Appen Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Appen Limited
ABN:	60 138 878 298
Reporting period:	For the half-year ended 30 June 2020
Previous period:	For the half-year ended 30 June 2019

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	24.9%	to	306,155
Profit from ordinary activities after tax attributable to the owners of Appen Limited	up	19.9%	to	22,311
Profit for the half-year attributable to the owners of Appen Limited	up	19.9%	to	22,311

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2019	5.0	2.2

On 27 August 2020, the Company declared an interim dividend for the year ending 31 December 2020 of 4.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 2 September 2020. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2020 and will be recognised in the subsequent financial period.

Comments
The profit for the Group after providing for income tax amounted to $22,311,000 (30 June 2019: $18,603,000).

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	89.16	43.71

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2019	5.0	2.2

On 27 August 2020, the Company declared an interim dividend for the year ending 31 December 2020 of 4.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 2 September 2020. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2020 and will be recognised in the subsequent financial period.

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2018	4.0	2.9

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Interim Report of Appen Limited for the half-year ended 30 June 2020 is attached.

---

12. Signed

As authorised by the Board of Directors

Signed ____________________________ Date: 27 August 2020

Mark Brayan
Managing Director
Sydney

Appen Limited

ABN 60 138 878 298

Interim Report - 30 June 2020

Directors	Christopher Charles Vonwiller - Chairman Mark Ronald Brayan - Managing Director and Chief Executive Officer Stephen John Hasker Vanessa Liu Robin Jane Low William Robert Pulver Deena Robyn Shiff
Company secretary	Carl Middlehurst
Registered office and principal place of business	Level 6 9 Help Street Chatswood NSW 2067 Tel: 02 9468 6300
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: 1300 554 474 Facsimile: (02) 9287 0303
Auditor	KPMG Tower Three International Towers Sydney 300 Barangaroo Avenue Sydney NSW 2000
Stock exchange listing	Appen Limited shares are listed on the Australian Securities Exchange (ASX code: APX)
Website	www.appen.com

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Appen') consisting of Appen Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2020.

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

Christopher Charles Vonwiller - Chairman
Mark Ronald Brayan - Managing Director and Chief Executive Officer
Stephen John Hasker
Vanessa Liu (appointed 27 March 2020)
Robin Jane Low
William Robert Pulver
Deena Robyn Shiff

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

Appen operates through two operating divisions:

- Relevance which provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and e-commerce; and

- Speech & Image which provides annotated speech and image data used in speech and image recognisers, machine translation, speech synthesisers and other machine-learning technologies resulting in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics.

Supporting both divisions is a global on-demand crowd workforce providing customers with very flexible in-country linguistic and cultural expertise in support of 130 global markets.

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

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

	Group	
	30 Jun 2020 $'000	30 Jun 2019 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2019 of 5.0 cents per ordinary share franked at 2.2 cents per share (30 June 2019: 31 December 2018 of 4.0 cents franked at 2.9 cents per share)	6,082	4,264

Dividend declared
On 27 August 2020, the Company declared an interim dividend for the year ended 31 December 2020 of 4.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 2 September 2020. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2020 and will be recognised in the subsequent financial period.

Review of operations
The half-year underlying EBITDA for the Group increased by 6.0% to $49,132,000. This result was impacted by the planned investment in sales and marketing, engineering and the Chinese and Government verticals. Excluding the impact of these investments of $13,398,000 on the first half results, the resultant underlying EBITDA of $62.530,000 is up 35.0% on the prior year result.

The half-year underlying net profit after tax after all net of tax adjustments, including acquisition-related adjustments for amortisation of intangibles, share based payments, Figure Eight earn-out adjustment and transaction costs, decreased by 2.6% to $28,875,000 (30 June 2019: $29,649,000). The half-year statutory net profit after tax increased by 19.9% to $22,311,000 (30 June 2019: $18,603,000). These figures are summarised in the table below.

	HY2020 $'000	HY2019 $'000	Change %	Percentage change constant currency %
Relevance	273,872	204,930	34%	24%
Speech & Image	31,908	39,872	(20%)	(25%)
Other	375	317		
Total revenue and other income from principal activities	**306,155**	**245,119**	**25%**	**16%**
Underlying net profit after tax ('NPAT')[4]	**28,875**	**29,649**	**(3%)**	**(12%)**
Add/(Less): underlying adjustments (net of tax)				
Amortisation of acquisition related identifiable intangible assets	(6,418)	(2,009)		
Acquisition related share-based payments	(1,698)	(3,268)		
Deemed interest on earn-out liability[1]	(975)	(804)		
Transaction costs	(396)	(4,965)		
Figure Eight earn-out adjustment	2,923	-		
Statutory NPAT	**22,311**	**18,603**	**20%**	**8%**
Add: tax	6,771	7,315		
Add: deemed interest on earn-out liability[1]	1,353	1,116		
Add: net interest expense	975	1,542		
EBIT[2]	**31,410**	**28,576**	**10%**	**1%**
Depreciation and amortisation	19,533	6,708		
Statutory EBITDA[3]	**50,943**	**35,284**	**44%**	**34%**
Add/(Less): underlying adjustments				
Figure Eight earn-out adjustment	(4,059)	-		
Acquisition related share-based payments	1,698	3,963		
Transaction costs	550	7,093		
Underlying EBITDA[4]	**49,132**	**46,340**	**6%**	**(2%)**
Statutory diluted earnings per share (cents)	18.19	15.86		
Underlying diluted earnings per share (cents)	23.54	25.28		
% Statutory EBITDA/Sales	16.6%	14.4%		
% Underlying EBITDA/Sales	16.0%	18.9%		
% Segment Profit/Sales:				
Relevance	19.1%	21.5%		
Speech & Image	14.7%	36.8%		

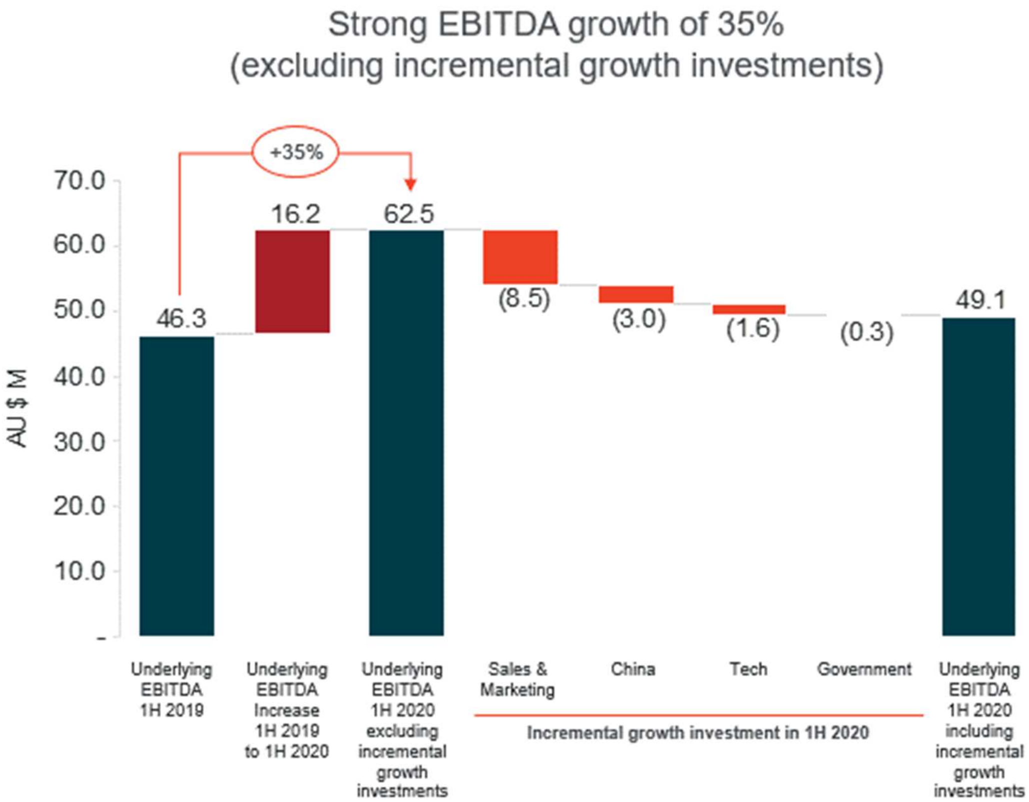
1 Liability was settled during the half-year
2 EBIT is defined as earnings before interest and tax
3 EBITDA is EBIT before depreciation and amortisation
4 Underlying results are a non-IFRS measure used by management to assess the performance of the business and have been calculated from statutory measures. Non-IFRS measures have not been subject to audit or review.

Total revenue for the half-year ended 30 June 2020 was up 24.9% to $306,155,000 compared to prior period revenue of $245,119,000. On a constant currency basis, the revenue growth was 16.0%. The key driver of this revenue growth was from the Relevance division which delivered a 33.6% (constant currency: 24.0%) increase in revenue over the prior corresponding period. This was driven by growth in demand for human annotated data, mainly from existing projects within existing customers, requiring an ongoing need for data refresh, as well as new projects in existing and new customers. The major customers have been a source of strength and robustness over the last few months. The Relevance Division contributed 89% of total revenue for the half-year ended 30 June 2020.

The Speech & Image division recorded a 20.0% (constant currency: 25.0%) decrease in revenue compared to the prior corresponding period. Speech and image projects are cyclical in nature, heavily dependent on customer timing, investment and product life cycles and require less ongoing data refresh than relevance projects. This can significantly influence performance on a half-on-half, year-on-year basis as evident in this half, as a very large transcription project with significant volumes in the prior corresponding period was completed last year. In addition, new business sales and data collection projects have been delayed, impacted by COVID-19. Whilst the project nature of these activities will continue to be a key characteristic for this division, the long-term growth trend for speech and image volumes is positive, and the Group continues to increase its investment in speech and image tools to support the revenue growth potential in the government and China verticals.

The Group is focused on the long-term vision of increasing the level of committed revenue. Committed revenue, (in the form of annual contract value, ACV) was US$103.0 million as at 30 June 2020 up 405% from US$20.4 million as at 30 June 2019. Committed revenue represents 12% of the total first half recorded revenue and is not fully representative as a large deal with a major customer for US$80 million committed revenue (including platform license) was signed near the end of the first half.

The Group reported a statutory EBITDA of $50,943,000 for the half-year to 30 June 2020, representing a 44.4% increase over the prior corresponding period. Underlying EBITDA was $49,132,000 representing a 6.0% increase over the prior corresponding period. This resulted from the planned investment in sales and marketing, engineering and the Chinese and government verticals, in order to drive long-term sustainable growth potential and performance. This investment resulted in an underlying EBITDA margin of 16.0%, down from 18.9% in the prior corresponding period. Excluding the impact of these investments of $13.4 million on the first half results, the resultant underlying EBITDA of $62.5 million is up 35.0% on the prior year result.



The Relevance division reported half-year EBITDA of $52,239,000 representing an increase in EBITDA of 18.5% when compared to the previous corresponding period, driven by higher revenue and gross margins. Operating margins reduced from 21.5% to 19.1% due to the pro rata allocation of the planned investment expenses.

EBITDA in the Speech & Image division decreased by 68.0% to $4,699,000 from $14,663,000 driven by cyclical reduction in volume, project deferral and an increase in overheads associated with the pro rata allocation of the planned investment expenses. The reduction in the operating margin from 36.8% to 14.7% is a timing issue and not a structural issue, as explained above. As a result, no significant cost reduction activities were undertaken or are planned, however efficiency gains will continue to be targeted.

Operating expenses (expenses excluding services purchased, share-based payment expense, depreciation, finance costs, transaction costs, deemed interest, earn-out adjustment and foreign exchange) for the half-year comprised 23.2% of revenue compared to 20.2% for the previous corresponding period. Excluding the planned investment expenses of $13.4 million referred to above, operating expenses represent 19.7% of revenue for the half-year ended 30 June 2020.

The balance sheet continues to grow (net assets up $28.5 million since 31 December 2019), as a result of strong cash collections from our major customers. There was also a $9.9 million reduction in trade and other payables and contract liabilities.

Cash on hand at the end of the period increased $55.2 million from the prior half. Cash balance was positively impacted by customer receipts delayed at year-end, received in January, as well as payment received for some customer invoices in June, expected to be received in July. Cash was used to pay tax, dividends to shareholders and capex as well as fund operations and planned investments in sales and marketing, engineering and the China and government operations. Our existing bank facility was used to fund the earn-out payment for the Figure Eight acquisition of $39.0 million. Since balance date, this debt has been fully repaid.

We note that at the date of this report that the impact on the Group of the COVID-19 pandemic has been negligible. Our at-home crowd model has proven to be ideally placed to continue to service the needs of customers. The half-year earnings of the Group have proven to be resilient. This is mainly attributed to the fact that our customer base, which is predominantly comprised of large technology companies, have benefitted from increased usage and demand for their services in areas such as e-commerce, search and social media and this has had flow through benefits to the strength and resilience of our business.

We continue to closely monitor the global economic impact of COVID-19, and its impact on our customer base, to assess if there will be any resultant impact on the earnings of the Group. The global slowdown in online advertising spend as a result of the pandemic will affect the revenues of our customer base, which may impact the amount they spend on advertising related projects. We view this impact as temporary as global online advertising spend is forecast to rebound strongly in 2021. It is also possible that our smaller customer base may decrease their spend on AI, until such time as their business conditions improve.

As a cushion against any negative impact on the global economy, the Group has a strong balance sheet, with cash on hand at 30 June 2020, of $126 million. The business has minimal ongoing capital requirements and is therefore well positioned to weather the economic fallout of the pandemic and to take advantage of future opportunities that may arise.

The Group is also well positioned to take advantages of opportunities in the post-pandemic world. We expect to continue to grow, as businesses around the world look to accelerate the digitisation of their business(es). The key growth drivers for the Group relate to opportunities that should allow us to increase our revenue stream and expand our customer base, and include:

- Growth in projects in the government sector: we have completed the establishment of our dedicated entity and are looking to grow our customer base in this sector, in line with forecast growth in AI spend by governments;

- Increase in spend and resources dedicated to sales and marketing: which will allow Appen to allocate additional focus on enterprise and commercial customers to diversify outside of the major technology customers; and

- Growth in the Chinese market: we have a team of over 160 employees in China, focusing on building our customer base, particularly with the Chinese technology sector.

Significant changes in the state of affairs
During the period, the Group made the earn-out payment with respect to the Figure Eight Technologies, Inc. of $39 million. The total acquisition cost was $286.5 million. The integration of this business is going well and remains on track. The full integration is expected to be completed by the end of this year.

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

Matters subsequent to the end of the financial half-year
The impact of the COVID-19 pandemic is ongoing and while Group earnings have, on the whole, proved resilient up to 30 June 2020, there is significant uncertainty regarding future events and the potential impact on revenue. The Group did not access any government COVID-19 related grants in the period or to the date of signing of this report.

On 4 August 2020, the Group fully repaid the Facility C debt (US$24 million), relating to the earn-out payment, as disclosed in note 11.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2020 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.

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

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

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

On behalf of the directors

Chris Vonwiller

____

Christopher Vonwiller
Director

27 August 2020
Sydney

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

To the Directors of Appen Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Appen Limited for the half-year ended 30 June 2020 there have been:

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

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

KPMG

KPMG

Cameron Slapp
Partner

Sydney
27 August 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Appen Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2020

	Note	Group 30 Jun 2020 $'000	Group 30 Jun 2019 $'000
Revenue	5	305,780	244,786
Other income		56	14
Interest income calculated using the effective interest method		319	319
Recovery of impairment of assets		-	85
Net foreign exchange gain		3,608	808
Expenses			
Services purchased - data collection		(181,868)	(145,132)
Employee benefits expense		(50,304)	(33,722)
Share-based payments expense	6	(8,499)	(8,667)
Depreciation and amortisation expense	6	(19,533)	(6,708)
Travel expense		(871)	(1,421)
Professional fees		(6,079)	(4,873)
Rental expense		(123)	(369)
Communication expense		(604)	(481)
Transaction costs	6	(550)	(7,093)
Figure Eight earn-out adjustment	10	4,059	-
Deemed interest on earn-out liability	10	(1,353)	(1,116)
Other expenses		(13,662)	(8,651)
Finance costs	6	(1,294)	(1,861)
Profit before income tax expense		29,082	25,918
Income tax expense		(6,771)	(7,315)
Profit after income tax expense for the half-year attributable to the owners of Appen Limited		22,311	18,603
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		4,003	4,154
Other comprehensive income for the half-year, net of tax		4,003	4,154
Total comprehensive income for the half-year attributable to the owners of Appen Limited		26,314	22,757
		Cents	Cents
Basic earnings per share	14	18.57	16.20
Diluted earnings per share	14	18.19	15.86

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

Appen Limited
Consolidated statement of financial position
As at 30 June 2020

	Note	Group 30 Jun 2020 $'000	Group 31 Dec 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		126,037	75,274
Trade and other receivables	7	62,040	116,336
Contract assets		30,716	7,886
Derivative financial instruments		23	314
Prepayments		3,845	2,829
Total current assets		222,661	202,639
Non-current assets			
Property, plant and equipment		5,844	5,577
Right-of-use assets	8	28,147	21,922
Intangibles	9	401,814	398,576
Deferred tax		3,123	3,979
Other non-current assets		212	1,444
Total non-current assets		439,140	431,498
Total assets		661,801	634,137
Liabilities			
Current liabilities			
Trade and other payables		55,536	60,414
Contract liabilities		17,146	22,122
Lease liabilities		6,385	4,648
Income tax		1,949	1,424
Employee benefits		4,017	2,050
Other liabilities	10	1,322	38,143
Total current liabilities		86,355	128,801
Non-current liabilities			
Borrowings	11	34,129	-
Lease liabilities		23,449	18,043
Deferred tax		6,010	4,011
Employee benefits		489	431
Other non-current liabilities		1,090	1,069
Total non-current liabilities		65,167	23,554
Total liabilities		151,522	152,355
Net assets		510,279	481,782
Equity			
Issued capital	12	362,138	362,138
Reserves		152,011	123,514
Accumulated losses		(3,870)	(3,870)
Total equity		510,279	481,782

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 2019	69,602	73,668	(3,870)	139,400
Profit after income tax expense for the half-year	-	-	18,603	18,603
Other comprehensive income for the half-year, net of tax	-	4,154	-	4,154
Total comprehensive income for the half-year	-	4,154	18,603	22,757
Transactions with owners in their capacity as owners:				
Issue of ordinary shares, net of share issue transaction costs	294,629	-	-	294,629
Transfer between reserves	-	18,603	(18,603)	-
Share-based payments	-	6,182	-	6,182
Dividends paid (note 13)	-	(4,264)	-	(4,264)
Balance at 30 June 2019	364,231	98,343	(3,870)	458,704

Group	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2020	362,138	123,514	(3,870)	481,782
Profit after income tax expense for the half-year	-	-	22,311	22,311
Other comprehensive income for the half-year, net of tax	-	4,003	-	4,003
Total comprehensive income for the half-year	-	4,003	22,311	26,314
Transactions with owners in their capacity as owners:				
Transfer between reserves	-	22,311	(22,311)	-
Share-based payments	-	8,265	-	8,265
Dividends paid (note 13)	-	(6,082)	-	(6,082)
Balance at 30 June 2020	362,138	152,011	(3,870)	510,279

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

	Note	Group 30 Jun 2020 $'000	Group 30 Jun 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		334,374	233,334
Payments to suppliers and employees (inclusive of GST)		(258,974)	(190,676)
		75,400	42,658
Interest received		319	319
Interest and other finance costs paid		(757)	(733)
Income taxes paid		(3,399)	(10,490)
Net cash from operating activities		71,563	31,754
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired		(39,040)	(233,008)
Transaction costs paid for acquisition		(550)	(4,945)
Payments for property, plant and equipment		(1,342)	(882)
Payments for intangibles		(9,650)	(3,821)
Net cash used in investing activities		(50,582)	(242,656)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	292,536
Proceeds from borrowings		39,040	-
Repayment of borrowings		-	(44,749)
Repayment of lease liabilities		(2,862)	(1,681)
Dividends paid	13	(6,082)	(4,264)
Net cash from financing activities		30,096	241,842
Net increase in cash and cash equivalents		51,077	30,940
Cash and cash equivalents at the beginning of the financial half-year		75,274	40,045
Effects of exchange rate changes on cash and cash equivalents		(314)	(160)
Cash and cash equivalents at the end of the financial half-year		126,037	70,825

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

Note 1. General information

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

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

Level 6
9 Help Street
Chatswood NSW 2067

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 August 2020.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

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

New or amended Accounting Standards and Interpretations adopted

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

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

AASB 2020-4 Amendment to Australian Accounting Standards - COVID-19-Related Rent Concessions
The Group adopted the amendment to AASB 16 from 1 January 2019. As at 30 June 2020, the Group does not have any leases that received a COVID-19 related rent concession, however since balance date, one landlord has granted a COVID-19 rent concession for a limited period.

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.

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

COVID-19 pandemic
Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there is not a significant adverse impact upon the Group's earnings, as a whole, as at reporting date, as a result of the COVID-19 pandemic.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

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. 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.

Capitalisation of platform development costs
The Group uses a degree of judgement in order to determine if platform development costs satisfy the recognition and measurement criteria to be capitalised as an asset in accordance with AASB 138 'Intangible Assets'. This includes a review of project-plan related documentation and timesheets for engineering personnel.

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

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

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: Relevance and Speech & Image. 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:

Relevance	Relevance provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and e-commerce.
Speech & Image	Speech & Image provides annotated speech and image data used in speech and image 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 financial half-year ended 30 June 2020 approximately 90.2% (30 June 2019: 91%) of the Group's external revenue was derived from sales to five major customers.

Note 4. Operating segments (continued)

Operating segment information

Group - 30 Jun 2020	Relevance $'000	Speech & Image $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	273,872	31,908	-	305,780
Interest	-	-	319	319
Other income	-	-	56	56
Total revenue and other income	273,872	31,908	375	306,155
Segment result	52,239	4,699	55	56,993
Corporate overhead				(3,321)
Marketing expenses				(1,028)
Share-based payment - employees				(6,801)
Share-based payment - acquisition related				(1,698)
Transaction costs				(550)
Depreciation and amortisation				(19,533)
Figure Eight earn-out adjustment				4,059
Foreign exchange gain				3,608
Deemed interest on earn-out liability				(1,353)
Interest				(1,294)
Profit before income tax expense				29,082
Income tax expense				(6,771)
Profit after income tax expense				22,311

Group - 30 Jun 2019	Relevance $'000	Speech & Image $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	204,914	39,872	-	244,786
Interest	16	-	303	319
Other income	-	-	14	14
Total revenue and other income	204,930	39,872	317	245,119
Segment result	44,089	14,663	14	58,766
Corporate overhead				(7,330)
Marketing expenses				(881)
Share-based payment - employees				(4,704)
Share-based payment - acquisition related				(3,963)
Transaction costs				(7,093)
Depreciation and amortisation				(6,708)
Foreign exchange gain				808
Deemed interest on earn-out liability				(1,116)
Interest				(1,861)
Profit before income tax expense				25,918
Income tax expense				(7,315)
Profit after income tax expense				18,603

Note 4. Operating segments (continued)

Geographical information

	Services revenue		Geographical non-current assets	
	30 Jun 2020 $'000	30 Jun 2019 $'000	30 Jun 2020 $'000	31 Dec 2019 $'000
Australia	4,864	35,650	1,161	1,421
US	297,511	205,429	420,386	406,007
Other countries	3,405	3,707	14,392	15,052
	305,780	244,786	435,939	422,480

Note 5. Revenue

	Group	
	30 Jun 2020 $'000	30 Jun 2019 $'000
Services revenue	305,780	244,786

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

Group - 30 Jun 2020	Relevance $'000	Speech & Image $'000	Total $'000
Geographical regions			
Australia	-	4,864	4,864
US	273,872	23,639	297,511
Other countries	-	3,405	3,405
	273,872	31,908	305,780

Group - 30 Jun 2019	Relevance $'000	Speech & Image $'000	Total $'000
Geographical regions			
Australia	-	35,650	35,650
US	204,914	515	205,429
Other countries	-	3,707	3,707
	204,914	39,872	244,786

Note 6. Expenses

	Group 30 Jun 2020 $'000	Group 30 Jun 2019 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	450	306
Fixtures and fittings	76	136
Computer equipment	833	525
Audio equipment	17	10
Land and buildings - right-of-use assets	3,284	1,449
Total depreciation	4,660	2,426
Amortisation		
Systems implementation	282	264
Platform development	5,627	1,178
Other intangibles	17	15
Amortisation - sub-total	5,926	1,457
Amortisation - acquisition related		
Platform development	5,430	150
Customer relationships	3,251	2,639
Brand	229	-
Customer contracts	37	36
Amortisation - acquisition related sub-total	8,947	2,825
Total depreciation and amortisation	19,533	6,708

Note 6. Expenses (continued)

	Group 30 Jun 2020 $'000	Group 30 Jun 2019 $'000
Transaction costs		
Transaction costs	550	7,093
Finance costs		
Interest and finance charges paid/payable on borrowings	643	1,447
Interest and finance charges paid/payable on lease liabilities	651	414
Finance costs expensed	1,294	1,861
Share-based payments expense		
Share-based payment in respect of Appen performance rights	6,801	4,704
Share-based payment in respect of Leapforce acquisition	833	833
Share-based payment in respect of Figure Eight acquisition	865	3,130
Total share-based payments expense	8,499	8,667

Note 7. Current assets - trade and other receivables

	Group 30 Jun 2020 $'000	Group 31 Dec 2019 $'000
Trade receivables	61,273	115,737
Less: Allowance for expected credit losses	(1,001)	(1,027)
	60,272	114,710
Other receivables	1,384	1,294
GST receivable	384	332
	62,040	116,336

Note 8. Non-current assets - right-of-use assets

	Group 30 Jun 2020 $'000	Group 31 Dec 2019 $'000
Land and buildings - right-of-use	35,089	25,838
Less: Accumulated depreciation	(6,942)	(3,916)
	28,147	21,922

Note 9. Non-current assets - intangibles

	Group	
	30 Jun 2020 $'000	31 Dec 2019 $'000
Goodwill - at cost	294,380	288,772
Systems implementation - at cost	5,548	5,419
Less: Accumulated amortisation	(3,380)	(3,050)
	2,168	2,369
Platform development - at cost	98,945	87,772
Less: Accumulated amortisation	(25,846)	(15,007)
	73,099	72,765
Customer relationships - at cost	45,800	44,909
Less: Accumulated amortisation	(14,535)	(11,209)
	31,265	33,700
Crowd database - at cost	1,163	1,141
Less: Accumulated amortisation	(1,163)	(1,141)
	-	-
Brand - at cost	872	855
Less: Accumulated amortisation	(545)	(321)
	327	534
Customer contracts - at cost	3,412	3,369
Less: Accumulated amortisation	(3,307)	(3,223)
	105	146
Other intangibles - at cost	914	716
Less: Accumulated amortisation	(444)	(426)
	470	290
	401,814	398,576

The at cost movement in goodwill, systems implementation, customer relationships, crowd database, brand, customer contracts and other intangibles since the 31 December 2019 Annual report relates to foreign exchange currency movements only.

Platform development

Platform 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 from 3 to 7 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.

Note 10. Current liabilities - other liabilities

	Group 30 Jun 2020 $'000	Group 31 Dec 2019 $'000
Earn-out liability in respect of Figure Eight acquisition	-	32,368
Earn-out adjustment in respect of Figure Eight employees	-	4,477
Other current liabilities	1,322	1,298
	1,322	38,143

During the half-year, $39,040,000 was paid to settle the Figure Eight earn-out liability, with $4,059,000 being released as a gain to the statement of profit or loss as Figure Eight earn-out adjustment and $1,353,000 recognised as an expense in the statement of profit or loss as deemed interest on earn-out liability.

Note 11. Non-current liabilities - borrowings

	Group 30 Jun 2020 $'000	Group 31 Dec 2019 $'000
Facility C (Acquisition funding)	34,129	-
The breakdown of the Facility C (Acquisition funding) balance is as follows:		
Facility C	39,040	-
Revaluation	(3,945)	-
Less: amortised borrowing costs	(966)	-
Facility C (Acquisition funding)	34,129	-

The facility was established in April 2019 with a limit of US$90 million. The facility has a four year term with a bullet repayment at the end of the term and is not subject to annual review.

During the half-year, the facility was used to fund the earn-out payment for the Figure Eight acquisition. The facility is available for general corporate needs of the Group, limited to the amount drawn down for the earn-out payment. The facility attracts interest at a margin over bank reference rates, based on the net leverage ratio.

After balance date, on 4 August 2020, the Group fully repaid this debt.

Note 12. Equity - issued capital

	Group 30 Jun 2020 Shares	Group 31 Dec 2019 Shares	Group 30 Jun 2020 $'000	Group 31 Dec 2019 $'000
Ordinary shares - fully paid	121,656,003	121,107,755	362,138	362,138

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 January 2020	121,107,755	362,138
Issue of shares on exercise of performance rights	25 February 2020	541,215	-
Issue of shares on exercise of performance rights	29 June 2020	7,033	-
Balance	30 June 2020	121,656,003	362,138

Note 13. Equity - dividends

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

	Group	
	30 Jun 2020 $'000	30 Jun 2019 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2019 of 5.0 cents per ordinary share franked at 2.2 cents per share (30 June 2019: 31 December 2018 of 4.0 cents franked at 2.9 cents per share)	6,082	4,264

Dividend declared
On 27 August 2020, the Company declared an interim dividend for the year ended 31 December 2020 of 4.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 2 September 2020. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2020 and will be recognised in the subsequent financial period.

Note 14. Earnings per share

	Group	
	30 Jun 2020 $'000	30 Jun 2019 $'000
Profit after income tax attributable to the owners of Appen Limited	22,311	18,603
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	120,154,639	114,810,161
Adjustments for calculation of diluted earnings per share:		
Options and rights over ordinary shares	2,493,867	2,477,766
Weighted average number of ordinary shares used in calculating diluted earnings per share	122,648,506	117,287,927
	Cents	**Cents**
Basic earnings per share	18.57	16.20
Diluted earnings per share	18.19	15.86

Note 15. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing and while Group earnings have, on the whole, proved resilient up to 30 June 2020, there is significant uncertainty regarding future events and the potential impact on revenue. The Group did not access any government COVID-19 related grants in the period or to the date of signing of this report.

On 4 August 2020, the Group fully repaid the Facility C debt (US$24 million), relating to the earn-out payment, as disclosed in note 11.

Apart from the dividend declared as disclosed in note 13, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

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

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial half-year ended on that date; and

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

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

On behalf of the directors

Christopher Vonwiller
Director

27 August 2020
Sydney

Independent Auditor's Review Report

To the shareholders of Appen Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Appen Limited.

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2020 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1-15 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Appen Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Cameron Slapp
Partner

Sydney
27 August 2020