Appen Limited
Level 6, 9 Help Street
Chatswood NSW 2067

Tel: 02 9468 6300
www.appen.com
ACN: 138 878 298

**ASX ANNOUNCEMENT**
25 August 2022

**APPENDIX 4D AND INTERIM FINANCIAL REPORT**

In accordance with ASX Listing Rule 4.2A, Appen Limited (**Appen**) (ASX:APX) provides the attached Appendix 4D and Interim Financial Report for the half-year ended 30 June 2022.

**Authorised for release by the Board of Appen Limited.**

**Please contact for more information:**

Rosalie Duff
Head of Investor Relations
+61 421 611 932
rduff@appen.com
www.appen.com/investors

## Company details

| | |
|---|---|
| Name of entity: | Appen Limited |
| ASX code: | APX |
| ABN: | 60 138 878 298 |
| **Reporting period:** | **For the half-year ended 30 June 2022** |
| Corresponding period: | For the half-year ended 30 June 2021 |

**All monetary references in this Appendix 4D and the attached Interim Report for the half-year ended 30 June 2022, are references in US Dollars ($ or US$), unless otherwise stated.**

## Results for announcement to the market

Half-year ended 30 June 2022

| | | | | $000 |
|---|---|---|---|---|
| Revenue and other income from ordinary activities | down | 6.9% | to | 182,929 |
| Loss from ordinary activities after tax attributable to the owners of Appen Limited | down | 240% | to | (9,364) |
| Loss for the half-year attributable to the owners of Appen Limited | down | 240% | to | (9,364) |

## Dividends

Given the half-year performance and to ensure appropriate allocation of capital, the Directors have determined not to pay an interim dividend for the half-year ended 30 June 2022.

There is no current dividend reinvestment plan in place.

The 2021 final dividend (paid on 18 March 2022) was AU 5.5 cents per share and the 2021 interim dividend (paid on 24 September 2021) was AU 4.5 cents per share.

## Net tangible assets

| | Reporting period Cents | Corresponding period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 48.62 | 79.24 |

Additional information supporting the Appendix 4D disclosures can be found in the Interim Report for the half-year ended 30 June 2022, which is attached and has been reviewed by KPMG.

## Signed

As authorised by the Board of Directors

Signed ________________________ Date: 25 August 2022

Mark Brayan
Managing Director
Sydney

# Appen Limited

## ABN 60 138 878 298

# Interim Report - 30 June 2022

| | |
|---|---|
| Directors | Richard Freudenstein - Chairman<br>Mark Ronald Brayan - Managing Director and Chief Executive Officer<br>Stuart Davis (from 29 March 2022)<br>Stephen John Hasker<br>Vanessa Liu<br>Robin Jane Low<br>Lynn Mickleburgh (from 29 July 2022)<br>Deena Robyn Shiff (to 27 May 2022) |
| Registered office | Level 6, 9 Help Street<br>Chatswood NSW 2067<br>+61 2 9468 6300<br>www.appen.com |
| Company secretary | Carl Middlehurst |
| Investor relations | +61 2 9468 6300<br>investorrelations@appen.com<br>www.appen.com/investors |
| Shareholder enquiries | Link Market Services<br>Locked Bag A14<br>Sydney South NSW 1235<br>+61 1300 554 474<br>registrars@linkmarketservices.com.au<br>www.linkmarketservices.com.au |
| Auditor | KPMG<br>Tower Three<br>International Towers Sydney<br>300 Barangaroo Avenue<br>Sydney NSW 2000 |
| Stock exchange listing | Appen Limited shares are listed on the Australian Securities Exchange (ASX code: **APX**) |

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 2022 ("half-year" or "period").

## Directors

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

Richard Freudenstein - Chairman
Mark Ronald Brayan - Managing Director and Chief Executive Officer
Stephen John Hasker
Stuart Davis – from 29 March 2022
Vanessa Liu
Robin Jane Low
Lynn Mickleburgh - from 29 July 2022
Deena Robyn Shiff - to 27 May 2022

## Principal activities

Appen is the global leader in data for the AI Lifecycle. With over 26 years of experience in data sourcing, data annotation, and model evaluation by humans, we enable organisations to launch the world's most innovative artificial intelligence systems. Our expertise includes a global crowd of more than 1 million skilled contractors who speak over 235 languages, in over 70,000 locations and 170 countries, and the industry's most advanced AI-assisted data annotation platform. Our products and services give leaders in technology, automotive, financial services, retail, healthcare, and governments the confidence to launch world-class AI products.

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

Appen has customers and offices globally.

Appen has five customer-facing business units, each with financial and customer responsibility, as follows:

- **Global:** responsible for delivery of high-quality data annotation services and products to our five largest US global technology customers;
- **Enterprise**: responsible for leveraging our product suite and AI-driven automation to efficiently grow revenue outside of Global customers to serve new customers and use cases as AI is adopted throughout the economy;
- **Government**: responsible for serving the emerging AI needs of Government;
- **China**: responsible for capturing share in the high growth market in China; and
- **Quadrant:** during the prior year, Appen acquired Quadrant Global Pte Ltd ("Quadrant"), a global leader in mobile location and Point-of-Interest (POI) data, thus expanding our addressable market, product offering and data annotation capabilities.

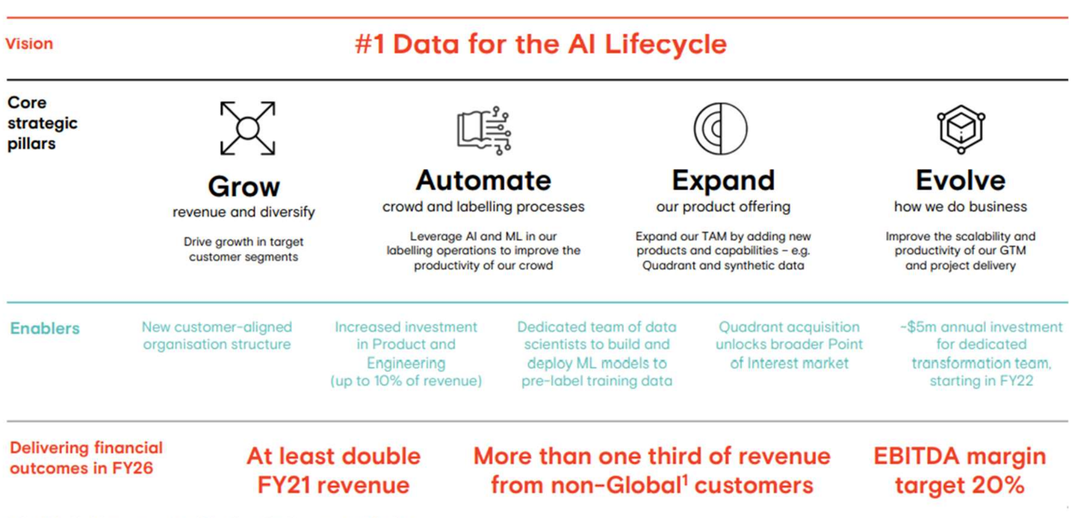
The two operating and reporting sections reflect Appen's growth strategy:

**Global Services**: represents the services that Appen provides to its five major US technology customers (Global customers) using the customer's data annotation platforms and tools. The majority of projects comprise large, at-scale relevance (model evaluation) programs, and rely on Appen's crowd workforce to complete the work, thus reducing the need for Appen's Global customers to employ a large and diverse ongoing workforce; and

**New Markets**: represents Appen's high growth markets and product led growth strategy. It comprises Global customer revenue through Appen's data annotation platform and tools (Global Product), and the Enterprise, Government and China business units. New Markets also includes revenue derived using Quadrant's geolocation and POI data capabilities. New Markets customers benefit from our high-quality data annotation capabilities originating from Appen and Quadrant's AI-augmented product suite, coupled with the provision of at-scale crowd management with Appen Connect. This enables Appen to deliver high-quality outcomes for customers, and deliver revenue growth, scale and margin expansion.

## FY26 Objectives

In FY21, Appen announced its four strategic pillars and outlined a roadmap to enable the Company to deliver key financial outcomes by FY26. This includes doubling our FY21 revenue of $447 million, improving the mix of our business with more than one-third revenue from non-global customers and targeting an EBITDA margin of 20%. The FY26 objectives are summarised in the table below.



The following table summarises the Group's financial results for the current and prior period and provides a reconciliation between our statutory and underlying results.

| | Half year ended 30 June 2022 $000 | Half-year ended 30 June 2021 $000 | Change % |
|---|---|---|---|
| Global Services revenue | **137,812** | 148,778 | (7.4%) |
| New Markets revenue | **45,033** | 47,763 | (5.7%) |
| Other income | **84** | 21 | |
| **Total sales revenue and other income from principal activities** | **182,929** | 196,562 | (6.9%) |
| | | | |
| **Underlying net loss/(profit) after tax (NPAT)[1]** | **(3,794)** | 12,511 | (130.2%) |
| *(Less)/add underlying adjustments (net of tax)* | | | |
| Amortisation of acquisition-related identifiable Intangible assets | **(4,953)** | (4,159) | |
| Losses on inventory | **(228)** | - | |
| Transaction costs | **(210)** | (342) | |
| Deemed interest on earn-out liability[2] | **(154)** | - | |
| Acquisition-related share-based payments[3] | **(25)** | 249 | |
| Restructure costs | **-** | (1,569) | |
| | | | |
| **Statutory NPAT** | **(9,364)** | 6,690 | (240.0%) |
| *(Less)/add*: tax (benefit)/expense | **(2,415)** | 1,725 | |
| *Add*: net interest expense | **504** | 701 | |
| *Add*: deemed interest on earn-out liability[2] | **217** | - | |
| | | | |
| **EBIT[4]** | **(11,058)** | 9,116 | (221.3%) |
| *Add*: depreciation and amortisation | **18,925** | 16,071 | |
| | | | |
| **Statutory EBITDA[5]** | **7,867** | 25,187 | (68.7%) |
| *Add/(less): underlying adjustments* | | | |
| Transaction costs | **299** | 496 | |
| Inventory losses | **275** | - | |
| Acquisition-related share-based payments[3] | **25** | (249) | |
| Restructure costs | **-** | 2,254 | |
| | | | |
| **Underlying EBITDA[1]** | **8,466** | 27,688 | (69.3%) |
| | | | |
| Statutory diluted earnings per share (cents) | **(7.59)** | 5.35 | |
| Underlying diluted earnings per share (cents) | **(3.08)** | 10.01 | |
| % Statutory EBITDA/sales revenue | **4.3%** | 12.8% | |
| % Underlying EBITDA/sales revenue | **4.6%** | 14.1% | |

1 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. Underlying EBITDA excludes transaction costs, inventory losses, acquisition-related share-based payments expenses and for HY21, restructure costs.
2 Contingent liability with respect to the Quadrant acquisition which will settle no later than 29 February 2024, subject to Quadrant attaining revenue milestones.
3 Includes a true-up adjustment reducing the share-based payments expense in relation to the 2020 and 2021 Long-Term Incentive Plans, for rights that did not vest.
4 EBIT is defined as earnings before interest and tax.
5 EBITDA is EBIT before depreciation and amortisation.

## Operating and financial review (OFR)

Group revenue decreased 6.9% in the first half of 2022 to $182,929,000 (30 June 2021: $196,562,000), compared to the previous corresponding period. The revenue reduction was due to challenging external operating and macro conditions, which resulted in weaker digital advertising demand, and a slowdown in spending by some of our major customers. This has especially impacted our Global business unit, particularly those customers with a high exposure to digital advertising. While only 26% of our first half Global revenue supported digital advertising, we are seeing a flow-on effect to non ad-related projects and some of our core programs, as our customers reduce their overall spend.

For the six months to 30 June 2022, the Global division unit won 99 new deals. This compares favorably to the six months to 30 June 2021 where we won 75 new deals and 37 new deals for the six months to 30 June 2020. However, the size and ramp up stage of these new deals is not sufficient to offset the reduction in some of our core programs.

Overall, Global Services revenue decreased 7.4% to $137,812,000, impacted by the factors mentioned above. Non-ad related projects comprised 74% of total revenue from Global customers in the first half, which is closely in line with 75% in the prior corresponding period. The majority of the 99 new deals won in the first half were from non-ad related projects.

New Markets revenue decreased 5.7% to $45,033,000. This was mainly due to reduced spend from some of our customers for some project work performed on our platform and a large project from one global customer ending in the prior corresponding period. However, we continue to invest in our platform and tools to diversify our revenue and to expand into other verticals such as autonomous vehicles (AV), which has led to strong performance in China. Revenue growth from non-global (Enterprise, Government, China and Quadrant) customers was up 35.1% half-on-half (up $8,931,000 to $34,387,000) and represents 19% of total revenue.

Our newly formed Enterprise team had many customer and project wins during the half-year, including Bloomberg, Adobe, Boeing, Salesforce and a leading global car maker. The Enterprise team had a particularly strong Q2 of FY22, signing a significant number of new deals, which will translate into revenue as the work commences. A key part of the Q2 bookings success was the large data collection deal with a leading global car maker, across seven countries. This is a key strategic win which will strongly position Appen to win large deals with other global car manufacturers as they continue to invest heavily in developing AV technology.

The new enterprise leadership team is now at full strength and successfully signing new and larger deals. The average deal size signed in the first half was $91,000 which was up 36% from the average deal size of $67,000 in the prior corresponding period.

Revenue in China grew nearly one and a half times or 141% on the prior corresponding period, due to several new project and new logo wins. This result was despite the impact of the strict lockdown in Shanghai which hampered sales efforts for at least three months.

Our China team is a leading AI data company in China, with the growth being across all data modalities including speech, image and autonomous vehicles (AV) - which requires high levels of training data. Most of the growth in China has come from AV work, which now represents approximately 40% of our revenue in China. Our China team supports 11 leading car manufacturers and 20 other autonomous mobility providers, who invest in drones and robotics, partnering with these companies to provide AV and other training data.

Leveraging off the growth and support infrastructure in China, we invested in dedicated local sales teams in Japan and Korea where we had several new customer wins during the half year. Japan and Korea are new markets for Appen with high growth potential. Whilst we are still at an early stage in our journey, we are excited about the huge growth potential in these countries.

The Quadrant team had a successful Q2 of FY22. Quadrant signed 30 new agreements and won 11 new logos on its location data intelligence platform, Hydra. This is a diverse set of companies across the world, with diversity in both use cases and geographies. There are multiple large POI opportunities with our global customers and some enterprise customers, currently under discussion.

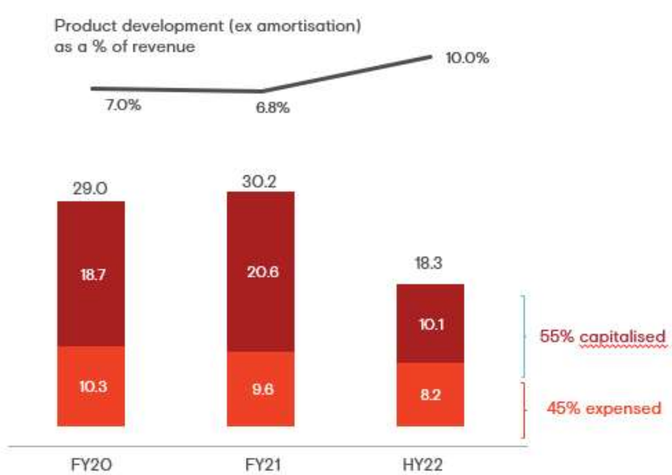
The Government team had a disappointing half-year, with a decline in revenue of $2,641,000. This was due to the non-renewal of a large contract, and the fact that Government customers typically have longer sales and budget cycles. Despite this, during the half-year, Appen was selected in a partnership for the Joint Artificial Intelligence Centre (JAIC) Blanket Purchase Agreement, to support the acceleration of technology capabilities. The purchase agreement is up to $249 million and will be allocated to multiple vendors, over multiple years. In the half year, Appen did not receive an allocation under the terms of the JAIC Blanket Purchase Agreement.

Appen's market leading technology will underpin its competitive position, delivering quality, efficiency, reliability and scalability for customers, and revenue growth for Appen. Appen has a suite of products ready to deliver annotation technology and global crowd at scale. These products all require continuous investment and development to add new features and functionality to keep up with the changing and dynamic needs of the AI market. Our products are as follows:

- **Appen Mobile**: which enables, engages, and expands our global crowd via a mobile interface.
- **Appen Connect**: which enables end to end management of crowd workers and matches them to annotation projects.
- **Appen Data Annotation Platform**: which collects and annotates training data.
- **China Platform**: crowd management and annotation platform for this extremely fast growing and dynamic market.
- **Geolancer**: POI collection tools to collect mass-market data from the physical world at scale; and
- **Hydra**: location data collection

Given the critical role technology plays in Appen's business, during the period, we continued with our high level of investment in product development, which commenced in FY19. Technology underpins our business and delivers efficiency, quality, reliability, scalability to deliver large scale data requirements for our customers.

## Investment in product development[1]




1. Product development relates to investment in engineering to ensure that the annotation platform and tools support our customers and their use cases, and drive efficiencies and scale. These amounts exclude amortisation expense.

1HFY22 investment in product development and technology was $18,346,000 and this was up 18.4% on the first half spend last year of $15,491,000. This ongoing investment will allow Appen to remain ahead of our competitors, develop new products and tools to streamline and automate the delivery of significant volumes of high-quality training data faster, and grow revenue and improve margins. During the half-year, we created several machine learning models to reduce the human effort required to transcribe speech data. This helped to reduce crowd costs, enabling Appen to complete projects quicker and at a lower per unit cost.

The level of product development spend capitalised in the half-year was lower than historical levels due to a larger focus on addressing customer requirements, following an intense customer focus exercise conducted earlier in the year as part of a 360 product review.

Amortisation of product development was $8,196,000 for the six months ended 30 June 2022 compared to $6,675,000 in the prior corresponding period, related to the higher level of product development investment.

Cost of sales, which is comprised of payments to our crowd workers, decreased as a percentage of revenue (from 60.4% for the comparative period to 59.9% in the current half year). This is mainly due to improved gross margins in Global Services from changes in the customer/project mix and internal efficiencies. We also saw improving gross margins in China along with increased revenues.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) decreased to $8,466,000 (30 June 2021: $27,688,000), which translated to a net margin of 4.6% (30 June 2021: 14.1%).

This reduction in underlying EBITDA and net margins were due to prioritising investment spend to align with our long-term growth objectives and to lay the foundation to promote revenue diversification and future growth. This resulted in an increase to the cost base, with increases in employee expenses (from increased headcount) and associated recruitment costs.

Specifically, our cost-base increased as we invested in (i) product and engineering (ii) growth investments in New Markets (iii) the establishment of the transformation office (iv) the associated increase in employee expenses, recruitment and information technology costs and (v) developed and enhanced retention strategies resulting in an increase in share-based payments expenses for executives. Share-based payments were positively impacted by non-vesting of rights due to performance hurdles not being met, resulting in a credit expense for the period, however less than the credit expense in the prior corresponding period.

During the period, we commenced multiple transformation workstreams, reflecting the set-up of the transformation office, which is responsible for planning, implementation and monitoring activities related to change throughout Appen. Examples of key achievements and initiatives developed during the half-year include:

- Improving our roster fill and management of our global programs, increasing our capability to quickly and efficiently on-board contributors/crowd workers to allow us to generate revenue faster, by ensuring we have the right customer facing teams and crowd expertise in the right markets;
- automating the crowd labelling process, to drive margin expansion and allowing us to service more customers quickly and more efficiently, by accelerating data delivery;
- diversifying the range of data modalities that we can service and expand our footprint in autonomous vehicles, as a result of a new deal with a leading global car-maker, to provide large volumes of in-car image collection data involving three work packages across seven countries; and
- growing our world-class data science team to continue our journey to automate our products and processes, including automation of our speech data preparation models and tools. We commenced deploying these highly automated models on some customer projects.

The Global Services segment reported half-year EBITDA of $26,243,000 down $8,165,000 from 30 June 2021 EBITDA of $34,408,000, mainly due to reduced customer spend from some of our large customers and higher allocation of indirect costs resulting from investment in product, engineering and transformation costs.

The New Markets segment reported half-year EBITDA loss of ($15,564,000) up $8,142,000 from 30 June 2021 EBITDA loss of ($7,422,000), mainly due to the reduction in Global Product revenue, and higher allocation of indirect costs resulting from investment in product, engineering and transformation. There was also some increase in direct costs relating to travel, recruitment, IT and employee expenses. The New Markets segment has reported a loss in the current and corresponding period due to its early stage of development, focus on revenue growth and investment in technology and product.

Operating expenses for the half-year ended 30 June 2022 (expenses excluding crowd labelling services, share-based payments, depreciation and amortisation, transaction, finance costs and restructure costs) increased by $13,578,000 over the prior corresponding period, for the reasons mentioned above.

Other expenses increased by $950,000, mainly due to increased insurance and training costs, as well as an unrealised revaluation loss on inventory-cryptocurrency.

Underlying net profit after tax (NPAT) of ($3,794,000) was down significantly, due to the investment spend and increased amortisation in relation to product development.

**Balance sheet**

Our balance sheet continues to be strong and resilient with no debt, and net assets at 30 June 2022 of $374,665,00 (31 December 2021: $391,872,000). Trade and other receivables and contract assets were $24,067,000 lower at 30 June 2022 relative to 31 December 2021, resulting from large Q4 2021 volumes which have since been collected and lower Q2 2022 revenues as compared to Q4 2021. Current liabilities reduced by $4,269,000 to $60,323,000 mainly because of the reduction in accounts payable and contract liabilities.

Appen's cash balance decreased $5,705,000 from $47,878,000 at 31 December 2021 to $42,173,000, due to the lower trading performance, continued growth investment spend, dividend payment and a minority investment in Mindtech, which increases our addressable market to capture synthetic data opportunities (see page 10 for more information).

**Strategy and FY2022 outlook**

We are a global market leader with respect to the provision of data for the AI lifecycle, and generate multiples more revenue than each of our competitors and produce strong cash flow conversion, backed by a strong balance sheet. We offer the broadest range of data modalities amongst all our competitors, and will continue to expand this capability, to win more customers and to deliver scale, quality and margin expansion associated with our strategic pillars of **GROW, AUTOMATE, EXPAND** and **EVOLVE**.

Despite the current challenging operating conditions, we remain committed to our longer-term growth strategy and confident of our prospects in the high growth AI market.

As at August 2022, our year-to-date revenue plus orders stand at $360 million[1] in line with August 2021, with customer delivery schedule skewed to the fourth quarter of FY2022.

With no improvement in July and August to date trading, there remains uncertainty about a continued slowdown of spending from our Global customers and their exposure to weaker digital advertising demand. As a result, the conversion of forward orders to sales is less certain this year compared to prior years.

1. Consistent with prior year methodology and timing used for the update provided at the half year result in August 2021.

Therefore, we expect FY22 revenue to be weighted to the latter half of H2, although revenue is not expected to be at prior year levels due to the slowdown of Global customers.

Management is highly focused on implementing the Company's strategy with a focus on accelerating productivity improvements, prioritising high-impact revenue opportunities, and managing costs.

Our FY22 EBITDA and EBITDA margin is expected to be materially lower than FY21, mainly due to lower revenue, as well as investment in product, technology and transformation.

## Impact of the COVID-19 pandemic

Our products and tools enable a work-from-anywhere delivery model for our crowd workers and our staff. During the period, our global operations remained agile and adaptive to the changing landscape of the post-pandemic world, whilst being able to successfully navigate a lockdown type environment, should the need arise, such as that which occurred with our China operations, that still grew its revenue for the half-year, despite being in lock-down for more than half of the period.

During the period, we launched our "*new ways of working*" initiative which promotes flexibility, choice, connection, and inclusion for our employees with less emphasis on prescriptive mandates, whilst promoting Face-to-Face Collaboration and Neighborhood Connections, in order to exchange ideas and develop solutions for our customers.

The Group did not access any COVID-related Government grants since the commencement of the pandemic, during the current period or to the date of signing this report.

## Dividends

*Dividend declared during the period*
Given the half-year performance and to ensure appropriate allocation of capital, the Directors have determined not to pay an interim dividend for the half-year ended 30 June 2022.

*Dividend paid during the period*
During the half-year, on 18 March 2022, the Company paid the 2021 final dividend of AU 5.5 cents per share, 50% franked.

## Investment in Synthetic Data business Mindtech

During the period, Appen made a minority investment in Mindtech Global Limited ("Mindtech"), a synthetic data company specialising in the creation of high-quality training data for AI computer vision models. Appen invested GBP2.0m (equivalent to US$2.6m) in exchange for a minority investment stake and the formation of a commercial strategic partnership in Mindtech.

Synthetic data is an emerging component of the training data market that is used to augment real-world data. It is particularly useful for the creation of edge-case data across a wide variety of applications and markets that is difficult to capture. The synthetic data market is forecast to grow to $1.15bln by 2027.

The investment is a continuation of Appen's strategy to deploy capital into product-led capabilities that generate new and emerging sources of training data to support AI lifecycles.

## Matters subsequent to the end of the half-year

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

## Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191* (Corporations 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 Instrument to the nearest thousand US dollars, or in certain cases, the nearest US 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

________________________
Richard Freudenstein
Chairman

25 August 2022
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 financial year ended 30 June 2022 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

25 August 2022

| | Note | Group 30 June 2022 $000 | Group 30 June 2021 $000 |
|---|---|---|---|
| **Services revenue** | 5 | 182,845 | 196,541 |
| | | | |
| Interest income calculated using the effective interest method | | 13 | 2 |
| Other income | | 71 | 19 |
| Net foreign exchange loss | | (1,113) | (507) |
| | | | |
| **Expenses** | | | |
| Crowd labelling services | | (109,526) | (118,705) |
| Employee expenses | | (45,496) | (37,942) |
| Depreciation and amortisation | 6 | (18,925) | (16,071) |
| Professional fees | | (4,170) | (3,407) |
| Rent and occupancy expenses | | (486) | (581) |
| Communication and travel expenses | | (1,302) | (502) |
| Transaction costs | | (299) | (496) |
| Recruitment costs | | (2,238) | (582) |
| Information technology costs | | (5,828) | (3,878) |
| Other expenses | | (4,927) | (3,977) |
| Finance costs | 6 | (517) | (703) |
| Deemed interest on earn-out liability | 6 | (217) | - |
| Share-based payments | 6 | 336 | 1,458 |
| Restructure costs | | - | (2,254) |
| | | | |
| **(Loss)/profit before income tax benefit/(expense)** | | (11,779) | 8,415 |
| | | | |
| Income tax benefit/(expense) | | 2,415 | (1,725) |
| | | | |
| **(Loss)/profit after income tax benefit/(expense) for the half-year attributable to the owners of Appen Limited** | | (9,364) | 6,690 |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | (2,488) | (543) |
| | | | |
| Other comprehensive loss for the half-year, net of tax | | (2,488) | (543) |
| | | | |
| **Total comprehensive (loss)/income for the half-year attributable to the owners of Appen Limited** | | (11,852) | 6,147 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 16 | (7.59) | 5.45 |
| Diluted earnings per share | 16 | (7.59) | 5.35 |

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

| | Note | 30 June 22 $000 | 31 Dec 21[1] $000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 42,173 | 47,878 |
| Trade and other receivables | 7 | 45,313 | 89,243 |
| Contract assets | 8 | 30,334 | 10,471 |
| Income tax refund due | | 12,864 | 8,963 |
| Prepayments | | 7,473 | 3,729 |
| Inventory | 17 | 1,172 | 1,679 |
| Total current assets | | 139,329 | 161,963 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 3,194 | 3,118 |
| Right-of-use assets | 9 | 11,868 | 13,557 |
| Intangibles | 10 | 314,650 | 318,830 |
| Investments | 11 | 2,431 | - |
| Deferred tax | | 4,479 | 4,060 |
| Sundry receivables | | 469 | 629 |
| Total non-current assets | | 337,091 | 340,194 |
| **Total assets** | | 476,420 | 502,157 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 34,825 | 41,609 |
| Derivative financial instruments | | 1,114 | 816 |
| Contract liabilities | | 11,738 | 14,060 |
| Lease liabilities | 12 | 4,185 | 5,004 |
| Employee benefits | | 3,574 | 3,030 |
| Earn-out liability | 13 | 4,817 | - |
| Other liabilities | | 70 | 73 |
| Total current liabilities | | 60,323 | 64,592 |
| **Non-current liabilities** | | | |
| Borrowings | | - | - |
| Lease liabilities | 12 | 9,109 | 10,056 |
| Deferred tax | | 18,147 | 16,858 |
| Employee benefits | | 417 | 420 |
| Earn-out liability | 13 | 13,759 | 18,359 |
| Total non-current liabilities | | 41,432 | 45,693 |
| **Total liabilities** | | 101,755 | 110,285 |
| **Net assets** | | 374,665 | 391,872 |
| Issued capital | 14 | 262,917 | 262,917 |
| Reserves | | 125,129 | 132,972 |
| Accumulated losses | | (13,381) | (4,017) |
| **Total equity** | | 374,665 | 391,872 |

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

[1] The 31 December 2021 comparative numbers have been re-stated to reflect acquisition accounting adjustments made during the period. Refer to note 17 for further information.

| Group | Issued capital $000 | Reserves $000 | Accumulated losses $000 | Total equity $000 |
|---|---|---|---|---|
| Balance at 1 January 2022 | 262,917 | 132,972 | (4,017) | 391,872 |
| Loss after income tax benefit for the half-year | - | - | (9,364) | (9,364) |
| Other comprehensive loss for the half-year, net of tax | - | (2,488) | - | (2,488) |
| Total comprehensive loss for the half-year | - | (2,488) | (9,364) | (11,852) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments (note 6) | - | (336) | - | (336) |
| Dividends paid (note 15) | - | (5,019) | - | (5,019) |
| Balance at 30 June 2022 | 262,917 | 125,129 | (13,381) | 374,665 |

| Group | Issued capital $000 | Reserves $000 | Accumulated losses $000 | Total equity $000 |
|---|---|---|---|---|
| Balance at 1 January 2021 | 262,917 | 114,431 | (4,017) | 373,331 |
| Profit after income tax expense for the half-year | - | - | 6,690 | 6,690 |
| Other comprehensive loss for the half-year, net of tax | - | (543) | - | (543) |
| Total comprehensive income for the half-year | - | (543) | 6,690 | 6,147 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Transfer between reserves | - | 6,690 | (6,690) | - |
| Share-based payments (note 6) | - | (1,458) | - | (1,458) |
| Dividends paid (note 15) | - | (5,242) | - | (5,242) |
| Balance at 30 June 2021 | 262,917 | 113,878 | (4,017) | 372,778 |

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

| | Note | Group 30 June 2022 $000 | Group 30 June 2021 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 207,021 | 210,407 |
| Payments to suppliers and employees (inclusive of GST) | | (189,098) | (182,512) |
| | | 17,923 | 27,895 |
| Interest received | | 13 | 2 |
| Interest paid | | (214) | (308) |
| Income taxes paid | | (631) | (1,495) |
| Net cash from operating activities | | 17,091 | 26,094 |
| **Cash flows from investing activities** | | | |
| Payment for acquisition of investments | 11 | (2,633) | - |
| Transaction costs | | (299) | - |
| Payments for intangibles | 10 | (10,940) | (11,961) |
| Payments for property, plant and equipment | | (912) | (399) |
| Net cash used in investing activities | | (14,784) | (12,360) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 15 | (5,019) | (5,242) |
| Repayment of lease liabilities | | (2,156) | (2,235) |
| Proceeds from borrowings | | 13,000 | - |
| Repayment of borrowings | | (13,000) | - |
| Net cash used in financing activities | | (7,175) | (7,477) |
| Net (decrease)/increase in cash and cash equivalents | | (4,868) | 6,257 |
| Cash and cash equivalents at the beginning of the financial half-year | | 47,878 | 60,488 |
| Effects of exchange rate changes on cash and cash equivalents | | (837) | (779) |
| Cash and cash equivalents at the end of the financial half-year | | 42,173 | 65,966 |

*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 US dollars, which is the Group's 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 25 August 2022.

## Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2022 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*.

This half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and outlook of the Group as the full-year annual report. It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2021 and considered together with any public announcements made by the Group during the half-year to 30 June 2022, in accordance with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*. The accounting policies are consistent with those of the previous financial year and corresponding interim financial period, unless stated otherwise.

### New or amended Accounting Standards and Interpretations adopted

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

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

## Note 3. Critical accounting judgements, estimates and assumptions

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, that management believes to be reasonable under the circumstances. The judgements, estimates and assumptions that may cause an 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 impact that the pandemic has had on our global customer base and crowd workforce and the numerous geographic regions in which the Group operates. The impact of the COVID-19 pandemic is addressed in the Directors' report.

Management have considered the potential impact of COVID-19 in performing the Group's impairment assessments and in establishing the expected credit loss on financial assets. As a result, no adjustments were made to the Group's assets.

*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 for each cash-generating unit 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. Impairment for goodwill will be assessed in detail at 31 December 2022.

*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. At each reporting date, management reviews the number of performance rights that are expected to vest, based on the likelihood of fulfilling the performance-based vesting conditions.

*Capitalisation of product development costs*
The Group uses a degree of judgement in order to determine if product development costs satisfy the recognition and measurement criteria to be capitalised as an asset in accordance with AASB 138 *Intangible Assets.* This includes the use of Appen's project management system to tag each project undertaken by the engineering team, as either new feature development or maintenance.

## Note 4. Operating segments

### Identification of operating and reportable operating segments
Appen operating and reportable operating segments are aligned to market opportunities and customer needs. The operating segments are:

- The Global Services segment: which represents the services the Group provides to our five major US technology customers using their data annotation platforms and tools.

- The New Markets segment: which represents our product-led businesses, including the work we do for our Global customers using Appen's annotation products, and our Enterprise, Government, China and Quadrant businesses.

These operating segments are based on the internal reports that are provided to the CEO in his capacity as the Chief Operating Decision Maker (CODM) of the Appen Group, in order to assess performance and growth of the business and to determine where to allocate resources. The CODM reviews a set of financial reports which covers EBITDA (earnings before interest, tax, depreciation and amortisation), underlying EBITDA, revenue and operating segment reports on a monthly basis. The accounting policies adopted for internal reporting to the CEO/CODM are consistent with those adopted in this financial report.

## Note 4. Operating segments (continued)

*Major customers*
During the half-year ended 30 June 2022, approximately 81.4% (30 June 2021: 87.1%) of the Group's revenue was derived from sales to the largest five customers.

*Segment information*
The following tables show revenue and EBITDA for the reportable segments for the half-year ended 30 June 2022 and 30 June 2021. The revenue and segment results for the New Markets segment for the period ending 30 June 2022, includes the contribution from Quadrant, which was acquired on 13 September 2021.

*30 June 2022*

| | Global Services $000 | New Markets $000 | Corporate (Unallocated) $000 | Total $000 |
|---|---|---|---|---|
| **Revenue** | 137,812 | 45,033 | - | 182,845 |
| Interest | - | - | 13 | 13 |
| Other income | - | - | 71 | 71 |
| **Total revenue & other income** | 137,812 | 45,033 | 84 | 182,929 |
| | | | | |
| **Segment EBITDA** | 26,243 | (15,564) | - | 10,679 |
| Cloud computing costs | | | | (28) |
| Share-based payment – employees | | | | 361 |
| Investment in transformation benefits | | | | (1,433) |
| Foreign exchange loss | | | | (1,113) |
| **Group underlying EBITDA** | | | | 8,466 |
| Depreciation and amortisation | | | | (18,925) |
| Deemed interest on earn-out liability | | | | (217) |
| Net interest expense | | | | (504) |
| Transaction costs | | | | (299) |
| Loss on revaluation of inventory-cryptocurrency | | | | (275) |
| Acquisition-related share-based payments | | | | (25) |
| **Loss before income tax** | | | | (11,779) |
| Income tax benefit | | | | 2,415 |
| **Loss after income tax benefit** | | | | (9,364) |

## Note 4. Operating segments (continued)

*30 June 2021*

| | Global Services $000 | New Markets $000 | Corporate (Unallocated) $000 | Total $000 |
|---|---|---|---|---|
| **Revenue** | 148,778 | 47,763 | - | 196,541 |
| Interest | - | - | 2 | 2 |
| Other income | - | - | 19 | 19 |
| **Total revenue & other income** | 148,778 | 47,763 | 21 | 196,562 |
| | | | | |
| **Segment EBITDA** | 34,408 | (7,422) | - | 26,986 |
| Share-based payment – employees | | | | 1,209 |
| Foreign exchange loss | | | | (507) |
| **Group underlying EBITDA** | | | | 27,688 |
| Depreciation and amortisation | | | | (16,071) |
| Restructure costs | | | | (2,254) |
| Net interest expense | | | | (701) |
| Transaction costs | | | | (496) |
| Acquisition-related share-based payments | | | | 249 |
| **Profit before income tax** | | | | 8,415 |
| Income tax expense | | | | (1,725) |
| **Profit after income tax expense** | | | | 6,690 |

*Geographical information*

| | Revenue | | Geographical non-current assets | |
|---|---|---|---|---|
| | 30 June 2022 $000 | 30 June 2021 $000 | 30 June 2022 $000 | 31 Dec 2021 $000 |
| Australia | 1,936 | 1,641 | 50,881 | 50,311 |
| US | 159,524 | 185,199 | 269,998 | 275,660 |
| Other countries | 21,385 | 9,701 | 11,264 | 9,534 |
| | 182,845 | 196,541 | 332,143 | 335,505 |

## Note 5. Revenue

| | 30 June 2022 $000 | 30 June 2021 $000 |
|---|---|---|
| Services revenue | 182,845 | 196,541 |

## Note 5. Revenue (continued)

*Disaggregation of services revenue*

Services revenue is disaggregated by the type of service and whether the revenue is derived from use of our products and tools (New Markets) or the customers' platform (Global Services).

*30 June 2022*

| | Global customers $000 | New Markets customers $000 | Corporate (Unallocated) $000 | Total $000 |
|---|---|---|---|---|
| Revenue – Global Services segment | 137,812 | - | - | 137,812 |
| Revenue – New Markets segment | 10,646 | 34,387 | - | 45,033 |
| **Total revenue** | 148,458 | 34,387 | - | 182,845 |

*30 June 2021*

| | Global customers $000 | New Markets customers $000 | Corporate (Unallocated) $000 | Total $000 |
|---|---|---|---|---|
| Revenue – Global Services segment | 148,778 | - | - | 148,778 |
| Revenue – New Markets segment | 22,307 | 25,456 | - | 47,763 |
| **Total revenue** | 171,085 | 25,456 | - | 196,541 |

## Note 6. Expenses

| | 30 June 2022 $000 | 30 June 2021 $000 |
|---|---|---|
| (Loss)/profit before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Leasehold improvements | 372 | 376 |
| Fixtures and fittings | 73 | 82 |
| Computer equipment | 618 | 540 |
| Audio equipment | 10 | 14 |
| Land and buildings - right-of-use assets | 2,662 | 2,561 |
| Total depreciation | 3,735 | 3,573 |
| *Amortisation* | | |
| Systems implementation | 26 | 10 |
| Product development | 8,196 | 6,675 |
| Other intangibles | 108 | 12 |
| Amortisation - sub-total | 8,330 | 6,697 |
| *Amortisation – acquisition-related* [1] | | |
| Product development | 4,647 | 3,565 |
| Customer relationships | 2,134 | 2,135 |
| Brand | 79 | 75 |
| Customer contracts | - | 26 |
| Amortisation - acquisition related sub-total | 6,860 | 5,801 |
| Total depreciation and amortisation | 18,925 | 16,071 |

[1] The 30 June 2022 expense includes the amortisation expense related to Quadrant acquisition-related intangible assets, which have been identified, recognised and valued as part of the updated 30 June 2022 valuation of goodwill associated with the acquisition of Quadrant under AASB 3 *Business Combinations*. Refer to notes 10 and 17 for further information.

## Note 6. Expenses (continued)

| | 30 June 2022 $000 | 30 June 2021 $000 |
|---|---|---|
| *Finance costs* | | |
| Interest and finance charges paid/payable on borrowings | 214 | 307 |
| Interest and finance charges paid/payable on lease liabilities | 303 | 396 |
| | 517 | 703 |
| Deemed interest on Quadrant earn-out liability | 217 | - |
| Finance costs expensed | 734 | 703 |
| *Share-based payments* | | |
| Share-based payment in respect of Appen performance rights | (361)[3] | (1,209)[3] |
| Share-based payment in respect of Quadrant or Figure Eight acquisitions | 25 | (249)[3] |
| Total share-based payments (reversal) | (336) | (1,458) |

[3] Includes a true-up adjustment of share-based payments expense in relation to the 2020 and 2021 Long-Term Incentive Plans, for rights that did not vest.

## Note 7. Current assets - trade and other receivables

| | 30 June 2022 $000 | 31 Dec 2021 $000 |
|---|---|---|
| Trade receivables | 41,488 | 87,546 |
| Less: Allowance for expected credit losses | (118) | (242) |
| | 41,370 | 87,304 |
| Other receivables | 3,276 | 1,860 |
| GST/VAT receivable | 667 | 79 |
| | 45,313 | 89,243 |

The 31 December 2021 balance of trade receivables was impacted by increased volumes in the last two months of the year. Also, the December month billing milestone aligned with the last day of the reporting period of 31 December 2021, whereas for 30 June 2022, the billing milestone was satisfied just after the 30 June reporting period. Hence, June 2022 invoices were classified as a contract asset under note 8. Refer to note 8 for more information.

## Note 8. Current assets - contract assets

| | Group 30 June 2022 $000 | 31 Dec 2021 $000 |
|---|---|---|
| *Current assets* | | |
| Contract assets | 30,334 | 10,471 |

*Reconciliation*

Reconciliation of the written down values at the beginning and end of the current period and previous financial year is set out below:

| | | |
|---|---|---|
| Balance at 1 January | 10,471 | 31,516 |
| Subsequently invoiced and transferred to receivables - reversal | (10,471) | (31,516) |
| Accrued revenue recognized – 30 June[1] | 30,334 | 28,177 |
| Balance at 30 June | 30,334 | 28,177 |
| Subsequently invoiced and transferred to receivables - reversal | | (28,177) |
| Accrued revenue recognised – 31 December[1] | | 10,471 |

1 Relates to services completed that the Group is yet to receive an unconditional right to the amount due, as the relevant invoices in respect of the completed work are pending satisfaction of the customer's billing milestones or billing period. The lower contract assets balance at 31 December 2021 relates to the fact that for many invoices, the last day of the billing period aligned with the 31 December 2021 reporting period, and hence these invoices are reflected as part of trade receivables (refer to note 7), whereas for 30 June 2022, the billing milestone was only satisfied after the 30 June reporting period and hence June invoices were classified as a contract asset as above.

## Note 9. Non-current assets - right-of-use assets

| | 30 June 2022 $000 | 31 Dec 2021 $000 |
|---|---|---|
| Land and buildings - right-of-use | 26,624 | 25,944 |
| Exchange differences | 531 | 238 |
| Less: Accumulated depreciation | (15,287) | (12,625) |
| | 11,868 | 13,557 |

## Note 10. Non-current assets - intangibles

| | 30 June 2022 $000 | 31 Dec 2021 $000[1] |
|---|---|---|
| Goodwill - at cost | 242,055 | 241,817 |
| | | |
| Systems implementation - at cost | 1,515 | 1,515 |
| Exchange differences | 7 | 1 |
| Less: Accumulated amortisation | (1,320) | (1,294) |
| | 202 | 222 |
| | | |
| Product development - at cost | 120,323 | 110,258 |
| Exchange differences | (154) | (37) |
| Less: Accumulated amortisation | (63,321) | (50,478) |
| | 56,848 | 59,743 |
| | | |
| Customer relationships - at cost | 31,500 | 31,500 |
| Less: Accumulated amortisation | (18,532) | (16,398) |
| | 12,968 | 15,102 |
| | | |
| Brand - at cost | 1,094 | 1,094 |
| Less: Accumulated amortisation | (679) | (600) |
| | 415 | 494 |
| | | |
| Customer contracts - at cost | 2,372 | 2,372 |
| Less: Accumulated amortisation | (2,372) | (2,372) |
| | - | - |
| | | |
| Other intangibles - at cost | 2,810 | 1,935 |
| Exchange differences | (73) | (16) |
| Less: Accumulated amortisation | (575) | (467) |
| | 2,162 | 1,452 |
| | | |
| | 314,650 | 318,830 |

[1] The 31 December 2021 balances have been re-stated to reflect the acquisition accounting adjustments made during the period with respect to opening balances (refer to note 17 for further information).

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

*Reconciliations*

Reconciliations of the written down values for the year ending 31 December 2021 and the half-year ending 30 June 2022 are set out below:

| Group | Goodwill $000 | Systems implementation $000 | Product development $000 | Customer relationships $000 | Brand $000 | Customer contracts $000 | Other intangibles $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2020 | **202,595** | **67** | **53,075** | **19,370** | **75** | **53** | **561** | **275,796** |
| Additions | - | 195 | 20,574 | - | - | - | 1,025 | 21,794 |
| Additions related to Quadrant acquisition (see note 17) | 39,609[3] | - | 9,385[1] | - | 494 | - | - | 49,488 |
| Exchange differences | (387) | - | (136) | - | - | - | 84 | (439) |
| Amortisation expense | - | (40) | (23,155) | (4,268) | (75) | (53) | (218) | (27,809) |
| Balance at 31 December 2021[1] | 241,817 | 222 | 59,743 | 15,102 | 494 | - | 1,452 | 318,830 |
| Additions | - | | 10,065[2] | - | - | - | 875 | 10,940 |
| Exchange differences | 238 | 6 | (117) | - | - | - | (57) | 70 |
| Amortisation expense | - | (26) | (12,843) | (2,134) | (79) | - | (108) | (15,190) |
| Balance at 30 June 2022 | **242,055** | **202** | **56,848** | **12,968** | **415** | **-** | **2,162** | **314,650** |

[1] The 31 December 2021 balances have been re-stated to reflect the acquisition accounting adjustments made during the period with respect to opening balances (refer to note 17 for further information).

[2] The additions in product development during the reporting period relate to continued investment by Appen, in development and the addition and acquisition of new features, to drive revenue growth, scale and cost efficiency.

[3] During the period, the 31 December 2021 provisional goodwill amount relating to the Quadrant acquisition was adjusted as a result of the identification, recognition and valuation of Quadrant acquisition-related intangible assets (brand and product development). The goodwill was calculated as the residual of the purchase consideration, the identified acquisition-related intangible assets, and the carrying value of the other acquired assets and liabilities (refer to note 17).

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

*Identification and valuation of Quadrant acquisition-related intangible assets*
For the purpose of allocating the purchase consideration and valuing the goodwill, the acquisition-related intangible assets have been valued according to the following valuation methodologies:

| Type of intangible asset | Valuation methodology |
|---|---|
| Brand | The brand has been valued based on the relief from royalty method, as the preferred method to value the Quadrant brand, and includes several key assumptions associated with forecast revenues, royalty rates and timeframe to transition customers to the Appen brand name. The useful life has been estimated as 5 years. |
| Customer relationships | Customer relationships have been valued based on the Multi-Period Excess Earnings (MEEM) basis. The excess earnings is based on the present value of projected future earnings (revenue projections, EBITDA margins, attrition rates) net of a reasonable return of other assets, also contributing to that stream of earnings.<br><br>The fair value of customer relationships has been estimated to be $nil, as at the date of acquisition. Quadrant has only recently commenced selling POI data to customers. The majority of the customer and enterprise value, for Quadrant, is in the platform assets, which will drive value for customers and the Appen Group. |
| Platform assets/product development | Quadrant has three types of platform assets that it is continuously developing. The name of each platform and valuation methodology is listed below: |

| Type of Platform asset | Estimated useful life |
|---|---|
| Quadrant Consent Management Platform | This platform is used by the developer to ensure that the data collected complies with all global privacy laws. The useful life has been estimated as 7 years. |
| Location data Platform | Mobile data is gathered from data partners and customers can use this data to perform location analytics and location-based intelligence. The useful life has been estimated as 7 years. |
| Point-of-Interest (POI) Platform | The Point-of-Interest Platform provide up-to-date and tailored granular POI data for customers, using its geolancer contributors. The useful life has been estimated as 7 years. |
| **Valuation methodology for each Platform** | To determine the fair value of the Quadrant Consent Management Platform (QCMP), the relief-from-royalty method was used, which estimates the hypothetical royalty if the intangible asset was licensed from an independent third party owner. The fair value is the net present value of the prospective stream of hypothetical royalty savings that would be generated over the expected useful life of the platform asset.<br><br>For the Location data Platform and Point-of-Interest Platform, the MEEM was used as the preferred method to calculate fair value. The excess earnings is based on the present value of projected future earnings from the respective location and POI data streams (revenue projections and EBITDA margins) net of a reasonable return of other assets also contributing to those streams of earnings. |

## Note 11. Non-current assets – investments

During the period, the Group invested GBP2.0m in exchange for a minority interest stake in Mindtech Global Limited ("Mindtech"). Appen's CEO, Mark Brayan joined the Board of Mindtech as part of the investment.

At 30 June 2022, the Group's investment in Mindtech represents a fair value investment.

| Entity | Country of incorporation | Fair value at 30 June 2022 $000 | Fair value at 30 June 2021 $000 |
|---|---|---|---|
| Mindtech | England | 2,431 | - |

The breakdown of the fair value investment is summarised in the section below.

| | 30 June 2022 $000 |
|---|---|
| Consideration paid at acquisition date | 2,633 |
| Foreign exchange movement on investment | (202) |
| **Fair value at 30 June 2022** | 2,431 |

## Note 12. Lease liabilities

| | 30 June 2022 $000 | 31 Dec 2021 $000 |
|---|---|---|
| **Current liabilities** | | |
| Lease liability | 4,185 | 5,004 |
| **Non-current liabilities** | | |
| Lease liability | 9,109 | 10,056 |

## Note 13. Earn-out liability

| | 30 June 2022 $000 | 31 Dec 2021 $000 |
|---|---|---|
| Current liability | 4,817 | - |
| Non-current liability | 13,759 | 18,359 |
| | 18,576 | 18,359 |

The present value of the earn-out liability is represented below:

| | 30 June 2022 $000 |
|---|---|
| Earn-out liability at acquisition date of 13 September 2021 | 17,702 |
| Deemed interest (13 September 2021 to 31 December 2021) | 657 |
| Earn-out liability at 31 December 2021 | 18,359 |
| Deemed interest (1 January 2022 to 30 June 2022) | 217 |
| Earn-out liability at 30 June 2022 | 18,576 |

## Note 14. – Equity – issued capital

| | 30 June 2022 Shares | 31 Dec 2021 Shares | 30 June 2022 $000 | 31 Dec 2021 $000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 123,446,356 | 123,074,916 | 262,917 | 262,917 |

*Movements in ordinary share capital*

| **Details** | **Date** | **Shares** | **US$000** |
|---|---|---|---|
| Balance | 1 January 2022 | 123,074,916 | 262,917 |
| Issue of shares on exercise of performance rights | 24 February 2022 | 302,431 | - |
| Issue of shares on exercise of performance rights | 24 March 2022 | 6,649 | - |
| Issue of shares on exercise of performance rights | 16 June 2022 | 62,360 | - |
| Balance | 30 June 2022 | 123,446,356 | 262,917 |

## Note 15. Equity - dividends

Dividends paid during the half-year were as follows:

| | 30 June 2022 $000 | 30 June 2021 $000 |
|---|---|---|
| 2021 final dividend of AU 5.5 cents per share (2021: 2020 final dividend of AU 5.5 cents per share) | 5,019 | 5,242 |

## Note 16. Earnings per share

| | Group | |
|---|---|---|
| | 30 June 2022 $000 | 30 June 2021 $000 |
| (Loss)/profit after income tax attributable to the owners of Appen Limited | (9,364) | 6,690 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic and diluted earnings per share | 123,295,924 | 122,836,644 |
| Adjustments for calculation of diluted earnings per share: | | |
| Performance rights | -[1] | 2,167,371 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 123,295,924 | 125,004,015 |
| | Cents | Cents |
| Basic earnings per share | (7.59) | 5.45 |
| Diluted earnings per share | (7.59)[1] | 5.35 |

[1] Whilst, there are unvested performance rights at 30 June 2022, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share. The calculation of diluted earnings per share does not assume exercise of the performance rights, or issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

## Note 17. Business Combinations

On 13 September 2021, Appen Limited acquired Quadrant Global Pte Ltd ("Quadrant"), a global leader in mobile location and Point-of-Interest (POI) data, thereby expanding Appen's addressable market, data capabilities and product offering for its existing customers and opening new growth opportunities for the delivery of high-quality data to organisations that rely on geolocation and POI data for their business.

The total consideration included an upfront consideration of $25,268,000 (cash consideration paid on 13 September 2021 adjusted for working capital) and an earn-out payment of up to $20,000,000 upon achieving revenue milestones in 2022 and 2023. At acquisition date, the discounted fair value of the earn-out payment was $17,702,000. Total goodwill was $39,609,000 representing the difference in the fair value of net assets acquired to consideration paid or payable, which includes the identification, recognition and valuation of identifiable intangible assets.

The acquired business contributed half-year revenues of $1,745,000 (2021: $1,129,000) and a half-year loss after tax of $1,279,000 (2021: $228,000). The 2021 comparative relates to the period from the date of acquisition on 13 September 2021 to 31 December 2021. The increased expenditure in 1H22 relates mainly to investment in developing the geolancer POI platform, to deliver granular location data at scale, critical for mapping, digital applications and other use cases.

The below table shows the acquisition date net assets acquired, goodwill and consideration paid and payable. The identification and fair value measurement of the assets and liabilities acquired are still provisional and reflect the identification and valuation of the acquisition-related intangible assets at acquisition date. The comparative information disclosed in these financial statements have been re-stated to include the adjusted fair values detailed below. Under the accounting standards, the goodwill measurement period must not exceed one year from the acquisition date (ie, be finalised by 13 September 2022).

| | Original provisional amount 13 September 2021 $000 | Adjustments $000 | Re-stated provisional amount 13 September 2021 $000 |
|---|---|---|---|
| Cash and cash equivalents | 269 | - | 269 |
| Trade and other receivables | 908 | - | 908 |
| Inventory - cryptocurrency | 2,481 | (802)[1] | 1,679 |
| Brand (refer to note 10) | - | 494 | 494 |
| Platform development (refer to note 10) | - | 9,385 | 9,385 |
| Trade payables | (294) | - | (294) |
| Other payables | (53) | - | (53) |
| Accrued expenses | (508) | - | (508) |
| Unearned revenue | (238) | 43 | (195) |
| Deferred revenue | (5,041) | 1,973[2] | (3,068) [2] |
| Deferred tax liability | - | (5,256)[3] | (5,256) |
| **Net (liabilities)/assets acquired at balance date** | **(2,476)** | **5,837** | **3,361** |
| Goodwill | 45,446 | (5,837) | 39,609 |
| **Acquisition date fair value** | **42,970** | - | **42,970** |

## Note 17. Business Combinations (continued)

| | Original provisional amount 13 September 2021 $000 | Adjustments $000 | Re-stated provisional amount 13 September 2021 $000 |
|---|---|---|---|
| Cash paid | 25,268 | - | 25,268 |
| Earn-out liability (contingent consideration) | 17,702 | - | 17,702 |
| Total consideration | **42,970** | - | **42,970** |
| Add/(less): Fair value of net identifiable liabilities/(assets) acquired | 2,476 | (5,837) | (3,361) |
| Goodwill | **45,446** | **(5,837)** | **39,609** |
| **Cash used to acquire business, net of cash acquired** | | | |
| Total consideration | 42,970 | - | 42,970 |
| Less: cash and cash equivalents | (269) | - | (269) |
| Less: contingent consideration | (17,702) | - | (17,702) |
| **Net cash used** | **24,999** | - | **24,999** |

[1] Quadrant held eQUAD tokens on its balance sheet at acquisition date. These tokens have been re-classified from inventory to deferred revenue, as the tokens represent a future obligation by Quadrant to deliver services to the token holders.

[2] In accordance with AASB 15 *Revenue*, the deferred revenue balance is a contractual liability, in the form of eQUAD issued by Quadrant pre-acquisition, with an underlying future obligation by Quadrant to provide services, in accordance with the token agreement.

Under AAASB 3 *Business Combinations*, the measurement of the deferred revenue liability is the fair value of the future service or obligation measured at the date of acquisition, which is the amount of revenue that Quadrant expects to receive upon subsequent redemption of eQUAD tokens by holders. The acquisition date fair value is based on an assessment of several factors by management, which include the:

- expected time-frame for holders to redeem their eQUAD tokens (the redemption period), having regard to the fact that cryptocurrency is not yet widely used globally as a medium of exchange;
- rate of redemption for services by token holders;
- velocity that the eQUAD tokens will be exchanged through the blockchain ecosystem;
- expected future value of the eQUAD tokens at time of redemption for services or when Quadrant acquires eQUAD tokens on-market to pay suppliers, geolancers and employees (ie use the eQUAD tokens as a medium of exchange and a means of transaction); and
- number of eQUAD tokens expected to be in the blockchain ecosystem at the end of the redemption period.

## Note 17. Business Combinations (continued)

The fair value of the deferred revenue balance is equivalent to the number of eQUAD tokens in circulation at acquisition date multiplied by the market value of eQUAD tokens on that date.

[3] Recognition of the deferred tax on deferred revenue, non-deductible amortisation on platform development, interest unwind on earn-out liability and historic tax liabilities.

Quadrant holds cryptocurrency assets, mainly in the form of Ethereum and stableCoin (USDC). Management has deemed that the cryptocurrency assets should be classified as inventory, and therefore valued at the lower of cost and net realisable value. This valuation is derived from relevant exchanges for each of the different types of cryptocurrency held at acquisition date.

*Key Accounting judgement*
Management has exercised judgement in determining each of the factors outlined above and has relied on the views of an independent third-party expert in forming its view.

## Note 18. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing, and together with higher global inflation and higher interest rates in many countries, there remains global economic uncertainty. The Group did not access any government COVID-19 related grants in the period or to the date of signing of this report.

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

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 2022 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

___________________________
Richard Freudenstein
Director

25 August 2022
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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2022 and of its performance for the Interim Period 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 2022;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date;
- Notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

The Interim Period is the six months ended on 30 June 2022.

### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia.  We have also fulfilled our other ethical responsibilities in accordance with the Code.

## 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.

## Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the [Half-Year/Interim Period] ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period 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.

KPMG

KPMG

Cameron Slapp

*Partner*

Sydney

25 August 2022