u>
Net assets		<u>8,138,550</u>	<u>5,867,616</u>
Equity			
Share capital	15	8,123,684	7,993,684
Foreign currency translation reserve	15	1,273,669	14,698
Common control reserve	15	(1,416,429)	(1,416,429)
Share based payment reserve	15	832,696	631,503
Other equity	15	2,333,657	2,333,657
Accumulated losses		(3,008,727)	(3,689,497)
Total equity		<u>8,138,550</u>	<u>5,867,616</u>

The notes on pages 10 to 28 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Attributable to owners of the Company				
	Share capital	Foreign currency translation reserve	Common control reserve	Share based payment reserve	Other equity
<i>In AUD</i>					Accumulated losses
					Total
Balance at 1 January 2012	2,169,174	18,216	(1,416,429)	287,009	2,333,657
					735,910
					4,127,537
Total comprehensive income for the year					
Loss for the year	-	-	-	-	(1,925,786)
					(1,925,786)
<i>Other comprehensive income</i>					
Foreign currency translation differences for foreign operations	-	(3,518)	-	-	-
Total other comprehensive income	-	(3,518)	-	-	-
					(3,518)
Total comprehensive income for the year					
					(1,925,786)
					(1,929,304)

Transactions with owners of the Company, recorded directly in equity

<i>Contributions by and distributions to owners of the Company</i>					
Issue of ordinary shares in a business combination	124,510	-	-	-	-
					124,510
Issue of ordinary shares upon conversion of preference shares	5,700,000	-	-	-	-
					5,700,000
Dividends to owners of the Company	-	-	-	-	(2,499,621)
					(2,499,621)
Share based payment transactions	-	-	-	344,494	-
					344,494
Total transactions with owners of the Company	5,824,510	-	-	344,494	(2,499,621)
					3,669,383
Balance at 31 December 2012	7,993,684	14,698	(1,416,429)	631,503	2,333,657
					(3,689,497)
					5,867,616

The notes on pages 10 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

Attributable to owners of the Company

The notes on pages 10 to 28 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of cash flows

For the year ended 31 December 2013

In AUD

	Note	2013	2012
Cash flows from operating activities			
Cash receipts from customers		63,635,392	35,350,468
Cash paid to suppliers and employees		(55,366,954)	(31,087,757)
Cash generated from operating activities		8,268,438	4,262,711
Interest received		126,977	159,248
Interest paid		(274,842)	(169,440)
Income tax paid		(2,370,157)	(1,449,106)
Net cash from operating activities	8	5,750,416	2,803,413
Cash flows from investing activities			
Acquisition of property, plant and equipment		(144,727)	(79,608)
Acquisition of intangible assets		(1,231,160)	-
Payment of contingent consideration		(400,150)	(1,409,917)
Acquisition of business		-	(376,104)
Net cash used in investing activities		(1,776,037)	(1,865,629)
Cash flows from financing activities			
Proceeds from issue of share capital		190,000	-
Cash paid on share buy back		(240,560)	-
Proceeds from borrowings (USD loan)		5,967,984	941,933
Repayment of borrowings (USD loan)		(5,090,762)	(569,312)
Interest paid on preference shares		-	(631,310)
Dividends paid		(723,516)	(2,499,621)
Net cash from/(used in) financing activities		103,146	(2,758,310)
Net increase/(decrease) in cash and cash equivalents		4,077,525	(1,820,526)
Cash and cash equivalents at beginning of year		1,223,424	3,033,854
Effect of exchange rate fluctuations on cash held		470,177	10,096
Cash and cash equivalents at end of year	8	5,771,126	1,223,424

The notes on pages 10 to 28 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 December 2013

1 Reporting entity

Appen Holdings Pty Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office is Level 6, 9 Help Street, Chatswood, NSW 2067. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). Appen Holdings Pty Limited is the ultimate Australian parent entity.

The Group is a for-profit entity and is primarily involved in the provision of language, search and social technology services.

In the opinion of the directors, the Group is not a reporting entity. The financial statements of the Group have been drawn up as special purpose financial statements for distribution to the members and for the purpose of fulfilling the requirements of the Corporations Act 2001.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and the recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB).

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements:

- AASB 101 Presentation of Financial Statements
- AASB 107 Statement of Cash Flows
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 1031 Materiality
- AASB 1048 Interpretation and Application of Standards
- AASB 1054 Australian Additional Disclosures

The consolidated financial statements were authorised for issue by the Board of Directors on 1 May 2014.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items:

- derivative financial instruments are measured at fair value;
- contingent consideration is measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(e) Changes in accounting policies

(i) *Presentation of items of other comprehensive income*

As a result of the amendments to AASB 101 Presentation of Financial Statements, the Group has modified the presentation of items of other comprehensive income in its statement of comprehensive income to present separately items that may be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(ii) *Subsidiaries*

The Group has adopted AASB 10 Consolidated Financial Statements (2011) with a date of initial application of 1 January 2013.

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of AASB 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013 and noted it to have no impact to the Group's financial statements.

(iii) *Short-term employee benefits*

The Group has adopted AASB119 Employee Benefits (2011) with a date of initial application of 1 January 2013.

As a result of AASB119 (2011), the Group has changed its accounting policy with respect to the definition of short-term employee benefits. The amended AASB119 (2011) defines the short-term benefits as benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. It was previously defined as those due to be settled within 12 months after the end of the period in which employees render the related service. This change may result in benefits previously classified as short-term being treated as other long-term employee benefits and measured on a discounted basis.

The Group assessed short-term employee benefits on adoption of the revised standard and noted it to have no material impact to the Group's financial statements.

(iv) *Fair value measurement*

The Group has adopted AASB 13 Fair Value Measurement with a date of initial application of 1 January 2013.

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASBs. It unifies the definition of fair value as 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.

The Group assessed the impact of the revised standard on its fair value measurements on adoption and noted it to have no impact to the Group's financial statements.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as explained in note 2(e) which address changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences arising from the transaction of foreign operations are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following categories of non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents and trade and other receivables (excluding prepayments).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) *Derivative financial instruments*

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(d) Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gains and losses on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) *Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

The estimated useful lives for the current and comparative years are as follows:

- | | |
|--------------------------|--------------|
| • IT and audio equipment | 1 - 4 years |
| • Leasehold improvements | 7 - 10 years |
| • Fixtures and fittings | 3 - 13 years |

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

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(e) Intangible assets and goodwill

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Licence and database

Licence and database products are capitalised at the direct cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of maintenance (re-packaging or additional data) and selling expenses.

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

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the diminishing value method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

- | | |
|---------------------------------|---------|
| • contracts | 5 years |
| • licence and database products | 3 years |

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

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(f) Impairment

(i) *Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, and economic conditions that correlate with defaults.

The Group considers evidence of impairment for these assets measured at both an individual asset and a collective level. All individually significant assets are individually assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) *Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(g) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods including related on-costs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as a share based payment expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

(h) Revenue

(i) Contract service income and licence and database income

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

(ii) Work-in-progress

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

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(j) Finance income and finance costs

Finance income comprises interest income on funds invested and net foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, interest expense on preference shares and net foreign exchange loss.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(k) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that could follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

(iv) Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group which was formed on 23 September 2009. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The Company is the head entity within the tax-consolidated group.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

3 Significant accounting policies (continued)

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2017 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

4 Revenue

In AUD

	2013	2012
Rendering of services	60,535,306	33,269,042

5 Other income

In AUD

	2013	2012
Rental income	42,961	40,454
Other income	-	4,602
	42,961	45,056

6 Employee expenses

In AUD

	2013	2012
Wages and salaries	14,808,554	9,855,287
Contribution to defined contribution superannuation funds	810,037	630,750
Payroll tax	664,420	513,330
Change in employee benefit liabilities	120,312	25,409
Directors' salaries	687,610	578,662
Directors' superannuation	6,872	28,841
Other personnel expenses	622,009	135,399
	17,719,814	11,767,678
Share based payment expenses	201,193	344,494
	17,921,007	12,112,172

7 Finance income and finance costs

In AUD

	2013	2012
Interest income	126,977	159,248
Net foreign exchange gain	-	146,318
Finance income	126,977	305,566
Interest expense	(274,842)	(169,439)
Net foreign exchange loss	(356,692)	-
Interest expense - dividends on preference shares	-	(631,311)
Finance costs	(631,534)	(800,750)
Net finance costs recognised in profit or loss	(504,557)	(495,184)

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

8 Cash and cash equivalents

In AUD

	2013	2012
Bank balances	5,685,103	1,139,301
Call deposits	84,225	81,765
Cash on hand	1,798	2,358
Cash and cash equivalents in the statement of cash flows	<u>5,771,126</u>	<u>1,223,424</u>

Reconciliation of cash flows from operating activities

In AUD

	2013	2012
Cash flows from operating		
Profit/(loss) for the year	1,584,846	(1,925,786)
Adjustments for:		
Depreciation and amortisation	884,558	911,601
Net foreign exchange loss - unrealised	602,719	190,616
Change in fair value of derivative	342,942	29,061
Change in fair value of contingent consideration	1,722,190	3,378,493
Share based payment expenses	201,193	344,494
Impairment loss on receivables	27,424	-
Loss on disposal of property, plant and equipment	-	1,849
Income tax expense	<u>2,659,438</u>	<u>1,123,260</u>
	8,025,310	4,053,588
Change in trade and other receivables	(2,951,969)	(1,436,853)
Change in trade and other payables	2,971,357	1,767,483
Change in employee benefits	120,312	50,976
Change in unearned income	<u>(44,437)</u>	<u>(182,675)</u>
	8,120,573	4,252,519
Income tax paid	<u>(2,370,157)</u>	<u>(1,449,106)</u>
Net cash from operating activities	<u>5,750,416</u>	<u>2,803,413</u>

9 Trade and other receivables

In AUD

	2013	2012
Current		
Trade receivables	9,456,888	7,133,181
Work in progress	2,070,526	1,503,073
GST receivable	780	23,310
Other receivables and prepayments	<u>346,853</u>	<u>129,098</u>
	<u>11,875,047</u>	<u>8,788,662</u>

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

10 Property, plant and equipment

In AUD

IT equipment

	2013	2012
At cost	673,452	648,359
Accumulated depreciation	(598,937)	(573,533)
	<u>74,515</u>	<u>74,826</u>

Audio equipment

	2013	2012
At cost	255,416	243,440
Accumulated depreciation	(199,526)	(173,203)
	<u>55,890</u>	<u>70,237</u>

Fixtures and fittings

	2013	2012
At cost	141,031	136,162
Accumulated depreciation	(84,458)	(74,988)
	<u>56,573</u>	<u>61,174</u>

Leasehold improvements

	2013	2012
At cost	261,158	219,820
Accumulated depreciation	(112,932)	(70,244)
	<u>148,226</u>	<u>149,576</u>

Make good

	2013	2012
At cost	84,300	81,058
Accumulated depreciation	(45,330)	(29,099)
	<u>38,970</u>	<u>51,959</u>

Total property, plant and equipment

	2013	2012
At cost	1,415,357	1,328,839
Accumulated depreciation	(1,041,183)	(921,067)
Net carrying amount	<u>374,174</u>	<u>407,772</u>

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

11 Intangible assets and goodwill

<i>In AUD</i>	2013	2012
<i>Goodwill</i>		
Cost	7,626,979	6,688,999
	<u>7,626,979</u>	<u>6,688,999</u>
<i>Contracts</i>		
Cost	2,359,146	2,026,297
Accumulated amortisation	(1,348,112)	(761,143)
	<u>1,011,034</u>	<u>1,265,154</u>
<i>Licence and database</i>		
Cost	2,453,439	2,331,666
Accumulated amortisation	(2,335,492)	(2,113,526)
	<u>117,947</u>	<u>218,140</u>
<i>Patents</i>		
Cost	245,046	245,046
Accumulated amortisation	(224,155)	(222,910)
	<u>20,891</u>	<u>22,136</u>
<i>Internal software</i>		
Cost	1,291,894	80,030
Accumulated amortisation	(60,600)	(35,829)
	<u>1,231,294</u>	<u>44,201</u>
<i>Appen Holdings formation costs</i>		
Cost	47,794	45,538
Accumulated amortisation	(36,103)	(27,323)
	<u>11,691</u>	<u>18,215</u>
<i>Appen Inc. formation costs</i>		
Cost	35,729	35,729
Accumulated amortisation	(23,066)	(10,861)
	<u>12,663</u>	<u>24,868</u>
<i>Total intangible assets</i>		
Cost	14,060,027	11,453,305
Accumulated amortisation	(4,027,528)	(3,171,592)
Net carrying amount	<u>10,032,499</u>	<u>8,281,713</u>

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

12 Trade and other payables

In AUD

2013

2012

Current

Trade payables	2,903,749	1,738,555
Other payables and accrued expenses	4,298,801	2,492,638
Derivatives - foreign exchange contracts	372,003	29,061
Contingent consideration	6,282,921	4,769,238
	<u>13,857,474</u>	<u>9,029,492</u>

Non-current

Contingent consideration	<u>2,211,883</u>	<u>1,902,424</u>
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13 Loans and borrowings

In AUD

2013

2012

Current

Bank loan	<u>478,274</u>	<u>781,220</u>
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Non-current

Bank loan	<u>2,604,184</u>	<u>723,494</u>
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14 Employee benefits

In AUD

2013

2012

Current

Liability for long service leave	114,453	88,947
Liability for annual leave	504,544	372,151
	<u>618,997</u>	<u>461,098</u>

Non-current

Liability for long service leave	<u>117,598</u>	<u>155,185</u>
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Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

15 Capital and reserves

Share capital

	Company			
	Ordinary shares		Management shares	
<i>In number of shares</i>	2013	2012	2013	2012
On issue at 1 January	7,475,412	2,324,432	1,431,096	1,375,043
Issued for cash	-	5,150,980	56,380	56,053
Exercise of share options	-	-	109,058	-
Buyback	-	-	(88,000)	-
On issue at 31 December	7,475,412	7,475,412	1,508,534	1,431,096

Ordinary shares and management shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings of the Company.

The holders of management shares are entitled to receive dividends as declared from time to time and but are not entitled to vote at shareholders meetings of the Company.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Common control reserve

Common control 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.

Share based payment reserve

The share based payment reserve represents the grant date fair value of share based payment awards granted to employees of the Group, recognised over the period that the employees become unconditionally entitled to the award.

Other equity

Other equity represents the equity settled portion of contingent consideration.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

15 Capital and reserves (continued)

Dividends

The following dividends were declared and paid by the Company:

<i>In AUD</i>	Cents per share	Total amount	Date of payment
2013			
Interim ordinary	8.12	723,516	30 September 2013
Total amount		<u>723,516</u>	
2012			
Interim ordinary	8.86	332,602	31 March 2012
Interim ordinary	5.61	210,831	29 June 2012
Interim ordinary	8.86	456,188	15 August 2012
Interim ordinary	5.61	500,000	15 August 2012
Interim ordinary	11.23	1,000,000	1 November 2012
Total amount		<u>2,499,621</u>	

Dividend franking account

In AUD

Amounts of franking credits available to shareholders of Appen Holdings Pty Limited for subsequent financial years

2013	2012
310,078	707,900

The ability to utilise the franking credits is dependent upon the ability to declare dividends.

16 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In AUD</i>	2013	2012
Less than one year	358,335	345,383
Between one and five years	757,487	1,115,822
	<u>1,115,822</u>	<u>1,461,205</u>

The Group leases an office premise under an operating lease. The lease runs for a period of 5 years, with an option to renew the lease after that date.

During the year an amount of \$392,767 was recognised as an expense in profit or loss in respect of operating leases (2012: \$297,429).

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

17 Group entities

	Country of incorporation	Ownership interest	
		2013	2012
Parent entity		%	%
Appen Holdings Pty Limited			
Significant subsidiaries			
Appen Butler Hill Pty Limited	Australia	100	100
Appen Butler Hill Inc.	USA	100	100
Appen (Europe) Limited	UK	100	100
Appen (Hong Kong) Limited	Hong Kong	100	100

18 Parent entity disclosures

As at, and throughout, the financial year ending 31 December 2013 the parent entity of the Group was Appen Holdings Pty Limited.

In AUD

Result of parent entity

	2013	2012
Profit/(loss) for the year	440,529	(2,596,300)
Other comprehensive income	-	-
Total comprehensive income for the year	440,529	(2,596,300)

Financial position of parent entity at year end

Current assets	4,293,667	3,873,362
Total assets	15,877,149	15,274,214
Current liabilities	3,584,141	4,729,544
Total liabilities	6,188,325	5,453,038

Total equity of the parent entity comprising of:

Share capital	8,123,684	7,993,684
Share-based payments reserve	832,696	631,503
Other equity	2,333,657	2,333,657
Accumulated losses	(1,601,213)	(1,137,668)
Total equity	9,688,824	9,821,176

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

19 Subsequent events

There have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 31 December 2013.

20 Auditor's remuneration

In AUD

2013

2012

Audit services

Auditor of the Company

KPMG

Audit of financial reports

76,000

70,950

Other services

Auditor of the Company

KPMG

Taxation and other compliance services

12,180

63,540

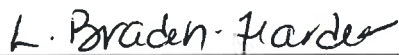
Appen Holdings Pty Limited and its controlled entities

Directors' declaration

In the opinion of the directors of Appen Holdings Pty Limited (the Company):

- (a) the Company is not a reporting entity;
- (b) the consolidated financial statements and notes, set out on pages 5 to 28, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance as represented by the results of its operations and its cash flows for the financial year ended on that date in accordance with the basis of preparation and accounting policies described in Notes 2 and 3; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 2, and the Corporations Regulations 2001; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.



Lisa Braden-Harder
Director

Dated at Sydney this 1 day of May 2014.



Independent audit report to the members Appen Holdings Pty Limited

We have audited the accompanying financial report, being a special purpose financial report, of Appen Holdings Pty Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the special purpose financial report that gives a true and fair view and have determined that the basis of preparation described in Notes 1 to 3 to the financial statements is appropriate to meet the requirements of the Corporations Act 2001 and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine necessary 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.

Auditor's responsibility

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

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

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Notes 1 to 3 to the financial statements so as to present a true and fair view which is consistent with our understanding of the Group's financial position, and of their performance.



Independent audit report to the members of Appen Holdings Pty Limited (continued)

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Appen Holdings Pty Limited on 1 May 2014, would be unchanged if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion the financial report of Appen Holdings Pty Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of their performance for the year ended on that date in accordance with the accounting policies described in Notes 1 to 3; and
- (b) complying with Australian Accounting Standards to the extent described in Note 2 and the Corporations Regulations 2001.

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Corporations Act 2001. As a result the financial report may not be suitable for another purpose.

KPMG

Carlo Pasqualini
Partner

Sydney

5 May 2014