Appen Limited
Level 6, 9 Help Street
Chatswood NSW 2067

Tel: 02 9468 6300
www.appen.com

ASX ANNOUNCEMENT
27 February 2023

ANNUAL REPORT

Appen Limited (**Appen**) (ASX:APX) is pleased to release its Annual Report for the year ended 31 December 2022.

Authorised for release by the Board of Appen Limited.

Please contact for more information:

Rosalie Duff
Investor Relations
+61 2 9468 6300
investorrelations@appen.com
www.appen.com/investors

appen

Powering Real World AI

2022 Annual Report

Contents

Appen Limited
ABN 60 138 878 298

All amounts in this report are in United States (US) dollars unless otherwise stated.

About this report

This Annual Report combines our financial and non-financial performance, linking environmental, social and governance matters to our strategy and business performance. In preparing our Annual Report, we have used the International Integrated Reporting Council (IIRC) Framework, the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) to guide our disclosures on how Appen creates value for shareholders and which topics are most material to our business.

Underlying results are alternative measures to those recommended under International Financial Reporting Standards (IFRS) and are used by management to assess the underlying performance of the business. Underlying results have been derived from statutory measures contained in the financial statements but have not been subject to audit. A reconciliation between statutory and underlying results is detailed on page 39 of this report.

Appen has five customer-facing business units including Global, Enterprise, Government, China and Quadrant. Details of our businesses and operating segments can be found on pages 66 and 67 of the Directors' report.

Sustainable Development goals

We support the United Nations' Sustainable Development Goals (SDGs), and by doing our part to contribute to the success of the SDGs we believe we can help contribute to a more sustainable future. On page 169 we have identified five SDGs as priority SDGs where we believe we can best contribute.

Forward-looking statements

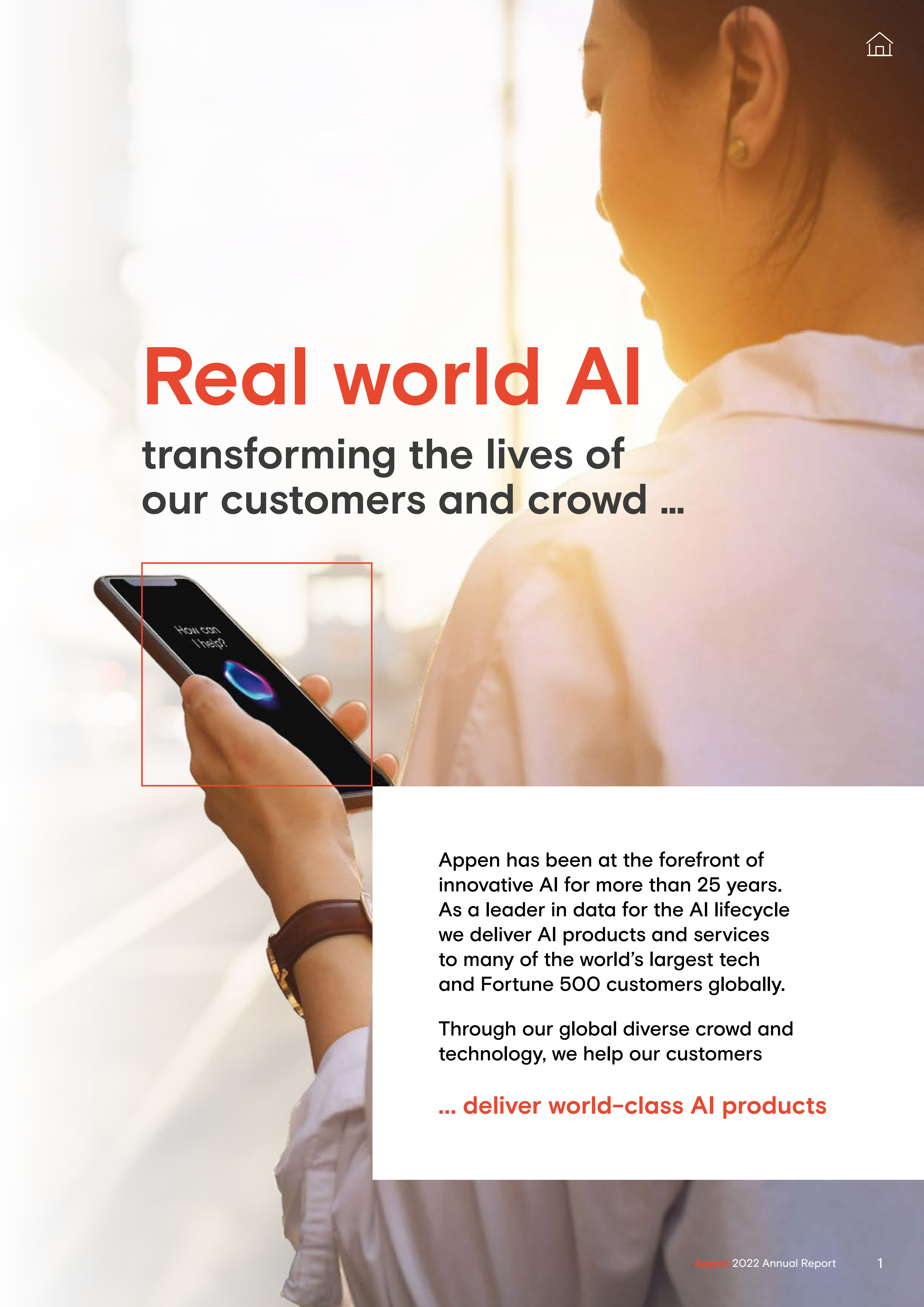
This report contains forward-looking statements. These statements involve subjective judgement and analysis and are subject to significant uncertainties, risks, and contingencies, many of which are outside the control of Appen. In particular, they speak only as of the date of this report, they are based on particular events, conditions or circumstances stated in the materials, they assume the success of Appen's business strategies, and they are subject to significant regulatory, business, competitive, currency and economic uncertainties and risks. Except as required by applicable regulations or by law, Appen does not undertake to publicly update or review any forward-looking statements, whether as a result of new information or future events. Past performance cannot be relied on as a guide to future performance.

Material issues

A matter is considered material if senior management and the board believe it could significantly impact the value created and delivered in the short, medium, and long term. We identify and capture material issues through stakeholder engagement and our annual risk and materiality assessment. The outcome of these processes and our material issues are described on page 168.

Operating and Financial Review

The sections of this report from pages 10 to 59 titled the Chair message, CEO message, How we create value, Identifying and managing risk and Our approach to governance, comprise our Operating and financial review (OFR), and form part of the Directors' report.



Real world AI

transforming the lives of our customers and crowd …

Appen has been at the forefront of innovative AI for more than 25 years. As a leader in data for the AI lifecycle we deliver AI products and services to many of the world's largest tech and Fortune 500 customers globally.

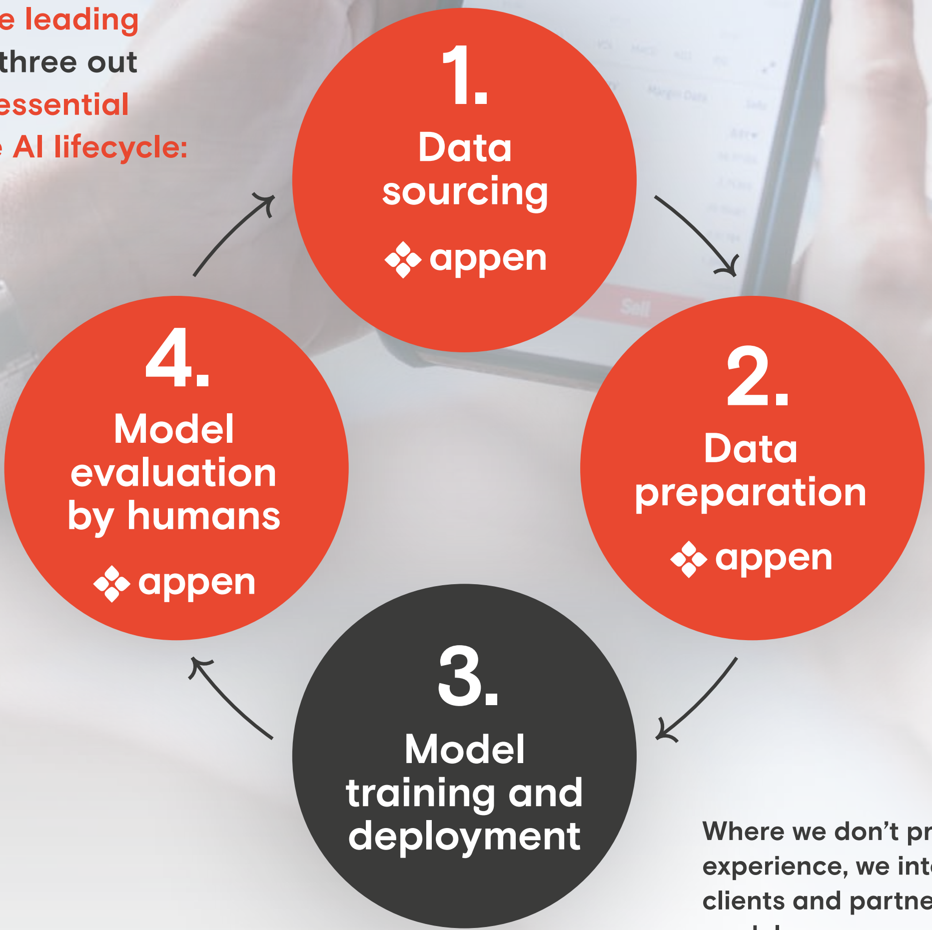
Through our global diverse crowd and technology, we help our customers

… deliver world-class AI products

Market overview

AI is a dynamic and fast paced market. The following outlook provides insight into how AI may continue to evolve, which we constantly evaluate to understand both the opportunities and potential risks facing Appen.

Appen is the leading provider in three out of the four essential steps of the AI lifecycle:



Where we don't provide native experience, we integrate with clients and partner with leading model management companies.

State of play

FY22 was a year of challenging external operating conditions. As the world emerged from the global pandemic, interest rates have risen from historic low levels in response to inflationary pressures in many global economies. This has led to weaker demand for digital advertising and a slowdown in spending by some of our customers as they reprioritised and canceled some traditional core projects and cut costs.

There has been no fundamental change to core AI technology platforms used in our customers' production applications.

Despite the significant headwinds facing the industry, data remains fundamental to machine learning and AI. Our customers continue to need our support through every stage of the AI lifecycle.

AI trends and market outlook

There remains significant upside for companies that adopt and use AI at scale. As companies seek to become more efficient and automate processes, AI solutions are becoming essential for success. As such, the International Data Corporation (IDC) expects global spending on AI (which includes software, hardware, and services for AI-centric systems) to increase from its current level of ~$118 billion to reach more than $300 billion by 2026.

Appen operates in the AI data services segment of the market. To date, growth in this segment has been underpinned by three key factors including:

1. search and ad relevance,
2. voice interface; and
3. computer vision and autonomous vehicles (AV).

Appen is a global leader in search and ad relevance. We also have a strong global presence in voice interface. In China, we have an established leadership position in AV and are fast becoming an emerging AV player in the rest of the world.

Vehicle safety is a key focus for regulators. The European Union (EU) New Car Assessment Program (NCAP) is establishing new rules on vehicle safety and supports a range of mandatory advanced driver assistance systems, such as distraction and fatigue warnings. We expect United States auto regulations to follow.

We believe that new developments in AI such as the metaverse, the merging of online and offline worlds, and the ongoing need for data to be representative of the real world will continue to underpin the need for data collection. Data privacy regulations will also continue to drive the need for specific or bespoke data requirements.

2022 was a breakthrough year for AI. The evolution of large language models (i.e. ChatGPT) and text-to-image models (i.e. Stable Diffusion), known collectively as generative AI, has created significant excitement around the future of AI.

To reach its full potential, generative AI will require a significant amount of real-person data collection and model feedback. This is because generative AI algorithms rely on large amounts of high-quality data to learn and improve. Without access to a diverse range of real-world data, generative AI algorithms may produce biased or inaccurate results. Large-scale adoption of generative AI is in its infancy. We are well placed to capture growth through our crowd-based approach to data collection and AI model feedback.

The demand for the data labelling market is expected to remain strong. Research firm Cognilytica estimated the market for global data labelling at ~$5 billion in 2022 and expect it to reach more than $19 billion by 2027.

Mission, vision and values

At Appen, we are a trusted partner for 1,000s of successful data sourcing, data annotation and model evaluation projects, enabling the most innovative companies to execute, expand and improve world-class AI initiatives.

We have a clear view of the future and how we help our customers

Our mission

Enable our customers to build better AI by creating large volumes of high-quality unbiased training data faster

Our vision

To be the leading global provider of data for the AI lifecycle

At Appen, the way we work and how we behave is guided by our values

Our values

Performance

is having the focus and agility to achieve quality outcomes and exceed expectations. We never stop learning, and push and challenge ourselves every day.

Humility

is being part of a team; giving credit and showing gratitude to others for their contributions; seeking diverse perspectives; and not being afraid to ask for help when we don't know something.

Honesty

is being a truth-teller in a respectful way; taking accountability for our actions; giving and receiving direct feedback; and, being honest with each other, our customers, our crowd and ourselves.

Grit

is about taking ownership; not giving up; and finding the courage to succeed. Grit and resilience give us the confidence and determination to achieve our goals.

2022 at a glance

Customers

+20%

revenue growth from our second largest customer

184

new clients in New Markets

9 out of 10

leading auto customers in China

+9 years

average tenure of top five customers

Financial

Revenue (US$M)

$388.5M

↓ 13%

Underlying EBITDA[1] before FX (US$M)

$13.6M

↓ 83%

Underlying NPAT (US$M)

$(22.8)M

Statutory NPAT[2] $(239.1)M

Dividend cents per share

Nil

2021 10¢

1 Underlying EBITDA excludes the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payment expenses.

2 Includes non-cash impairment of $204.3 million reflecting the impairment of Goodwill and certain intangibles associated with the New Markets (excl China) cash generating unit, comprising Global Product,Enterprise, Government and Enterprise.

Employees

50%

Female representation amongst our board

in line with 50% in FY21

43%

Female representation amongst senior leadership

↑ from 38% in FY21

Social and environment

Net zero by 2030

set our road map and committed to SBTI

Ethical AI

through our Crowd code of ethics

100%

renewable Cloud supplier partner

Technology

Partnership in Mindtech

Appen's first investment in synthetic data

5 secure facilities

ISO certified

Mobile App

improves the user experience for our crowd

Financials as at 31 December 2022, all comparisons are to the year ended 31 December 2021. Underlying net profit after tax (NPAT) and earnings before interest, tax, depreciation, and amortisation (EBITDA) exclude the impact of items relating to business acquisitions, including amortisation of acquired assets, share-based payments, restructure costs, transaction costs and fair-value adjustments. Underlying NPAT also excludes deemed interest on acquisition-related earn-out payments.

2022 Strategy

#1 Data for the AI lifecycle

GROW revenue and diversify

Drive growth in target customer segments

AUTOMATE crowd and labelling processes

Leverage AI and machine learning (ML) in our labelling operations to improve the productivity of our crowd

EXPAND our product offering

Expand our Tangible Addressable Market (TAM) by adding new products and capabilities – e.g. Quadrant and synthetic data

EVOLVE how we do business

Improve scalability and productivity of our go-to-market and project delivery

Appen is a global leader in providing data for the AI lifecycle. 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
- → EVOLVE

The four pillars of Appen's strategy are to **GROW** and diversify revenue, **AUTOMATE** our crowd and labelling processes, **EXPAND** our product offering and **EVOLVE** how we do business. Our transformation office works across important elements of our strategic pillars to position the business for success.

Technology underpins all four pillars of our strategy and has underpinned our growth. We continue to invest in technology to combine our expertise, technology, and crowd to deliver better outcomes for our customers. Through our technology we take a product-led focus, enabling Appen to build scale and repeatable products and services.

Grow

Appen is already well advanced on the first pillar of its strategy, which aims to **GROW** revenue and diversify. We are achieving this by expanding within our existing customers and we continue to invest in target customer segments, namely Enterprise, China, Quadrant and Government. During the year, we onboarded a new Enterprise leadership team who have progressively signed new and larger deals, including a key project with a global car manufacturer for in-cabin data collection. We also leveraged the growth and infrastructure of our China business by investing in a local sales team in Japan and Korea.

Automate

The second pillar of Appen's strategy is to **AUTOMATE** our crowd and labelling processes to improve the productivity of our crowd. This improves our unit economics and provides high quality outcomes for our customers. We have a dedicated data science team that builds and deploys AI models to support the labelling process.

Expand

The third pillar of our strategy aims to **EXPAND** our product offering and our TAM by adding new products and capabilities. Examples of this include the acquisition of Quadrant and our minority investment in Mindtech Global Limited (Mindtech).

We acquired Quadrant in September 2021. Quadrant is a global leader in mobile location and Point-of-Interest (POI) data. It operates a proprietary Geolancer platform that is used to deliver authentic, accurate, and up-to-date POI data. Data is manually verified on the ground by crowd workers. Through Quadrant and our existing global crowd, Appen is strongly positioned to meet our customers' scale, speed, and quality requirements. We continue to focus on the ramp up of Quadrant to our existing Global and Enterprise customers.

We entered into a partnership with Mindtech in March 2022. Mindtech is a synthetic data company specialising in the creation of high-quality training data for AI computer vision models. Synthetic data is a new and an emerging component of the training data market that is used to augment real-world data. It is used for the creation of edge-case data that is difficult to capture.

The AV space is a data rich opportunity. In China, we support 12 leading car manufacturers with in-cabin work. China continues to present a potentially large opportunity, requiring modest investment with near-term impact.

The increased need for data privacy and provenance requirements underpins the ongoing need for data collection. Data collection is an attractive growth avenue given the modest product and personnel investment.

Evolve

The fourth pillar of Appen's strategy is to **EVOLVE** how we do business to improve scalability and productivity of the business. This is the focus of our transformation office. During the year we established several workstreams with a focus on building technology and processes that improve our operations. We have made material improvements across our operations, including how we deliver projects and interact with our crowd.

Financial outcomes

As part of our strategy, we also set FY26 targets for revenue, profitability, and business mix. Our FY22 revenue performance impacts our ability to deliver on these targets in the original timeframe and may also require higher than expected benefits from our offshoring strategy. We have withdrawn our 2026 targets and plan to update the market with our new strategy prior to the Annual General Meeting (AGM) in May.

FY23 focus

In FY23 the EVOLVE component of our strategy will be of great focus to deliver productivity benefits across the business. A major part of our transformation efforts will be focused on improving Appen Connect, our crowd management and project delivery platform. We aim to significantly enhance capabilities of the platform by the end of 2023, which will allow us to deliver larger quantities of data to our customers, more efficiently. We are also revamping the user experience for our crowd, including a move to a mobile-first interface, automated support, and simplified project qualification. Improving the experience for our crowd will strengthen our competitive advantage of having a large, global, and diverse workforce.

Shaping the future

As a global business servicing large US tech companies, FY22 presented many external challenges which are reflected in Appen's financial performance. Against this backdrop, the Board and management focused on the areas that were within our control and implemented our strategy to improve returns and build a more profitable business.

2022 financial result

For the 2022 financial year, Appen announced a Statutory Loss of $239.1 million, primarily reflecting the impairment of the Company's investment in its New Markets business. After carefully reviewing the carrying values of all assets, a non-cash impairment charge of $204.3 million was taken.

As noted during the year, challenging external operating and macro conditions resulted in weaker digital advertising revenue and a slowdown in spending by some of our major customers. Total revenue declined 13.1% to $388.1 million. Underlying EBITDA (before foreign exchange) declined from $78.8 million to $13.6 million. While these results are disappointing, they are in line with the guidance provided on 6 October 2022. It is pleasing however, that excluding Global Product, New Markets revenue increased 15.4% to $70.2 million, underpinned by strong growth in China.

During the year, the board has focused on maintaining adequate liquidity and an appropriate allocation of capital. As a reflection of Appen's 2022 financial performance, we did not pay an interim or final dividend.

New leadership

On 15 December 2022, we appointed Armughan Ahmad as our new CEO & President. He officially joined Appen on 9 January 2023. Armughan is one of the technology industry's most successful and respected executives, with deep technology expertise in international markets.

Armughan's experience in driving growth, operational excellence and delivering best-in-class innovation will be critically important for Appen. His mandate includes reviewing our strategy, so Appen is well positioned to fully capture the long-term growth prospects in the global AI market and improve returns for our shareholders.

On behalf of the Board, I thank Mark Brayan for his considerable contributions to Appen during his more than seven years as CEO. He has been instrumental in growing the business from around $60 million revenue in 2015 to more than $440 million revenue in 2021. He leaves with our best wishes for the future.

Board renewal

During the year, we continued to focus on our program of Board renewal – filling the vacancies created by the retirement of several longstanding directors. We identified three new Non-executive Directors with deep skills in technology, marketing and finance. The appointments of Stuart Davis, Lynn Mickleburgh and Mini Peiris come at a pivotal time for Appen. Collectively, their experience, skills and detailed knowledge will greatly benefit the board. Their full biographies are detailed on pages 60 and 61.

Executive remuneration

Commencing in FY22, we reset our remuneration strategy in line with shareholder expectations. Our executive remuneration remains heavily weighted towards performance and at-risk equity-based pay. The board continues to set challenging short and long-term targets.

Our short-term incentive (STI) scorecard for key management personnel also now includes a combination of financial and non-financial metrics to reflect our focus on customer, crowd and employee satisfaction. While we saw improvements in customer NPS and employee engagement, our crowd NPS score was disappointing. We are working hard to improve the crowd experience and lift crowd satisfaction.

In recognition of the improvements in customer NPS and employee engagement, a partial STI was paid to key management personnel. There was no STI payable for the company's financial performance.

Armughan has been hired on a remuneration package that reflects the North American technology sector where Appen operates and Armughan lives. This package is very heavily weighted to at risk pay, with targets that require a significant improvement in Appen share price.

Indicative and non-binding offer

We received an indicative offer from Telus International. The offer was non-binding and highly conditional at a price of $9.50. Appen attempted to engage Telus in a confidential discussion regarding the terms of the offer, but details of their proposal became public prior to our AGM, and we were required to disclose the offer. Without any explanation, Telus revoked the offer through their advisors. While this may have created some uncertainty for you as shareholders, you can be assured that at no point did we provide any non-public information to Telus.

Shaping our future

The Board's priority has been to guide Appen through an uncertain operating environment and assist management in implementing the Company's strategy. We remained focused on maximising near term returns and managing costs through several initiatives. These included the acceleration of productivity improvements; evaluating and increasing the use of offshore facilities for project delivery, engineering and business support; and rightsizing investments to market opportunities. Our transformation office is fulfilling an important element of our strategy – enabling Appen to take a product-led focus by automating many repeatable functions.

Operating sustainably

Building a sustainable business and delivering value to all stakeholders is a key priority. We recognise the value of our one million plus crowd and the value our crowd provides to our customers.

When it comes to the treatment of our crowd, the board understands the expectations of all stakeholders. The high ethical treatment of our crowd as defined in our Crowd Code of Conduct, our Global Ethical sourcing, and Modern Slavery Policy is of paramount importance. Through our transformation program we are highly focused on improving the crowd experience and lifting crowd satisfaction.

Data security and data privacy are an integral part of our business. Every day we are trusted with the data of our customers, crowd and employees, and you, our shareholders. Our systems and processes are based on international standards and very quarter the board meets with management to assess our capability. Our inhouse experts remain at the forefront of data security to protect stakeholder data and meet privacy obligations. Promoting a diverse and inclusive culture across all aspects of Appen's business is also a key focus.

For AI to perform correctly it requires diverse datasets that are representative of the real world. To deliver on our committment to responsible AI we ensure our crowd is sufficiently diverse. We foster Impact Sourcing partnerships to support diversity and offer work opportunities to individuals of varying abilities and backgrounds. Through our partnership with the World Economic Forum, we remain focused on responsible AI standards to increase the value of and trust in AI.

Increasing gender diversity, especially in senior roles among our full-time workforce, is an ongoing priority. In 2022 female representation among the senior leadership team increased from 38% to 43%. We also maintained female representation of 50% among Non-executive Directors.

Appen is committed to supporting international initiatives to transition to net zero emissions. This year, we set our Net Zero Roadmap to achieve our net zero emissions target.

We also became a signatory to the United Nations Global Compact and have committed to take action to embed the ten principles within our business practices.

Outlook

We recognise that it's been a difficult period for shareholders. We sincerely thank you for your patience and ongoing support. On behalf of the board and management, we acknowledge there is more to do to earn your confidence and trust.

While the operating environment may continue to present challenges, we are committed to improving Appen's performance. Under Armughan's leadership we are focused on our growth strategy and positioning Appen for a stronger future.

Before closing, I would also like to acknowledge the contribution of our employees during the past 12 months. They have worked tirelessly, and the Board and I thank them for their dedication and continued service to our crowd and customers.

RICHARD FREUDENSTEIN

Non-executive Chairman

Reignitinggrowth

It's my great pleasure to be joining Appen as CEO & President. AI is changing the world and Appen is a key player in this major global shift. I'm excited to be leading Appen through our next phase of growth.

My first few months at Appen have been filled with learning. I have engaged with all staff during our Next all company kickoff events in US, UK, Australia, China and the Philippines, spoken with many crowd contributors and met in person with many of our clients. I have experienced first hand the deep sense of pride within our company in terms of the impactful work we do and our positive impact on society.

Appen's FY22 results however, reflect the tough times faced by many tech companies, including our large clients. Despite the challenging external environment, we have also seen positive signals in parts of our business. Revenue from our second largest customer grew 20% and revenue from China grew 36% in 2022. We added 184 new clients and secured 25 non-Global deals over $250k. For Enterprise, our average deal size increased to over $120K.

AI for Good Strategy

One of the reasons why I joined Appen is because the work we do is impactful and the way we do it has a positive impact on society. We call this AI for Good, and live this through our Be Good, Do Good and Lead Good approach. I strongly believe that Appen's ethical approach is a competitive differentiator and my focus is to further embed sustainability to represent best practices into everything we do.

We help our clients deliver world-class innovative AI products. Appen helps to power everyday applications such as Automatic Speech Recognition models for drive-through fast chain restaurants. We annotate thousands of flight paths to improve the accuracy of estimated flight times for the defence and space division of Airbus. These are only a couple of examples, but we deliver many more. This year, our customer Net Promoter Score (NPS) was well above target and reflects the great work our people do for our clients.

We are incredibly proud of our diverse crowd which spans many cultures, ethnicities and age groups. Through our crowd code of ethics, we promote their wellbeing and by providing opportunities for people of all abilities and backgrounds. This year, to improve our engagement with the crowd, we invested in our Appen Connect technology platform, and other systems to support our crowd and make it easier for them to work with us.

A key focus is to make Appen a great place to work. We have so many talented people across our organisation with deep expertise in sales go-to-market strategies, project delivery, engineering and crowd management. Our people are critical to our success. In FY22, our engagement scores improved and considering the challenging external environment, this result demonstrates the resiliency of our team.

Beyond the crowd and our people, we also focused on doing our part to promote positive social and environmental impacts. Through our partnership with the World Economic Forum and by becoming a signatory UN Global Compact – our unwavering focus is to Lead Good and promote Ethical AI.

Appen's future in a dynamic market

AI is changing the world, and the pace of change is accelerating. It is a dynamic and fast growth market and Appen is a category leader. AI is revolutionising how humans interact with machines and is one of the most important advances that humanity is working on. A large driver of the shift is a generative AI. This AI technology, based on an approach called transformers, is powering some of the most innovative customer experiences including breakout products like ChatGPT.

At Appen we are working with many clients, from big tech companies to medium enterprises on generative AI and transformer-based technologies. In fact, much of our revenue is related to approaches like reinforcement learning with human feedback for transformer based AI.

We expect generative AI to be an ongoing growth driver for Appen. Human feedback is what determines the end experience for the customer. Our expertise in large scale relevance programs is the same as what's needed for generative AI.

New long-term vision

My key mandate is to review Appen's strategy and reset the business. My overarching first impression is that Appen has enormous potential. Appen has done a great job in growing the market for data for AI. But we now have an opportunity to reset the business and fully capitalise on future growth opportunities being enabled by generative AI. Most successful technology adoption takes time to reach a growth phase, it then enjoys a high growth phase before it reaches a period of more stable growth. Fast growing successful companies that sustain long-term high-growth continually reinvent themselves look to add new s-curves over time.

As a first step in defining Appen's new s-curve we have announced a vision to expand beyond data for AI and build industry vertical focused AI solutions. Our industry focused solutions will bring together our AI platform services with other leading AI technology and services companies to deliver business outcomes for large enterprises.

We are redefining our position in the AI market from a valuable data provider for AI to a partner that provides products and solutions focused on industry verticals such as Financial Services, Consumer Retail, Industrial Markets and Healthcare segments. We have already seen great success in these verticals in the past year in our Enterprise and China markets.

Expanding from data for AI to a complete AI platform and products significantly increases our tangible addressable market (TAM). Industry sources estimate that the AI data market will reach around $15 billion by 2026, while the total AI platform and services market will be more than $300 billion at the same time. This represents a 20x increase.

My commitment is to turn this growth vision into a well-defined and actionable strategy. I plan to provide shareholders with more detail on our growth vision prior to the AGM in May, including clear milestones and KPIs – so you can monitor and evaluate our progress.

Priorities to reignite growth

In my first few months, I have identified five immediate priorities to reignite growth. My first priority is to establish a greater level of operational rigour. There is huge potential in our business and realising that potential will require us to assess our resources and expenses across the business.

Second, product velocity is key to our success, and we plan to accelerate product launches to capture new market growth. Automating our systems and processes will underpin momentum in product velocity. The integration of generative AI into our platform and solutions will be key to automating part of our processes.

Third, my focus is to build a consultative sales and a world class go-to-market capability. Appen has a great reputation among our clients. Our brand is synonymous with trust, quality and dedication. Lifting our brand awareness is key.

Fourth, we realise that creating world-class AI cannot be done alone. We will expand our partner ecosystem to reach more clients and drive greater impact within our clients. As part of this we will focus on building industry solutions in key verticals.

Finally, Appen's ethical approach is a competitive differentiator moving forward and my focus is to further embed AI for Good into everything we do. We are establishing an AI for Good committee dedicated to leading the way in AI for Good by ensuring we 'do what we say' through our social and environmental initiatives. I will be proudly chairing this committee.

Wrap up

It would be remiss of me not to comment further on Appen's FY22 financial performance. Let me just say that I understand your disappointment.

Restoring value and creating long term value for shareholders, clients, employees, and crowd is the ultimate goal. Establishing operational rigour across the business is my top priority to drive positive momentum. Appen has strong fundamentals in a high growth market. Operational rigour will ensure we maximise growth in our current market and set us up for success as we grow into new areas of the market.

Appen is a key partner for the world's leading AI companies and has the potential to be even greater – and that is what really excites me. Thank you to our shareholders for your ongoing support.

ARMUGHAN AHMAD

CEO, President and Managing Director

How we create value

Value Driver	Principle risks	How we deliver value
Technology, processes systems	→ Investment in technology innovation and transformation → Compliance with security, privacy and other data regulations	→ Through our technology and innovative solutions, we look to streamline and automate processes so we can deliver large volumes of high-quality data to our customers. → Our engineers, privacy, and cyber security teams work to ensure that data availability targets are met, and data is protected and secure.
Global crowd	→ Crowd conditions → Crowd supply meets customer demand	→ We are committed to treating our crowd fairly in accordance with our Crowd Code of Ethics. → Support our crowd under our Whistleblower and Speak Up Policy. → Our Impact Sourcing strategy also provides jobs to people who have limited prospects for employment.
Our people	→ Talent strategy and employee value proposition	→ Focus on making Appen a great place to work and creating a magnetic, accountable and inclusive culture. → Invest in our people and HR systems to build a workforce for the future and optimise the employee experience. → Embed diversity principles across our business via our Diversity policy.
Customer and brand	→ Changing customer strategy and needs → Ability to execute on operational requirements	→ Doing great work for our customers and deliver a superior customer experience. → Monitor relevant market and customer trends to meet the evolving needs of customers.
Financial	→ Strategic direction of business → Financial sustainability	→ We aim to grow the business and to deliver increased revenue and earnings to support returns for shareholders.
Social and environment	→ Compliance with legal, statutory and ethical obligations → Environmental, social and governance (ESG) risks and performance	→ We are taking steps to reduce the impact of our operations on the environment. → Our platform removes traditional barriers to work and increases global participation and representation in the development of emerging technologies. → Committed to achieving fair AI and creating responsible AI standards.

Creating and measuring value

SDGs

- Investment of $42.1 million in product development, including improved functionality for Appen Connect, automation of crowd labelling processes, new roster fill initiative and new machine learning models.
- No material privacy breaches.
- Met or exceeded 99.9% uptime across all our platforms.
- Maintained certification for ISO 27001 and SOC 2.
- Gained ISO 27701 for our China business.

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- We provide flexible, work-from-home opportunities to our global crowd of 1 million+ contractors.
- We help make AI ethical and fair through our Crowd Code of Ethics.
- In response to crowd NPS we delivered initiatives to ensure the crowd are better matched to projects requiring their skills and experience and are on-boarded to available projects efficiently.
- Appointed VP, Crowd Operations to deliver crowd as a customer strategy and lift engagement.

Pages 20-23

- Target 30% female representation of women in senior management positions and for Non-executive directors. Exceeded this target for senior leadership level, Vice President and Senior Director levels and Non-executive directors.
- Higher employee engagement score.
- Continued to deliver the senior leader immersion program for specialty leaders.

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- Higher customer satisfaction with a significant uplift in our Net Promoter Score.
- Enhanced the customer experience by improving the roster fill process and Global programs management, data modalities service range expansion, and process automation.
- We demonstrate leadership in making AI ethical and fair through our Crowd Code of Ethics which also helps to enhance our brand.

Pages 28-33

- In response to the challenging external operating conditions, we focused on high impact initiatives, productivity improvements, use of offshore facilities and rightsizing investments to market opportunities.
- Revised our dividend policy reflecting the operating environment.

Pages 34-39

- Expanded our GHG inventory to include Scope 3.
- Completed our initial Net Zero Roadmap and have committed to net zero for our operations by 2025 and for our wider footprint by 2030.
- Committed to the Science Based Target Initiative.
- Became a signatory to the United Nations Global Compact.
- Partnered with Mercy Corps to bring digital work to underprivileged communities.
- Conducted further research programs to understand representation across the Crowd and address gaps.
- Continued to partner with the World Economic Forum to create responsible AI standards.

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Technology processes, systems

The strength of our technology, processes, and systems, combined with our expertise and crowd, enable Appen to provide essential components of the AI lifecycle – including data sourcing, data preparation and model evaluation.

$41.2M

Investment in product development

99.9%

Met or exceeded uptime across all properties

Priority SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Appen's growth has been underpinned by its technology. We continue to invest in technology and take a product-led focus by combining our technology, expertise, and crowd in a repeatable and scalable fashion to drive great customer experience and efficient delivery.

Our suite of technology products and services includes Appen Mobile, Appen Connect, our Appen Data Annotation platform (ADAP), China platform and through Quadrant we have Geolancer, Hydra and QCMP.

Global Services, Global Product, Enterprise, Government			China	Quadrant		
Appen Mobile	**Appen Connect**	**Appen Data Annotation Platform (ADAP)**	**China Platform**	**Geolancer**	**Hydra**	**QCMP**
Engages, enables and expands our crowd	Matches our global crowd workforce to annotation tasks	Collect and annotate training data	Crowd management and annotation for China markets	Point of interest data collection tools	Location data collection	Management of user consent and data privacy compliance

Our large Global customers typically undertake work on their platforms and engage with our crowd through Appen Mobile and Appen Connect – this is referred to as Global services revenue. Where we derive revenue from our Global customers using our platforms and tools, it is termed Global Product revenue. The Enterprise, Government and China customers use ADAP or China platforms respectively. This year, our focus has also been to cross sell Quadrant product to our Global and Enterprise customers.

Appen Mobile

Appen Mobile is the interface for our crowd where they can sign up, search for projects, and work on data collection tasks anytime, anywhere.

It allows tasks such as video data collection to be completed on a smartphone and uploaded seamlessly. The app improves the user experience for our crowd. Ultimately this helps to attract more people in markets where the use of personal computers is not common and helps to provide more opportunities for contractors to increase their income.

Appen Connect

Appen Connect is a purpose-built crowd management platform that matches the crowd to our projects. Through the platform we recruit, onboard, and pay anywhere between 50,000 to 100,000 crowd contributors each month. We manage large-scale, complex annotation and data collection programs for our customers, which can sometimes involve tens of thousands of crowd contractors.

The platform is also used by our internal recruiters and project managers to match the right contractors to the right jobs, and to monitor quality. The platform includes AI-driven predictive matching functionality that connects crowd workers to tasks best suited to their skills and expertise.

Appen Data Annotation platform

Appen's Data Annotation platform, or ADAP, is a comprehensive data-labelling solution. The platform is used by both our customers and internal teams to design, run, and manage data annotation tasks. It supports a broad range of use cases, from content relevance to computer vision and speech and language.

AI-assisted annotation is an important feature of the platform, where we use AI models to greatly improve crowd productivity and quality. In 2022, we launched several new AI assistance capabilities including Automatic Speech Recognition (ASR) assisted audio transcriptions, auto speaker verification and de-duplication in audio data collection, auto face blurring in video data collection, auto invoice, and image de-duplication in document data collection. We also applied AI assisted auto fraud detection solution which reduced contributor screening time sixfold, as well as reduced fraud activities in our platform with significantly increased fraud detection coverage.

Our tools connect with customer systems through application programming interfaces (APIs) and allows integration with their real-time data pipelines.

China platform

Appen's China platform is a highly tailored crowd management and annotation platform that was built to specific local market requirements.

The China platform has a rich set of annotation tools supporting various data modalities including image, video, audio, and translation. Content relevance is also supported and our lidar and CV tools are key differentiators in this market. The platform has AI pre-labelling capabilities and supports object detection for CV labelling and auto labelling for audio transcription. These features combined provide China with a unique competitive advantage in the local market.

The China platform also supports project and resource management. Tailored solutions are incorporated into the platform, enabling customers to become involved in project delivery and quality reviews.

System and data security

Data security is an essential and core competency of our business model. Our approach is comprehensive and involves people, processes, and technology. As a minimum we adhere to industry recognised standards, such as the International Organization for Standardization (ISO) and National Institute of Standards and Technology (NIST) and implement global best practices.

Mandatory security awareness and privacy training is provided to employees. We also conduct regular synthetic phishing tests to determine how well our training programs are working and to promote employee awareness of the threats and their responsibilities in managing data security.

We provide customers with a range of secure technology solutions. Our SaaS customers can maintain their data in their storage and do not need to physically move it to our environment. For maximum data security, our software can be deployed in customers' air-gapped environment or private cloud.

Customers with higher data security requirements can use one of our five ISO 27001 certified secure facilities in the Philippines, the UK and China. Our Secure Workspace solution which provides facility level security for people working from home is also ISO 27001 certified.

Our crowd can also elect to work (via opt-in) on the China platform. This enables the China team to leverage Appen's global crowd and access a diverse set of language skills, a feature that is difficult for local players to replicate. Data privacy is a key focus and the personal information of the crowd remains on Appen Connect.

Apart from Appen's crowd being able to elect to work on the China platform, the platform is a completely standalone and fully air gapped.

Quadrant

Appen acquired Quadrant in 2021. Quadrant is a global leader in mobile location and Point-of-Interest (POI) data. Quadrant has three core platforms that are used to deliver high accuracy location data for our customers, including Geolancer, Hydra and QCMP.

Geolancer is a propriety POI data collection mobile app. Crowd workers are notified of POI opportunities in their local areas that are completed in the app. This data is compiled into ready to use datasets for last-mile delivery, real estate, retail search and mapping.

Quadrant also has a location data intelligence platform, Hydra. Location data is gathered from a variety of mobile software development kits (SDKs) across the world, allowing customers to perform location analytics and derive location-based intelligence used in location-based advertising, transport optimisation and urban planning.

QCMP is a blockchain enabled data consent management platform embedded in the applications. This enables tracking and management of user consent and data privacy compliance.

Managing and protecting data

We manage and protect large amounts of data, including significant amounts of personal and sensitive information in line with security, privacy, and other data regulations. We are also mindful of the increasing risks posed by cyber security attacks and adopt industry best practices to guard against such attacks.

Data privacy

We manage large amounts of data, including commercially sensitive and personally identifiable information.
Our engineering, security and privacy teams work together closely to ensure that data protection is integrated into our systems. We also work to comply with specific data privacy requirements in the markets in which we operate, including the California Consumer Privacy Act, the Philippines and Australian Privacy Acts, and the EU/UK General Data Protection Regulation. Mandatory data privacy training is provided to all employees on an annual basis.

In 2022, China achieved ISO 27701 Privacy Information Management System certification. There were no reported material breaches in 2022[1].

Platform availability, reliability and resilience

Platform availability, reliability and resilience is a key focus of our engineering teams. The team works to strict system availability targets and ensures that our systems can safely scale in response to changes in demand. We consistently meet or exceed 99.9%[2] uptime across all our properties.

Cyber security

Our cyber security risk management framework is based on internationally recognised NIST standards and is structured to identify, detect, protect against, respond and recover to cyber security threats.

Security penetration testing is conducted annually by a third-party specialist, and we have ISO 27001: 2013 certified facilities and a SOC 2 attested data annotation platform. Additionally, our UK and China facilities are ISO 9001 certified, and our UK facility is Cyber Essential Plus certified in line with UK requirements. Appen also achieved Payment Card Industry (PCI) compliance for its ADAP platform during 2022 as per industry requirements.

Our IT Security policies and standards are adhering to ISO 27001 requirements and the incident response procedure is based

1 Based on report from IT services platform, Solarwinds.
2 Based on report from third-party website monitoring company, StatusCake.

> *We are pleased with the high quality and speed of the delivered results and are happy to have engaged in this collaboration with Appen."*
>
> — **ALEIX CANET**
> *Product Owner and Team Lead, Airbus*

on the NIST CSF (Cyber Security Framework). We conduct several incident response tabletop exercises annually.

A cybersecurity maturity assessment conducted by an independent third party utilising the NIST framework was conducted during 2022. The positive results showed Appen's maturity level continuing to improve.

Data encryption is in place when data is at rest and in transit for critical systems as per SAL (Secure Algorithm list). We have centralised access controls via SSO (Single Sign On) and MFA (Multi Factor Authentication) for additional layers of protection. Security logs from our critical systems are captured and monitored in a SIEM (Security Information and Event Management) tool.

We also have top tier network, perimeter, and end point security tools protecting the assets and monitoring inbound and outbound network traffic. Privileged access and vendor security reviews are conducted as per our standards. Appen has cyber security insurance in place.

Airbus

Overview:

AirSense, an advanced analytics solution enabled by the defense and space division of Airbus, aims to increase the accuracy of their estimated flight times and time of arrivals leveraging historical flight path data.

Challenge:

To annotate thousands of flight paths based on historical GPS data which required speed, scale and quality to deliver successfully. Each flight path consists of a sequence of coordinates called a 'cluster,' and those coordinates needed to be labelled in the correct order to ensure accuracy and reduce the margin of error.

Solution:

Our Appen Data Annotation Platform provided Airbus with the quality and speed needed to scale their computer vision project. Airbus trained our onsite team of annotators through video and constant feedback to ensure high accuracy of image annotations. The platform's quality assurance tools allowed the Airbus team to review the data quickly and accurately.

Result:

- Securely and accurately annotated thousands of images.
- The pilot project successfully launched with 98% accuracy.

FY23 focus

In 2023, our focus is to continue to invest in product, engineering, and machine learning to streamline and automate our processes. We will also continue to enhance our cybersecurity maturity posture through a structured program of work.

Global crowd

Our skilled and diverse crowd of 1 million+ contractors is what makes Appen unique. Spanning more than 170 countries and speaking 235+ languages and dialects, we've assembled a crowd that's unmatched. Attracting and retaining an engaged and productive crowd is key to our ability to serve our customers.

31

Crowd NPS

↓ 9 points from FY21

Ethical AI

through our Crowd code of ethics

Priority SDGs

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

Attracting a skilled crowd

Our flexible work-from-home model attracts a wide range of people who value the benefits of being able to work independently and choose when, where and how much work they choose. The diversity of our crowd continues to expand, supporting the evolving requirements from our customers for unbiased and representative AI training data.

To improve engagement and overall crowd experience we continue to invest in our Appen Connect technology platform and other systems that enable recruitment and crowd support at scale.

Crowd engagement

Our crowd Net Promoter Score (NPS) declined 9 points from 40 to 31 during the year with responders primarily raising concerns about project availability, pay (amount), support and communication.

To address these concerns, we delivered several initiatives to ensure that our crowd contributors are better matched to projects requiring their skills and experience, and are on-boarded to available projects quickly and efficiently. Through the roster-fill program we run fast and efficient processes to fill rosters, and manage contributors from application to invoicing.

Contributors also have access to a self-service function through Zendesk, which provides them with user guides and automation tools so they can efficiently interact with Appen. We are also working with our customers to increase pay rates.

In addition, we created a new position of VP, Crowd Operations to help improve the crowd experience and focus on our primary objective of treating the crowd as a customer.

Crowd NPS [1]

1 Measures the likelihood of crowd contractors to recommend Appen to a friend or colleague, according to a scale of 1–10 where 10 means extremely likely (0–6 Detractor, 7–8 Passive, 9–10 Promoter). NPS is calculated by subtracting the % of total detractors from the % of total promoters. Scores can range from -100 to +100. Source: Cascade Insights.

Crowd care

Our crowd is key to our mission. Therefore, the fair and ethical treatment of our contractors, and our ongoing commitment to their wellbeing is a key priority. As a company, we uphold responsible and sustainable labour and supply chain practices. We recognise this is the right thing to do and our customers also expect that their business partners uphold such standards.

Our Crowd Code of Ethics is central to how we care for our contractors. It includes our goal of fair pay and having our hourly rates exceed the minimum wage in markets where our managed services are used by customers. We continue to monitor hourly rates of pay for our crowd to ensure that any pay gaps are identified and resolved.

Our Global Ethical Sourcing and Modern Slavery Policy outlines what we expect of our suppliers. Our policy is published on our website at **www.appen.com/global-ethical-sourcing-and-modern-slavery-policy/.**

We also support our contractors under our Whistleblower and Speak Up Policy. This policy is also published on our website at **www.appen.com/whistleblower-speak-up-policy/.**

During the year, we received about 50 complaints, mostly in connection to discrepancies between tracking time and what the contributor claims to have worked. Each case was reviewed by our Crowd care team and most cases were resolved by reconciling and compensating the contributor for any discrepancies in hours worked.

Protecting privacy and confidentiality

Our crowd contractors expect that we safeguard their personal information, and our customers also insist on privacy compliance and the highest levels of information security. We protect our customer's and our crowd's personally identifiable information (PII) by using a combination of people, processes and technology. Every Appen employee who interacts with the personal data belonging to our customers or crowd members is trained on the proper handling of this information and the critical importance of adhering to our data protection processes.

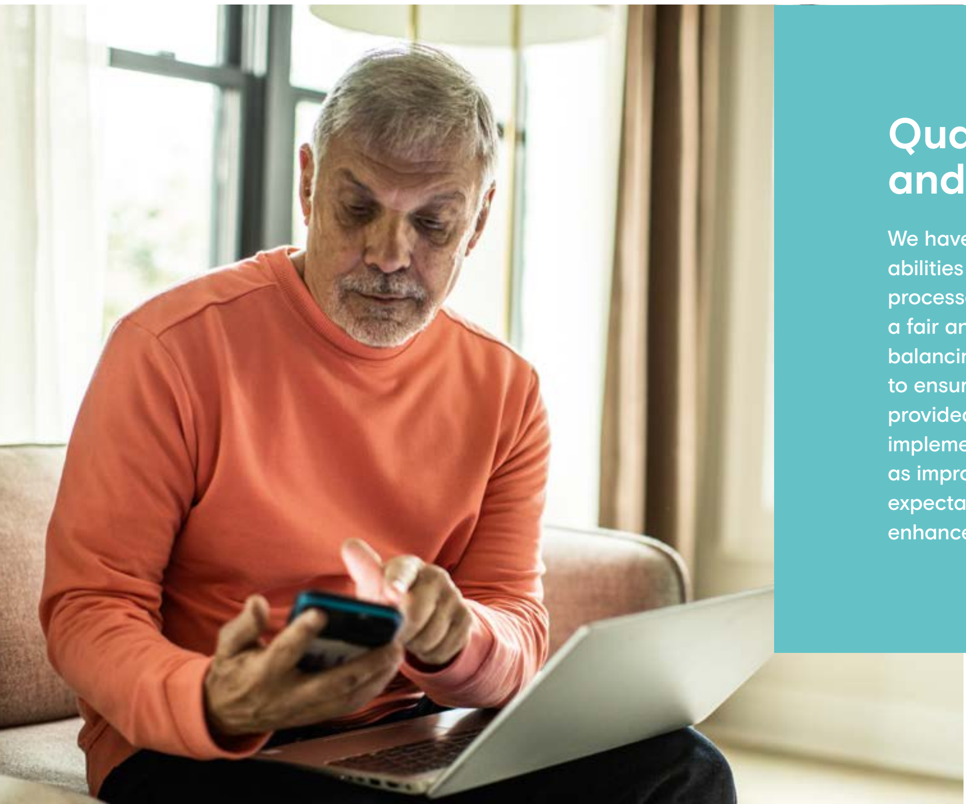
Crowd diversity and inclusion

Our remote work model provides opportunities for people of all abilities and backgrounds. We are proud of our hugely diverse crowd which spans many cultures, ethnicities, age groups, life stages and occupations.

With the largest group of global contributors, we can provide advanced data labelling with specific cultural and social nuances. Our customers greatly value the scale and diversity of our crowd and consider it critical to making AI work in the real world.

Creating opportunities

One of the six pillars of our crowd code of ethics is inclusion and we are dedicated to offering opportunities to individuals of all abilities and backgrounds. Our Impact Sourcing Partnerships between our customers and community partners continue to grow, bringing in people who would not otherwise have opportunities for meaningful employment. Our initiatives target communities which may currently be underrepresented in digital work, including youth in developing countries, people with disabilities and refugee communities.



Quality control and fraud detection

We have reinvigorated our crowd fraud detection abilities in 2022 and will continue to improve these processes over 2023. The key focus is on ensuring a fair and transparent process for our crowd while balancing the need to maintain the highest standards to ensure the integrity of the data and deliverables provided to our customers. During the year we implemented a combination of people initiatives such as improving the way we set and communicate our expectations of workers, combined with technological enhancements to prevent and detect user fraud.

How microwork opportunities can benefit people

At Appen, we offer crowdsourced microtasks to workers around the world on thousands of different projects. We worked with Mercy Corps Ventures to provide tasks to microworkers for their study. Mercy Corps Ventures looked at four cohorts of 50 people over a five week period as they completed microtasks to understand the effect of micro-work and stablecoin payments on workers in Kenya.

Crowdsourced microtasks are a specific type of microwork. This model works by distributing microtasks to part-time freelancers. Anyone with a profile and minimum quality rating can complete tasks and receive payment. This work can be done at any time of day, from anywhere in the world and be completed using only a mobile device.

To ensure quality, we add random quality checks interspersed throughout tasks. These checks ensure that the work meets our standards and provides workers with a quality rating. The crowdsourced microtask model is highly efficient as it requires minimal infrastructure while providing ample opportunity to microworkers and maintaining data quality. This type of microwork model is flexible and scalable.

One of the major struggles faced by international microworkers is processing international payments into local currencies. While pay may be above minimum wage in their locale, the transaction fee to convert to local currency can often be more than their earnings.

One of the findings from the research study was that using stablecoin payments significantly lowered the cost of transaction fees, increasing the take-home pay for microworkers. On a $5 transaction, stablecoin reduced the cost from $1.44 to $0.10.

Making a difference by removing traditional barriers to work

People who collect and label data are a critical part of the AI industry. Their work makes machine learning-empowered solutions possible and effective.

For many communities, digital work has unlocked a new world of possibilities for economic development, skills training, and the ability to participate in the digital economy.

Appen's 'work-from-anywhere' model provides income-generating opportunities for individuals whose personal circumstances make it difficult for them to access traditional employment.

In a recent survey, 18% of Crowd working on one of Appen's largest projects were previously unemployed for 12 months or more in the past three years.

When study participants were asked for their feedback:

- 97% said they agreed that they received a fair reward for completed microtasks.
- 77% reported higher earnings when compared to their previous income-generating activities.
- 95% of participants reported an improved quality of life.
- 94% reported their income had increased because of the five weeks of work included in this pilot study.

In addition to receiving greater income, microworkers are also learning new skills and gaining experience. Microworkers are learning how to work online, manage time, save money and solve challenges with the support of peers in WhatsApp groups. These soft and hard skills can translate to future jobs and work opportunities, making it easier for people to find full-time employment or higher-paying jobs.

Celebrating our crowd contributor Yolanda Swilley-Smith

Yolanda lives in Florida and is the mother of three adult children, grandmother to 12 and great-grandmother to four. Yolanda joined the Appen contributor team in 2015. She's consistently worked on Appen projects since joining and is currently testing and applying to multiple projects.

"When candidates apply to work as a contributor at Appen, they get to choose which projects to work on," says Yolanda. *"There are always a number of different projects going on, which gives applicants and contributors the ability to choose what works for them and their interests."*

For Yolanda, the decision to join Appen was simple: *"I decided to be a contributor for Appen because I wanted my demographics to be represented when technology makes its advances. I enjoy being relevant and asked my opinion."* She goes on to say, *"What I like about the tasks and projects are their specific guidelines but still the ability of the contractor to answer based on their socioeconomic status, gender and ethnicity."*

Like many of our contributors, Yolanda loves this work because of the flexibility it provides. *"My favorite part about being a contributor is my ability to be mobile and still earn a living,"* she says. *"Having the best of both worlds makes living more fun."*

Our Crowd Code of Ethics

- **Fair pay** – Our goal is to pay our crowd above minimum wage in every market around the world where we operate.
- **Inclusion** – A diverse, inclusive culture is vital to our mission of helping build better AI. We offer opportunities for individuals of all abilities and backgrounds.
- **Crowd voice** – Our crowd has a valued voice at Appen, and their feedback helps us to continuously improve.
- **Privacy and confidentiality** – Any information collected about the crowd is requested solely for the purposes of the project. We take precautions to protect that information and do not release private data on individuals to third parties without lawful basis.
- **Communication** – We believe in helpful, transparent and responsive lines of communication with our crowd.
- **Wellbeing** – We promote wellness, community and connections through online forums and best practices.

The Code of Ethics shows our dedication to the wellbeing of our crowd. The Statement is available at: appen.com/crowd-wellness/

FY23 focus

Our crowd is key to our mission. In treating our crowd as a customer, our primary focus in managing the crowd will be to increase automation to help improve engagement.

Our people

We recognise that our people are critical to our success. Their expertise and commitment to our customers and crowd is a key differentiator of our business. We strive to make Appen a great place to work and promote an inclusive and diverse culture where people feel supported to do their best every day.

78%

Employee engagement

↑ from 76% in FY21

43%

female presentation among senior leaders

↑ from 38% in FY21

Priority SDGs

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

Global and diverse work force

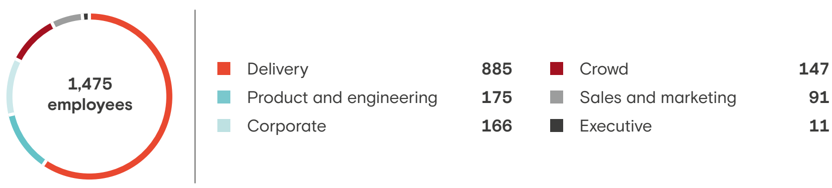
As of 31 December 2022, we had 1,136 full time equivalent employees, and approximately 277 fixed term and 62 casual employees.

2022 employee distribution

Fixed term and casual employees work in a range of roles including service delivery contributor, linguist, project assistant and recruiter.

Occupational profile

Our people have deep industry expertise, particularly in the areas of project delivery, crowd management and engineering. We have developed specialised industry capabilities which we embed into our products and processes. We also rely on deep domain expertise in the areas of linguistics, knowledge graphs, computational aptitude, machine learning and computer science. We recognise that the changing industry requires ongoing upskilling, reskilling and cross training to meet and exceed customer expectations.



Our 2026 strategic roadmap

In FY22, we've expanded our five-point plan into our 2026 strategic roadmap. This roadmap will focus on:.

- building a workforce for the future
- building a differentiated employee experience
- creating an accountable, inclusive and diverse culture
- optimising the employee experience through efficient and effective human resource (HR) operations

Making Appen a great place to work

As a company, we recognise that high levels of engagement are key to unlocking our full potential. We continue to inspire engagement from the top down and this year, our employee engagement score formed part of our executive short-term incentive (STI) scorecard.

In FY22, we recorded an employee engagement score of 78%, up from 76% on the previous year. Given the challenges faced by our major customers and the need for our people to pivot and to focus on near-term high impact priorities, this is a pleasing result. However, we aim to do even better and through our 2026 strategic roadmap we are targeting an engagement score of 85% by 2026.

Employee engagement[1]

2022	78%
2021	76%
2020	82%
2019	76%

Diversity and inclusion

Appen celebrates the diverse cultural backgrounds of our employees across our global operations. We understand the value of a global workforce and embrace the unique perspectives, experiences and backgrounds of our people. Our Diversity Policy guides our inclusive work practices and is focused on increasing gender diversity and under-represented minorities among employees, in senior management and on the Board.

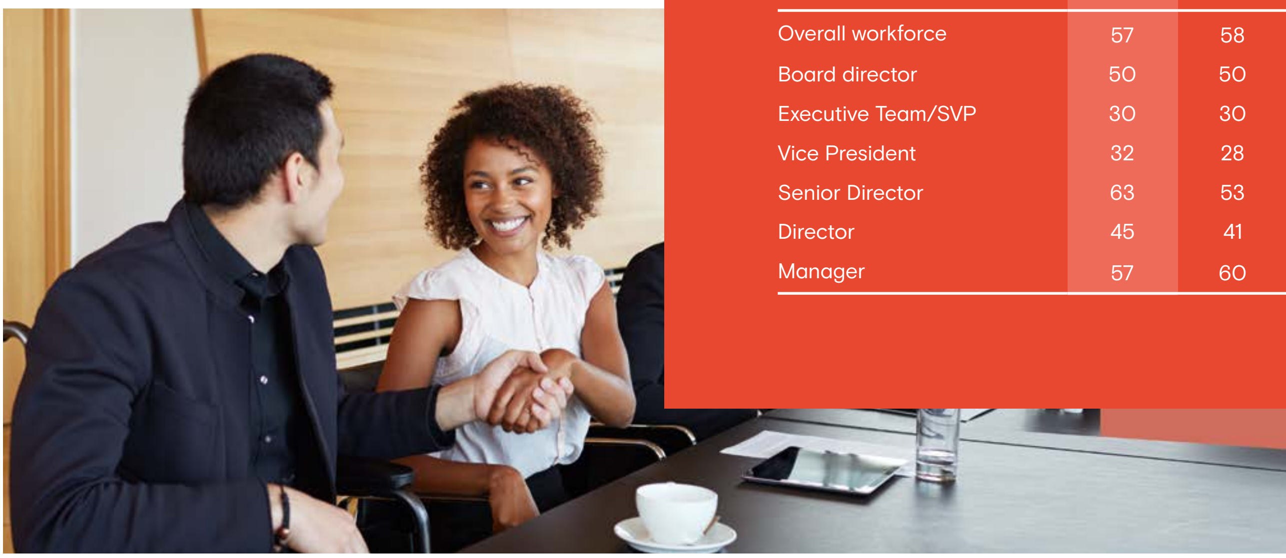
The Diversity and Inclusion Committee has been in operation for two years and continues to look for ways to promote an inclusive work culture and practices for the benefit of under-represented groups and the workforce overall. Bias awareness is integrated into all talent processes, including performance, succession management and promotions.

In FY23, our focus is to further embed diversity, equity, inclusion, and belonging (DEIB) into all talent practices, with courageous inclusion training and coaching for leaders who represent the biggest lever in advocating for people in their teams. Our 2026 strategic roadmap is aimed to support the maturity stages of the DEIB function at Appen from awareness to advocacy. This includes the development of a Reconciliation Action Plan in Australia in 2023.

The Board has set a target of 30% female representation at all senior leadership levels.

As of 31 December 2022, women represented:

	% female[2]	
	2022	2021
Overall workforce	57	58
Board director	50	50
Executive Team/SVP	30	30
Vice President	32	28
Senior Director	63	53
Director	45	41
Manager	57	60



1 Measures the likelihood of full time permanent employees (including those in PEOS) referring a friend or colleague to Appen based on their employee experience. The scale is a 5 point Likert resulting in 1-2 Detractor, 3 Passive and 4-5 Promoter. NPS is calculated by subtracting the % of total detractors from the % of total promoters. Survey results are provided by Workday Peakon.

2 Based on HR report for all permanent employees generated by Workday.

Scalable and efficient infrastructure

This year, we focused on creating processes and leveraging our systems to ensure scalability of all talent functions from hiring, onboarding, developing and promoting our people. We developed Initial Culture in Action and Leadership competency models. These models serve as the foundation for defining functional and role-based behaviours and skills for career pathways in the coming year. We are committed to measurably growing skills and increasing internal promotions with transparent career pathways.

Values and culture

Building on the Culture work done in FY21, we recognise the challenge of deeply anchored values and culture with a globally distributed and hybrid workforce. Employee performance and recognition is aligned to company values as well as goal achievement. The employee engagement survey reflects how employees are experiencing the culture, and we are committed to ongoing listening and improvement.

Training and development

We provide assigned and elective learning opportunities and career development for our people through our dedicated learning experience platform, Appen University. In FY22, our people averaged two hours of training per month through Appen University, with a total training time of 41,665 hours[1].

In FY22, we continued the senior leader immersion program for specialty leaders looking to progress their careers. The creation of the Leadership competencies provided a framework for a philosophy that everyone at Appen is a leader. New blended and accessible paths with experiences support progressive leadership scope: leading self, leading others, leading teams, leading organisational functions and leading the industry.

For employee development, the Appen Training Council was formed to ensure training demand is prioritised for its highest measurable impact. The outcomes of orchestrating training by role helps ensure that our people get the right training at the right time to improve performance and change agility. As an example, for sales product pitch/storytelling, employees put knowledge and skill into practice for evaluation by recording a pitch, receiving feedback, and demonstrating increased knowledge, skill and confidence. The Appen Training Council is also supporting the tracking of field-training that is peer-led or expert-led into our internal platform.

>41k

completion rate for our Code of Conduct training in FY22

To view our values see page 5

1 Data from Appen University.

Working ethically

Our people are also required to complete mandatory annual training in critical areas such as data privacy, security awareness and sexual harassment. Our Code of Conduct training which sets out employees' obligations to act honestly and ethically is also mandatory for all employees and contractors.

In FY22, we achieved a 91% completion rate for our Code of Conduct training[1].

To improve our culture of accountability we are introducing a Good Citizen requirement for STI eligibility. In FY23 we are targeting training completion rates of 95% as part of our Good Citizen requirement. We have also made improvements in how mandatory annual training is assigned, managed and monitored by leaders of all levels.

New executive team member

We further bolstered our team with the appointment of Sean Carithers as Senior Vice President, Global. Sean has deep expertise in markets relevant to Appen and has successfully transformed and grown large businesses. He will play a critical role in driving growth and the digital transformation of our Global business unit. His biography is detailed on page 63.

Working through the COVID pandemic towards the 'new normal'

We continue to monitor the changing recommendations from the WHO and conditions at our global sites and respect that clients may require on-site attendance of employees. However, in line with flexible work practices we continue to adopt a hybrid work policy.

In FY22 the US was able to consolidate and reduce office lease space and we piloted the 'Neighborhood' model for optional in-person social and cultural connection.

In China, our team was subject to at least a three month lockdown in Shanghai and multiple lockdowns in other areas from time to time. During this period, our workforce delivered projects while working flexibly.

Additional non-COVID disaster support was provided when our Cavite site was impacted by Typhoon Paeng. Appen assembled and distributed 300 relief packages supporting employees and residents who experienced floods and power loss.

FY23 focus

In FY23, we plan to implement several strategic people system improvements to support the business and our people priorities. Our key priorities include supporting a culture of accountability via the introduction of objectives that are cascaded company-wide to ensure alignment of strategic objectives and key result targets. We are also introducing a new applicant tracking system and are providing training for managers to ensure that bias awareness is integrated into all hiring practices.

1 Data from Appen University, excluding China and Quadrant employees.

Customer and brand

At Appen, our focus is doing great work for our customers and delivering a superior customer experience. As a global market leader and trusted partner in the development of high-quality, human-centric data for the AI lifecycle, we enable our customers to launch some of the most innovative artificial intelligence systems in the world.

22

Customer NPS[1]

184

new client wins

Priority SDGs

Delivering value for our customers

Since 1996, we have built trusted relationships and a reputation for high-quality data for the AI lifecycle.

Through our expertise, platform, and crowd, we offer unrivalled end-to-end partnership for our clients. We provide services and tools that collect, annotate, and evaluate images, text, speech, audio, video, point-of-interest data, and point cloud data used to build and continuously improve the world's most innovative artificial intelligence systems.

As a trusted data partner, we provide value to our customers through:

- **Trust:** With more than 25 years of experience and expertise, our customers trust us as their data partner for innovative AI projects. We provide strict data privacy and security, holding major accreditations and certifications.
- **Quality**: We pride ourselves on delivering unbiased, high-quality, and globally representative data consistently. Our platform hosts a series of built-in features that monitor and improve quality throughout the duration of our customer projects.
- **Dedication:** We're a trusted partner for thousands of successful data sourcing, annotation, and evaluation projects. Growing and developing with our customers helps us build strong and lasting relationships that deliver some of the greatest AI innovations in the world.

1 Measures the likelihood of customers to recommend Appen to a friend or colleague, according to a scale of 1-10 where 10 means extremely likely (0-6 Detractor, 7-8 Passive, 9-10 Promoter). NPS is calculated by subtracting the % of total detractors from the % of total promoters. Scores can range from -100to +100. Source: ChurnZero.

Customer satisfaction

Our key customer satisfaction measurement tool is Net Promoter Score (NPS). We seek feedback from our customers quarterly. We monitor NPS across each of our two reporting segments and five customer-facing business units. This year, NPS was well above target at 22. The result was underpinned by improvement across all business units.

Apart from the scoring process, we also receive qualitative feedback from our surveys. This feedback provides valuable insights and helps us to identify opportunities to further improve the customer experience. This year, we undertook several initiatives leveraging technology to improve and enhance the customer experience and make our systems easier to use.

> *"Appen's breadth of language expertise and ability to source speakers for under-resourced languages has allowed us to offer a wide range of languages and dialects, even preserve those under-resourced languages, with Microsoft Translator."*
>
> — MARCO CASALAINA
> *VP of Products, Azure AI*

Microsoft Translator

Overview:

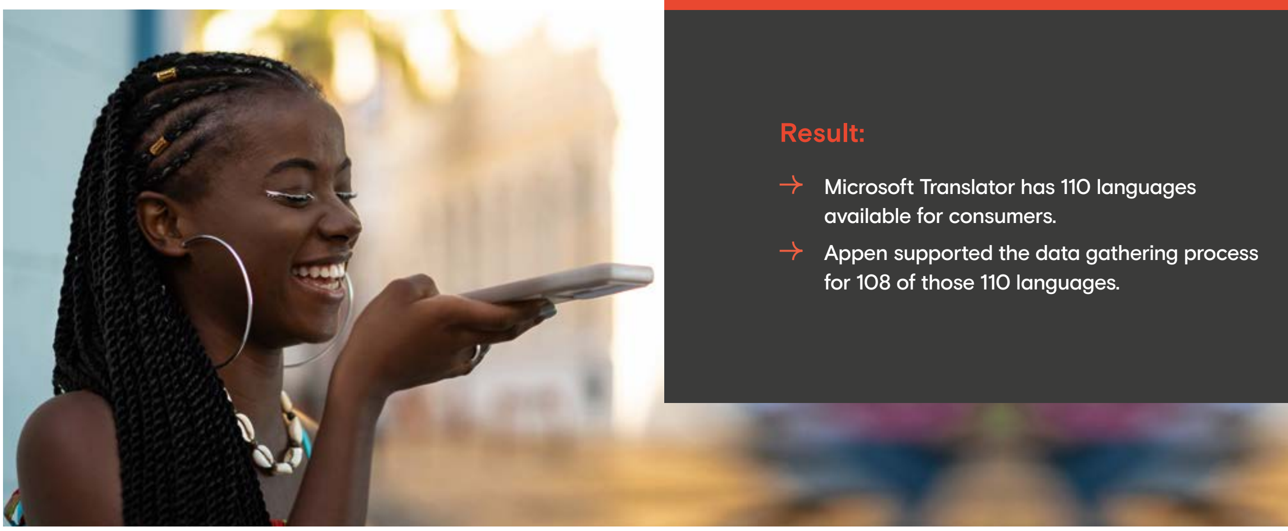
Microsoft Translator, powered by Azure Cognitive Services, has made translation easier, more accurate, faster, and made synchronous multi-language communication possible. It started by working with the world's most frequently spoken languages and now, less common languages are being added regularly. The goal is to teach younger generations, to preserve languages that are disappearing, and to make knowledge access equitable and accessible, no matter what language is spoken.

Challenge:

AI technology is used to analyse language and translate it into another language. To do this, they need a large, accurately annotated training dataset to prepare the translator model for each language. Microsoft Translator struggled to get the size of dataset they needed for some of the less frequently spoken or cataloged languages.

Solution:

Appen provided the expertise, resources and creative solutions needed to create translated datasets from rare languages and run the necessary quality checks. Our process included working with local resources to source translations from fluent speakers. Appen collected data, annotated the data by transcribing and translating each data piece, and evaluated the model outputs for quality assurance and accuracy.



Result:

- Microsoft Translator has 110 languages available for consumers.
- Appen supported the data gathering process for 108 of those 110 languages.

Improving the customer experience

Customer experience is a top priority for Appen, and we make sure our platform is easy to use with simple user interface and experience. Our customers have access to real-time dashboards to track productivity, quality statistics, and contributor performance on their jobs, as well as additional flexibility through our document and audio tools. We have also consolidated multiple client interfaces into a single, easy-to-use interface to improve the overall user experience.

Digital technology and automation are integral to evolving the experience with our products and services. We have implemented various workstreams to achieve this goal, including an improved roster fill process and programs management, data modalities service range expansion and process automation. These efforts have resulted in significant improvements for contributors, reducing the time from registration to ready to contribute from 42 days to 12 days. The new roster fill dashboard helps project teams keep track of the rosters for our top 85 projects across Global and Enterprise. The new rosters are essential to keep rosters full and deliver for our customers.

Our machine learning (ML) team is dedicated to ensuring that our customers have the data and quality they need to be successful. For example, we have developed an Automatic Speech Recognition (ASR) model for drive-through order taking that resulted in a 38%+ efficiency gain with more orders and 46%+ quality improvement, with fewer errors occurring. We also successfully delivered a video face detection and blurring automation pipeline that processed more than 2.4 million image frames in just three weeks because of automation. In addition, we developed a car license plate detection and blurring model with 90%+ accuracy.

Growing and diversifying our customer base

Our customers are at the forefront of AI and include some of the world's leading tech companies such as Google, Amazon and Microsoft. We provide services to our Global customers using their platforms, including large relevance programs. In FY22, our top five Global customers accounted for 81.9% of our revenue, down from 87% in the prior period.

In New Markets, we service Enterprise, Government, China, and Quadrant customers. These customers account for 18.1% of our total revenue, up from 13.6% in the prior period, and 8.5% in FY20. For some customers, AI is becoming a core component of their business with large recurring data needs, while others are running pilots or working to scale their initial programs. We continue to meet the needs of all customers and develop products, services and commercial processes to support different levels of AI awareness, adoption and maturity.

The Enterprise team is seeing growth with customers who have a need for a self-service platform and fully managed service capabilities under one roof. Momentum is picking up with 36 new client wins in FY22, including three auto manufacturers and five autonomous mobility suppliers.

Expansion continues in eCommerce retail with Appen's top two existing customers doubling in size and the addition of two significant logos. This builds on Appen's core language capabilities as we continue to grow in conversational AI, expanding use cases with existing customers and signing new logos with customers who are attracted to Appen's global presence and expertise. We also continue to develop go-to-market partnerships with significant suppliers powering the next wave of AI transformation, who in turn are adding Appen's human in the loop capabilities to their end customer solutions offerings.

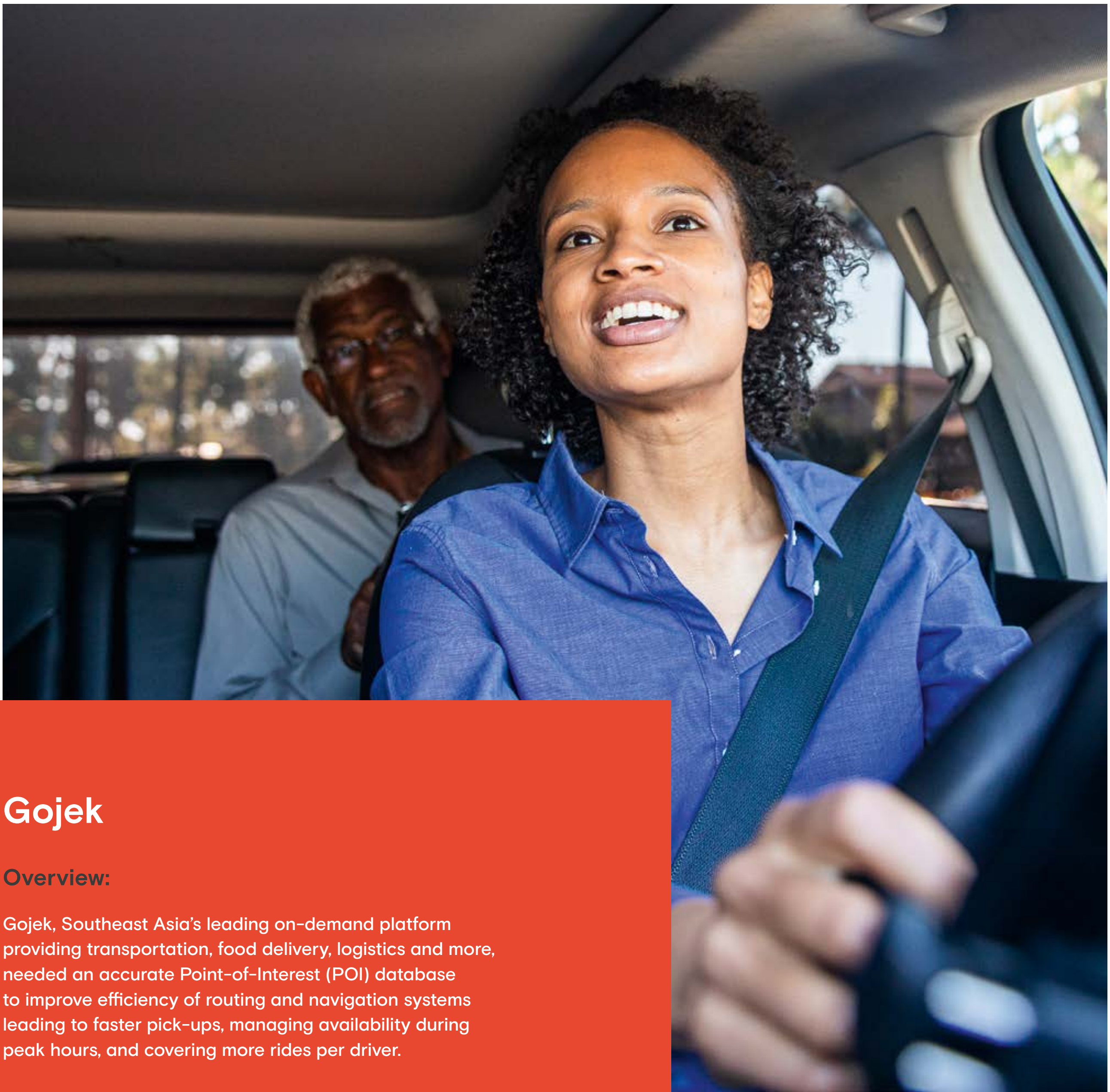
In China, we continue to build capability and see growth across all data modalities. Our China business supports nine out of 10 leading auto customers, 23 other autonomous mobility providers, nine of the top 10 internet companies and all top mobile companies. This year, China recorded 80 new logo wins.

Leveraging off the growth and support and platform infrastructure in China, we invested in dedicated local sales teams in Japan and Korea where we had 14 new client wins in FY22.

In the Government business, we have bespoke capabilities and solid customer relationships with many government contractors and government research labs. Like last year, we experienced longer sales and budget cycles, impacted by early-stage market dynamics of this market segment.

The Quadrant business is a leading location data collection company based in Singapore. FY22 represented our first full year of ownership.

This year, we focused on cross-selling Quadrant products to our Global customers and secured several projects across multiple jurisdictions with existing Global accounts, as well as Grab and Gojek. We delivered data-as-a-service projects for a Global customer across three countries with Geolancer setting new records with more than 200,000 point-of-interest data collected per day. Appen also has six Geolancer proof-of-concept projects underway with a global search engine company, Gojek and Grab.



Gojek

Overview:

Gojek, Southeast Asia's leading on-demand platform providing transportation, food delivery, logistics and more, needed an accurate Point-of-Interest (POI) database to improve efficiency of routing and navigation systems leading to faster pick-ups, managing availability during peak hours, and covering more rides per driver.

Challenge:

To improve the user experience for their app by adding custom attributes that traditional, off-the-shelf POI databases and public maps do not offer. They also wanted to create a uniform and accurate naming convention for POIs in their ridesharing platform.

Solution:

Quadrant, an Appen Company, developed a custom POI interface with custom fields to add pictures and metadata so Geolancers could collect and update missing information in the client's dataset.

Result:

- Verified 9,000+ POIs in less than a month.
- Added 9,500+ photos and contextual attributes to the database.
- Data scored 95%+ in completeness and >97%+ in accuracy.

Helping to grow the market

As a global leader in the AI industry, we enable our customers, not only through innovative products and world-class services, but also by sharing best practices and industry knowledge built over decades of experience.

Our client work is highlighted through an ongoing webinar series featuring partners like Mercedes, Boeing, Airbnb, Pinterest, and CLEAR Global. These market leaders join Appen to share their experience leading innovations in their respective industries.

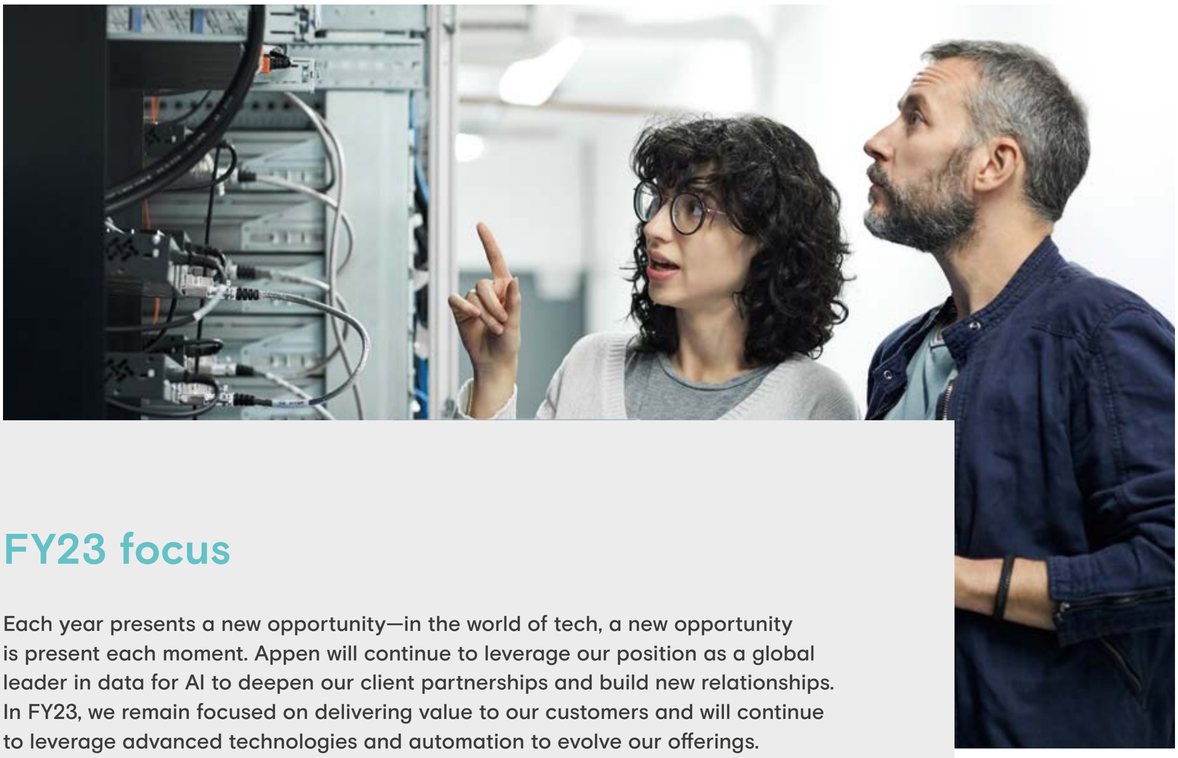
In addition to supporting customers directly, we provide industry information and resources that monitor trends and developments in AI. In FY22, we partnered with The Harris Poll to deliver our 8th annual State of the AI and Machine Learning Report. This cross-industry report provides an overview of the status of artificial intelligence and machine learning through input from senior decision makers and technical practitioners all over the world.

For this report, The Harris Poll surveyed 504 participants in the United States, Europe, and the UK to help us understand AI adoption, the maturity in data management across the AI lifecycle, and the value placed on responsible AI. These responses enable us to understand how artificial intelligence is changing and adapting to the needs of a post-COVID world.

Appen has been committed to being a leader and advocate for responsible AI. From the State of AI and Machine Learning report, 93% of respondents agree that responsible AI is a foundation for all AI projects within their organisation. While helping the market grow in diversity, Chief Product Officer Sujatha Sagiraju and Chief People Officer Andrea Clayton were finalists in VentureBeat's Women in AI awards for their work in advocating for diversity in the workforce and within data best practices.

The survey also found that there's a strong consensus around the importance of human-in-the loop machine learning with 81% stating it's very or extremely important and 97% reporting human-in-the-loop evaluation is important for accurate model performance. This validation highlights the importance of the work Appen is delivering to clients to build successful, innovative AI solutions.

As a member of the World Economic Forum, our executives Sujatha Sagiraju, Jen Cole, and Andrea Clayton joined other Global AI Action Alliance Contributors and Global Future Council Members to discuss the importance of inclusion in AI. The Forum published 'A Blueprint for Equity and Inclusion in AI' to identify challenges and solutions to make AI more equitable and inclusive for all. Designed with an inclusive methodology, the report proposes best practices for each step within AI development, but also gives a holistic approach that connects each stage to benefit the broader ecosystem.



FY23 focus

Each year presents a new opportunity—in the world of tech, a new opportunity is present each moment. Appen will continue to leverage our position as a global leader in data for AI to deepen our client partnerships and build new relationships. In FY23, we remain focused on delivering value to our customers and will continue to leverage advanced technologies and automation to evolve our offerings.

Financial

Our financial results reflect challenging external operating and macro conditions that resulted in weaker digital advertising revenue. This caused a reduction in spend by some of our customers primarily on some core Global programs associated with ad and non ad-related projects. Considering this high level of uncertainty, efforts were focused on implementing productivity improvements, initiating cost savings and prioritising projects with the greatest near-term returns. Appen's balance sheet has no debt.

US$M	FY22	FY21	Change
Revenue	**388.5**	447.3	-13.1%
Underlying EBITDA [1]	**11.0**	77.7	-85.8%
Underlying EBITDA margin	**2.8%**	17.4%	
Underlying EBITDA [1] before FX	**13.6**	78.9	-82.8%
Underlying EBITDA margin before FX	**3.5%**	17.6%	
Underlying NPAT	**(22.8)**	40.6	
Statutory NPAT [2]	**(239.1)**	28.5	
Dividend cents per share	**Nil**	10	

Financial performance summary

The external operating environment and the response of our customers' is reflected in Appen's financial performance as follows:

- **Group revenue and other income** decreased 13.1% to $388.5 million, primarily reflecting a lower contribution from the Global Division.
- **Global Services revenue** down 13.0% to $299.8 million.
- **New Market revenue** down 13.8% to $88.4 million, impacted by lower Global Product revenue. Excluding Global Product, New Markets revenue grew 15.4% to $70.2 million.
- **Enterprise revenue** finished the year strongly with Q4 revenue up 33.9% on Q3.
- **Product development investment** (excluding amortisation) increased 36.1% to $41.2 million and represented 10.6% of revenue.
- **Underlying EBITDA** (before the impact of foreign exchange losses) decreased 82.8% to $13.6 million due to lower revenue, lower gross margin, increased costs to support growth in China and Quadrant, investment in people, and OPEX to drive growth, product technology and transformation.

Priority SDG

8 DECENT WORK AND ECONOMIC GROWTH

1 Underlying EBITDA excludes the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payment expenses.

2 Includes non-cash impairment of $204.3 million reflecting the impairment of goodwill and certain intangibles associated with the New Markets (excl China) group of cash generating units, comprising Global Product, Enterprise, Government and Enterprise.

- **Underlying EBITDA** (including the impact of foreign exchange gains and losses) decreased by 85.8% to $11.0 million.
- **Underlying net loss after tax** of $22.8 million, compared to an underlying net profit of $40.6 million in FY21, due to the factors mentioned above and increased amortisation, mainly in relation to development of our products as well as additional amortisation on intangibles acquired as part of the Quadrant acquisition.
- **Non-cash impairment** of $204.3 million reflecting the impairment of Goodwill and certain intangibles associated with the New Markets (excl China) cash generating unit, comprising Global Product, Enterprise, Government and Enterprise.
- **Statutory net loss after tax and after impairment** of $239.1 million, compared to statutory net profit after tax of $28.5 million in FY21.
- **No dividend** was paid to ensure appropriate allocation of capital.
- **Cash balance** of $23.4 million at 31 December 2022 and no debt; impairment has no impact on debt covenants or ability to use these facilities.

Group revenue and customer diversification

As mentioned, Group revenue decreased 13.1% to $388.5 million, primarily reflecting a lower contribution from the Global division.

Revenue from non-Global customers represented 18.1% of total group revenue, up from 13.6% in FY21. While revenue from our global business declined, we saw strong growth in China and good momentum and a strong pipeline in Enterprise and Quadrant. Refer to page 31 of the Customer and Brand value driver for more information.

Reflecting the seasonality of Appen's business, group revenue was skewed to the second half, although not to the extent of prior years, and was up 12.3% to $205.3 million (1HFY22: $182.8 million).

In FY22, model testing and relevance work represented 76.1% of group revenue.

Revenue by operating division

Global Services FY22 revenue decreased 13.0% to $299.8 million (FY21: $344.7 million), impacted by a reduction in spend by some of our global customers for the reasons mentioned above. We saw some green shoots as revenue from our second largest customer grew 20% over the year. Second half FY22 Global Services revenue grew 17.5% to $161.9 million and was driven by project growth related to digital advertising.

Global ad-related FY22 revenue represented 32.1% (FY21: 23.2%) of Global revenue (Global Services plus Global Product), while Global non-ad revenue represented 67.9% of Global revenue, compared to 76.9% in FY21. The shift in ad-related and non-ad revenue reflects the overall downturn in spending by some of our Global customers.

New Markets revenue declined 13.8% to $88.4 million, impacted by lower Global Product revenue. While second half revenue from New Markets reduced 3.7% to $43.3 million.

Excluding Global Product, New Markets revenue grew 15.4% to $70.2 million primarily due to strong year-on-year growth in China. Second half revenue from Enterprise, China, Quadrant and Government grew 4.1% to $35.8 million, with promising growth in Enterprise and Quadrant revenue being offset by a decline in revenue in China, because of the heavy impact of the COVID-19 pandemic in Q4.

New Markets won a total of 184 new clients (FY21: 133 new customers). This reflects the good momentum in Enterprise, China and Quadrant, primarily for autonomous vehicles (AV), in-car cabin data collection and point-of-interest data collection.

The Enterprise team secured 48 new client wins, including three auto manufacturers and five autonomous mobility suppliers. Enterprise secured a large deal for labelling of in-cabin data collection with a large global car manufacturer and has signed a second deal with the same company at the end of FY22.

The Enterprise team is also progressively signing larger deals. The average deal size signed was $140,000, up 129.5% from the average deal size of $61,000 in 2021. Momentum in the Enterprise business continues to build with end of year bookings up 36%.

Despite a three month lockdown in the first half, China FY22 revenue grew 35.6% to $33.6 million due to 80 new client wins. However, momentum slowed later in the year due to the heavy impact of the COVID-19 pandemic on pipeline, sales, staffing and delivery. Consequently, second half revenue declined 13.6% to $15.6 million.

Appen continues to be the leading AI data company in China and the business is still growing strongly with revenue growth of 35.6% over FY21 and 608.3% compared to FY20.

Our local sales teams in Japan and Korea recorded 14 new client wins. While Japan and Korea are new markets with high growth potential, our operations are at an early stage.

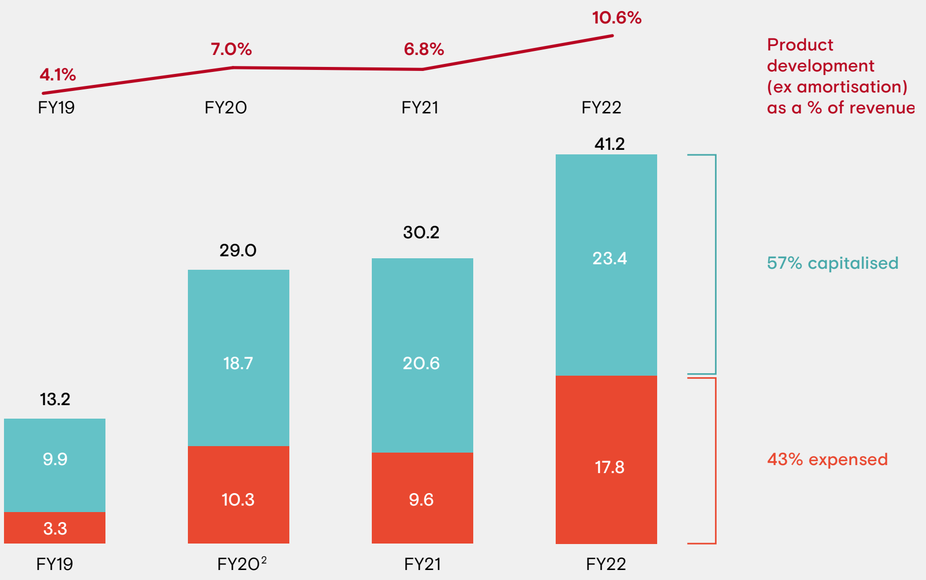
Quadrant posted a strong revenue performance, albeit off a small base. At the end of 2022, Quadrant won a landmark multi-year deal to provide Point-of-Interest (POI) data-as-a-service to a large Global customer, starting in South-East Asia with potential to expand globally.

The ramp up of Quadrant to Global and Enterprise customers is an ongoing focus. In total Quadrant won 42 new client in FY22.

Government had a disappointing year as revenue declined 68% to $1.3 million. This reflects the non-renewal of a large contract in May 2021 and slower rate of AI adoption in the Government sector relative to the private sector, due to longer lead-times, budgetary and procurement constraints.

Refer to page 31 of the Customer and Brand value driver for further information.

Investment in product development[1] US$M



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.

2 FY20 spend includes annualisation of Figure Eight engineering spend (acquisition completed April 2019).

Product development

Technology plays a critical role in Appen's business and underpins our ability to deliver large scale data requirements for our customers. Investment in product development in FY22 (excluding amortisation) increased 36.1% to $41.2 million and represented 10.6% of revenue (2021: $30.2 million or 6.8% of revenue).

This year, we delivered several new product initiatives as follows:

- Introduced the new roster fill initiative, encompassing improved management of our Global programs, increasing our capability to quickly and efficiently on-board contributors/crowd workers, ensuring we have the right customer facing teams and crowd expertise in the right markets. We increased the roster-fill rate from 50% to over 90% on certain projects for one major Global customer and will extend this initiative to our large Enterprise programs.
- Built new machine learning models for hard-to-miss video face detection and blurring automation.
- Built new machine learning models and services for invoice and image content duplication detection.
- Built and deployed an accurate English Automatic Speech Recognition (ASR) engine tailored for high noise environments. The ASR engine saw a 37% productivity gain, 40%+ quality improvements, and 37%+ increase in gross margin for the specific project tested.
- 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.
- Built new functionality for Tier-2 and Tier-3 auto screening in the Appen Connect platform to detect fraud and screen workers. This reduced the number of hours it takes to onboard a crowd worker from 50 hours to 10 hours (a 5x increase in speed) and hyper-charge the processing of crowd worker applications from 6,000 per day to approximately 38,000 applications per day (a more than 6x increase in processing time).
- Automation of crowd labelling process, allowing Appen to service its customers quickly and efficiently, and scaling data delivery to improve per unit delivery costs.

Product related to investment in engineering to ensure that the annotation and crowd platforms and tools support our customers and their use cases, and drive efficiencies and scale.

The level of product development spend in FY22 reflects our commitment to the development of industry-leading products and tools, as exemplified by the list of new product initiatives.

Amortisation of product development was $20.6 million for FY22 and reflects a higher level of product development investment. (2021: $16.0 million).

Underlying financial performance

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) decreased 85.8% to $11.0 million (31 December 2021: $77.7 million), which translated to a net margin of 2.8% (31 December 2021: 17.4%). This was due to lower revenue, lower gross margin, increased costs to support China and Quadrant growth, investment in people and OPEX to drive product, technology and transformation spend in Enterprise.

Cost of sales, which is comprised of payments to our crowd workers for labelling services, increased as a percentage of revenue (61.2% from 60.0% for the prior year). This is mainly due to the change in customer and project mix as explained above. We did achieve improving gross margins in China along with increased revenues.

The **Global Services** division reported EBITDA of $54.5 million, down 40.2% on the prior year. This reflects the impact of reduced customer spend from some of our large customers on large, high margin projects and higher allocation of indirect costs resulting from investment in product, engineering and transformation costs.

New Markets reported an EBITDA loss of $36.5 million compared to an EBITDA loss of $11.5 million in the prior year. This primarily reflects (i) a reduction in Global Product revenue, (ii) higher costs in China to support growth (iii) full year of Quadrant trading, with investment in cost to drive future growth, (iv) gross margin reduction in some of the business units, impacted by customer, project and service mix (v) higher allocation of indirect costs to Enterprise, resulting from investment in product, engineering and transformation.

Operating expenses (expenses excluding impairment, crowd labelling services, share-based payments, depreciation and amortisation, transaction, finance and restructure costs and the impact of foreign exchange losses) increased by $36.6 million compared to the prior year.

The main reasons for the increase relate to higher costs in China and Quadrant, increases in employee expenses, employee and crowd recruitment costs, IT costs and travel (with COVID restrictions lifting). Higher costs in China relate to delivery and engineering costs to support revenue growth. Higher Quadrant costs relate to full year of Quadrant trading, plus investment to drive future growth.

Employee expenses are associated with (i) the establishment and development of the transformation office and Enterprise teams (with associated increase in employee and recruitment costs), (ii) technology and automation (with associated increase in employee expenses, professional fees, recruitment costs and IT costs, including hosting costs), and (iii) an increase in share-based payments expenses.

Cost saving initiatives

In response to the challenging external environment, we focused on high impact initiatives, productivity improvements and rightsizing investments to reduce costs. We have identified annualised cost savings of ~ $10 million via the following initiatives:

- Increased use of offshore facilities for project delivery, engineering and business support. This is the major component of the cost savings and we expect to see the benefits of these start to flow through in the second half of FY23 and in FY24.
- reduced real estate footprint through non-renewal of leases for under-utilised facilities and use of sub-leases where appropriate.
- non-renewal of non-essential software licences.
- review of external vendors and renegotiation of fees where appropriate.
- reduction in discretionary spend and non-essential travel.

The identified cost savings are available for reinvestment in growth opportunities.

The pace of cost growth slowed through the second half of FY22 (2H FY22). At the group level, 2H FY22 costs increased 12% compared to 1H FY22 (in line with revenue growth) and Q4 FY22 costs declined 9% compared to Q3 FY22 (while revenue grew 11%). In Global Services, 2H FY22 costs increased 15% compared to 1H FY22 (while revenue grew 18%) and Q4 FY22 costs declined 11% compared to Q3 FY22 (while revenue grew 12%). In New Markets (excluding Global Product), 2H FY22 costs increased 10% compared to 1H FY22, (while revenue grew 4%) and Q4 FY22 costs declined 3% compared to Q3 FY22 (while revenue grew 14%).

Underlying net loss after tax was $22.8 million, compared to an underlying net profit of $40.6 million in FY21, due to the decrease in EBITDA and increased amortisation in relation to product development and intangibles acquired as part of the Quadrant acquisition.

Non-cash asset impairment charge

On 13 February 2023, Appen announced that following a review of the value of cash generating units (CGU) and of the carrying value of its assets in accordance with the relevant accounting standards, the Company expected to recognise a non-cash, pre-tax impairment charge of $204.3 million for the year ended 31 December 2022. This financial report confirms this amount. Accordingly, the carrying value of non-goodwill intangibles attributable to the New Markets CGU was reduced by $15.4 million and the carrying value of Goodwill was reduced by $188.9 million.

There remains high conviction in the future growth prospects of the New Markets business units, however given the FY22 performance, future revenue growth assumptions have been revised to reflect lower growth rates, resulting in an impairment loss.

We have significant headroom in our larger, more established Global Services CGU.

The impairment charge is non-cash related and is a non-operating item. Therefore, underlying EBITDA and underlying NPAT is not impacted. Additionally, there are no related covenant impacts or ability to draw our debt facilities.

Note 16 of the financial report (pages 129 to 135) provides further information in relation to the impact of the impairment charge on the Group's intangible assets.

Balance sheet

The balance sheet has no debt. At 31 December 2022, our net assets after the impairment charge are $148 million.

Appen's 31 December 2022 cash balance was $23.4 million (31 December 2021: $47.9 million) mainly due to a reduction in operating cash flows, which were impacted by the current year performance, increased product and capex spend and a minority investment in Mindtech, which increases the addressable market to capture synthetic data.

Strong cash conversion through the ability to turn earnings into cash continues to be a key strength of the business and the 31 December 2022 cash position.

The trade and other receivables and contract assets were $94.7 million at 31 December 2022 compared to the 31 December 2021 balance of $99.7 million. This is due to an increase in trading volumes in Q4 2021 volumes which have since been collected and lower Q4 2022 revenues as compared to Q4 2021. The reduction in trade receivables is also impacted by work in progress and timing of billing milestones, with such milestones being achieved in early January, resulting in some work done in December, being reflected in contract assets.

Total liabilities were $107.0 million at 31 December 2022 down from $110.3 million at 31 December 2021, because of the cost reduction initiatives outlined above, specifically relating the reduction in the real estate footprint and reduction in discretionary spend.

The Quadrant earn out is subject to performance metrics and is not payable until 2024. The earn out can be settled in cash or shares.

Subsequent to year end, we received credit approval for the extension of our debt facilities for nine months to 3 January 2024. The extension agreement is expected to be finalised in the next few weeks. A full debt refinance is planned for the second half of FY23 to achieve an appropriate debt structure to support the current and future needs of the business. Our existing debt facility has been resized to a working capital facility of A$20 million to reflect the current needs of the business.

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

	Year ended 31 December 2022 $000	Year ended 31 December 2021 $000	Change
Global Services revenue	**299,755**	344,679	(13.0%)
New Markets revenue	**88.378**	102,475	(13.8%)
Other income	**360**	120	
Total sales revenue and other income from principal activities	**388,493**	447,274	(13.1%)
Underlying net loss/(profit) after tax (NPAT) [1]	**(22,739)**	40,597	(156.0%)
(Less)/add underlying adjustments (net of tax)			
Impairment loss	**(204,326)**	–	
Amortisation of acquisition-related identifiable Intangible assets	**(9,573)**	(8,303)	
Restructure costs	**(488)**	(1,625)	
Transaction costs	**(1,096)**	(1,929)	
Deemed interest on earn-out liability [2]	**(540)**	(461)	
Losses on inventory	**(257)**	–	
Cloud computing costs	**–**	(17)	
Acquisition-related share-based payments [3]	**(49)**	257	
Statutory NPAT	**(239,068)**	28,519	(938.3%)
(Less)/add: tax (benefit)/expense	**–**	7,356	
Add: net interest expense	**772**	1,362	
Add: deemed interest on earn-out liability [2]	**813**	657	
EBIT [4]	**(237,483)**	37,894	(726.7%)
Add: depreciation and amortisation	**41,582**	35,038	
Statutory EBITDA [5]	**(195,901)**	72,932	(368.6%)
Add/(less): underlying adjustments			
Impairment loss	**204,326**	–	
Restructure costs	**678**	2,256	
Transaction costs	**1,556**	2,729	
Acquisition-related share-based payments [3]	**49**	(257)	
Inventory losses	**309**	–	
Cloud computing costs	**–**	24	
Underlying EBITDA [1]	**11,017**	77,684	(85.8%)
Statutory diluted earnings per share (cents)	**(193.78)**	22.85	
Underlying diluted earnings per share (cents)	**(18.43)**	32.53	
% Statutory EBITDA/sales revenue	**(50.4%)**	16.3%	
% Underlying EBITDA/sales revenue	**2.8%**	17.4%	

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 the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payments expenses.

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.

Social and environment

AI technology helps to power many aspects of our daily lives and can provide a positive contribution to the community and the environment. Across the AI lifecycle, we strive to embed social and environmental principles to ensure the responsible development of AI.

Signatory

to the UN Global Compact

Committed

to Net Zero Roadmap

Priority SDGs

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

13 CLIMATE ACTION

Good business practice

Doing the right thing by our customers, employees and stakeholders is key to maintaining relationships and our ability to operate.

We hold ourselves to the highest ethical standards and conduct our business with integrity, respect and fairness. To demonstrate our commitment, we have become a signatory to the United Nations Global Compact (UNGC). In doing so, we support the ten principles of UNGC on human rights, labour, environment, and anti-corruption and adopting them to our business strategies and operations. Progress regarding implementation of the 10 UNGC principles will be shared in our FY23 annual report.

Our Code of Conduct sets out the standards to which we hold our business, our people and our interactions with stakeholders to. We have zero tolerance for bribery and corruption and our Anti-Corruption and Anti-Bribery Policy details our approach. We also do not use corporate funds for political advocacy and we do not make political donations [1].

We ensure our people are aware of their obligations through mandatory code of conduct training. As of 31 December 2022, 91% [2] of eligible employees had completed the mandatory code of conduct training. To improve compliance levels and foster a culture of accountability, next year we are implementing STI conditions linked to training completion.

1 Based on financial data from Workday.

2 Data from Appen University. Calculation consistent with FY21 which excludes China and Quadrant.

Modern Slavery and respect for Human Rights

We consider any form of modern slavery and human rights abuse as unacceptable and acknowledge our role in eradicating it. We have set out expectations for our suppliers and ourselves in Our Global Ethical Sourcing and Modern Slavery Policy. The policy reflects our commitment to respect human rights and address modern slavery by confirming our opposition to forced labour. Our policy also outlines our support for fair employment, working hours and conditions, freedom of association, discrimination and harassment, and offers whistleblower protections.

We also continued the integration of our supplier requirements from our Global Ethical Sourcing and Modern Slavery Policy into our procurement practices and continue to work with our suppliers and customers to manage the risks of modern slavery and human rights abuses in our supply chain.

Any breaches of our commitments to good business practices are taken seriously, where necessary any concerns raised, either through grievance processes or under the whistleblower process are investigated and reported back to the board. In 2022, no modern slavery breaches were recorded.

Governance

Our social and environmental frameworks are underpinned by our commitment to a high standard of corporate governance. The Board of Directors is responsible for:

- considering the environmental impacts of our activities.
- setting social and environmental standards.
- monitoring compliance with our social and sustainability policies and practices.
- overseeing the management of climate change related risks and opportunities.
- approving climate change related disclosures.
- monitoring progress against goals and targets set for climate related issues.

The Audit and Risk Management Committee is responsible for:

- considering environmental and climate change risk as part of the quarterly risk reporting process.
- reviewing relevant reporting from management to ensure management is effectively managing the risks.
- making recommendations to the Board.

Importance of diversity to achieving fair AI

Ensuring equitable results for users of AI products requires developers to consider the impact of bias across the AI lifecycle. Bias in AI needs to be addressed in the sourcing of data, but also in the preparation, evaluation and quality management stages. Our skilled global crowd spanning a range of diverse backgrounds, help our customers incorporate fairness and minimise bias, by ensuring not only diversity in the data itself, but within those that are involved in the data lifecycle and development of the product. As part of our ongoing efforts to ensure diverse representation across key projects, we are launching studies globally to help us understand and address any representation gaps across a number of demographic characteristics including ethnicity, race, gender, sexual orientation and disability.

Creating responsible AI standards

For an AI solution to work, and work well, it must work for everyone. A biased model that works for some users, and not others, is a failed model. At the beginning of the year, we launched our publication Embracing Responsible AI from Pilot to Production. We also continue to expand our key AI ethics considerations:

- bias
- explainability
- security
- impact

The aim is to improve quality, efficiency, transparency and responsibility for AI projects while promoting inclusivity and collaboration.

Larrakia Nation

Overview:

To preserve the Larrakia language, linguist Dr. Mark Harvey has teamed up with the Larrakia Nation Aboriginal Corporation of People and Appen with a goal to improve the database of usable text and audio data language samples of the Larrakia language.

Challenge:

To improve the data and database for the Larrakia language so it can be useable and preserved for future teaching and future generations. The two databases, one with text and one with audio, were not linked and could only be accessed independently via loose time alignments. They needed to isolate sentences or speakers, to distinguish between passages of English vs. Larrakia, and reduce errors in the data samples.

Solution:

Appen expert linguists provided acoustic measurements to help describe Larrakia vowels and consonants, supplementary English transcription, and introduced more granular timestamping by inserting markers at relevant sense units (phrases, sentences or single words). Each sense unit was further labelled by speaker role and language being spoken. Appen specialists supervised the phonetic annotation of subsets of vowels and consonants and performed acoustic measurements, which will help describe and better understand the phonetic inventory of Larrakia.

Result:

- As a partner, Appen has been helpful in creating a useable, sustainable database.
- The Larrakia Language database project is an ongoing effort.
- The next steps will be to preserve and teach the language.

Social Impact

As part of our commitment to having a positive social impact, Appen partners with organisations to provide work opportunities to people that otherwise wouldn't have access to work, especially those from vulnerable or marginalised communities such as refugees, people who have been long-term unemployed, and people with prior justice system involvement. In 2022 we launched a partnership with MercyCorps to provide opportunities for their tech training graduates to work on Appen projects. In 2023 we will expand this partnership and launch other impact sourcing partnerships to increase our impact and support of these communities. Appen is a lead member of the IAOP Center for Social Impact, helping to connect, convene and support industry investment in impact sourcing.

Appen employees give back by undertaking pro-bono work and hold various fundraising events to support a variety of not-for-profit organisations throughout the year including the Cerebral Palsy Alliance, Comic Relief, Save the Children, St Petrocks (supporting those who are homeless or vulnerably housed) MacMillan Cancer Support, the Cancer Council and the Organisation for Autism Research.

In 2022, Appen continued its pro-bono partnership with CLEAR Global, previously Translators Without Borders, to help support the development of a chatbot for mental health, focused in regions with limited literacy. Linguist from Appen undertook Language Specific Peculiarities (LSP) research to outline the phonological, grammatical, and orthographic aspects of Sheng, a Swahili-English slang used primarily by young people in Nairobi and other urban areas of Kenya. *"As a native speaker of Sheng and Swahili, I was impressed by the level of detail and accuracy in the LSP document Appen delivered,"* shared Paul Waramabo, Swahili Language Lead for CLEAR Global. *"It's a powerful tool that shows the endless possibilities for many underdeveloped languages and what can be done for those languages."*

Environmental footprint

Our environmental and climate change commitments are outlined in our Environment Position Statement (EPS).

We have a relatively small environmental footprint within our own operations and have committed to further reducing the impact of our operations, including our offices, facilities, travel and data centre usage by:

- leasing energy efficient buildings and adopting energy efficient practices.
- reducing electricity consumption and increasing our use of renewable energy.
- optimising our data centre requirements and working with a cloud supplier that has committed to using 100% renewable energy.
- reducing waste generation and water use and increasing recycling.
- evaluating and reducing our greenhouse gas emissions.
- minimising travel by using digital conferencing and collaboration tools.
- buying carbon offsets for unavoidable travel.
- working with our partners, suppliers and crowd on sustainable procurement solutions.

Climate strategy

Appen's Net Zero Roadmap provides pathways towards achieving net zero emissions across Appen's business operations and supply chain which consists of:

- Better energy management.
- Energy efficiency.
- Sustainably sourced energy (renewable energy).
- Engagement with suppliers and our crowd to pursue net zero emissions.
- Carbon offsets.

We have also revised our net zero targets as part of the Roadmap, they are:

- Net zero emissions across Appen's operations by 2025.
- Net zero emissions across whole business by 2030.

As carbon offsets play a key part in our Roadmap, an offset strategy will be drafted in 2023 to ensure the integrity of the offsets and that our investment is long term focused and encompass ESG criteria that goes beyond carbon reductions.

Climate change

We acknowledge the risks associated with climate change and are committed to playing our part in supporting the transition to net zero emissions by signing up to the Science Based Target initiative (SBTi) to limit global warming by 1.5°C. We have created a Net Zero Roadmap to provide pathways towards achieving our net zero emissions target. The Roadmap and its proposed funding (excluding offsets) which will receive formal approval once the offset strategy is finalised has been approved by the Board and will be adopted across the business.

Further details of the Roadmap can be found on page 47 and the Appendix of this report.

Risk management

We assess the potential size and scope of climate risk through our risk management framework along with the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD). Climate risk is incorporated into our Risk Appetite Statement which sets out our key risk types, the thresholds for each, and how we monitor and mitigate these risks. Management, the Audit and Risk Management Committee and the Board of Directors all have responsibilities with respect to overseeing, assessing and managing climate change risk (see Governance above). Please refer to the section 'Analysis of risks and opportunities' for the identification of risks and opportunities associated with the physical impacts of climate change on business activities and operations.

As part of the TCFD framework, we have conducted scenario analysis of our offices around the world to identify potential physical risks that will impact on those sites. Please refer to section 'TCFD-based Scenario Analysis' for further details and outcomes.

Further details of our GHG inventory, including category breakdown for scope 3 with emissions by geography and energy consumptions can be found in the Appendix on page 172.

Metrics and targets

The GHG emissions inventory (carbon footprint) for 2022 has been completed based on the principles of GHG Protocol with emissions breakdown in scope 1, 2 and 3 shown in the following table. We have expanded on the categories reported in the current year to also include estimated emissions from our crowd. As part of the development of Net Zero Roadmap, our estimation assumptions were reviewed by an external consultant during the year. The inventory below indicates that 14% of our overall emissions comes from Appen's business operations with the bulk of our emissions coming from our supply chain (i.e. crowd, suppliers, etc.).

Appen 2022 GHG Inventory [1]	2022 ($MTCO_2e$)
Scope 1 – Onsite Combustion	263
Scope 2 – Electricity – Location-Based Emissions ($MTCO_2e$)	1,475
Sub-total (Scope 1 and 2)	1,738
Scope 3 – Emissions	9,872
TOTAL	**11,610**

The reporting boundary for scope 1 and 2 includes all offices globally occupied by Appen employees. Office spaces leased exclusively for the delivery of specific projects on a short-term basis and offices that were operational for six months or less in the reporting period have been excluded from this boundary.

1 Emissions calculations based on GHG Protocol.

Outlook

Over the next year we will be implementing the key strategies within the Net Zero Carbon Roadmap, engaging with our crowd and suppliers on emissions reduction and formulation of an offset strategy with the aim of achieving Climate Active certification by end of 2024.

We are also focused on reviewing our EPS and developing environmental policies for water and waste along with key initiatives to reduce water and waste generation. We will outline these measures in our 2023 Annual Report.

We are expanding our impact sourcing activities with key objectives of assisting people out of poverty and providing a pathway to meaningful employment by increasing digital skills. We are also expanding our efforts to manage modern slavery risks through enhanced vendor engagement and assessment.

In 2023 we are establishing an AI for Good Committee to ensure we are embedding AI for Good throughout our governance, products and operations. A large part of the remit of this committee will be dedicated to leading the way in AI for Good by ensuring we also walk the talk through our social and environmental initiatives. The committee will be chaired by our CEO and President.

Analysis of risks and opportunities

Our analysis depicted below indicates that there are significant opportunities and a number of small risks associated with the physical impacts of climate change. This is due to the dispersed nature of our activities and operations and those of our key suppliers and customers.

		Potential Impact	Response
Transition risks	**Policy and legal**	Our customers expect environmentally responsible suppliers as part of their commitment to net zero emissions in their supply chains.	We are addressing these risks by driving more energy-efficient operations and our commitment to reducing and reporting our carbon footprint. We are also working with our customers to leverage their initiatives into our own programs.
Physical risks	**Acute**	We have offices in locations that are subject to increased severity of extreme weather events due to climate change.	For short-term disruptions, remote working is a viable option for the majority of our operations with little business disruption. We also have business continuity plans and disaster recovery plans where adverse weather events are considered and continue to review and update these plans as necessary. Business continuity and disaster recovery are included and monitored as a key strategic objective, which also includes considerations due to the impact of climate change.
Opportunities	**Resource efficiency**	Moving to more resource efficient processes may result in reduced longer term operating costs through efficiency gains but brings benefits through employee and customer satisfaction.	We are committed to more energy-efficient operations including reviewing where additional efficiencies can be introduced throughout our operations.
	Energy source	Using lower-emission sources of energy can result in lower costs as a result of reduced exposure to future fossil fuel price increases, potential changes to carbon pricing and reputational benefits with customers and other stakeholders.	We are committed to increasing our utilisation of renewable energy across our operations particularly across our physical office locations.
	Products and services	AI will be applied in the development of new technologies that reduce reliance on fossil fuels, cut greenhouse gas emissions, improve efficiency and optimise resource allocation.	As the provider of training data for AI model development, we anticipate that the demand for our products and services will continue to grow as new technologies are developed.

TCFD-based scenario analysis

A desktop scenario analysis has been conducted to help identify potential physical risks that will impact on Appen offices globally. The below scenarios have been conducted based on two carbon emissions scenarios from Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report: low emissions (RCP 4.5 or 2 °C warming) and high emissions (RCP 8.5 or 4 °C warming).

For each office the above climate scenarios were analysed in conjunction with the following identified physical risks:

- **Fires –** bushfires and wildfires arising from a hotter and drier climate.
- **Heatwave –** prolonged high temperatures.
- **Drought –** reduced rainfall from a hotter and drier climate.
- **Flood –** from increased storm activities and intensities (i.e. storm surges, typhoon etc.).
- **Inundation –** lands under water due to rising sea levels from climate change.

For each type of risk the associated business impacts were determined and a risk rating applied. Some of the identified business impacts included:

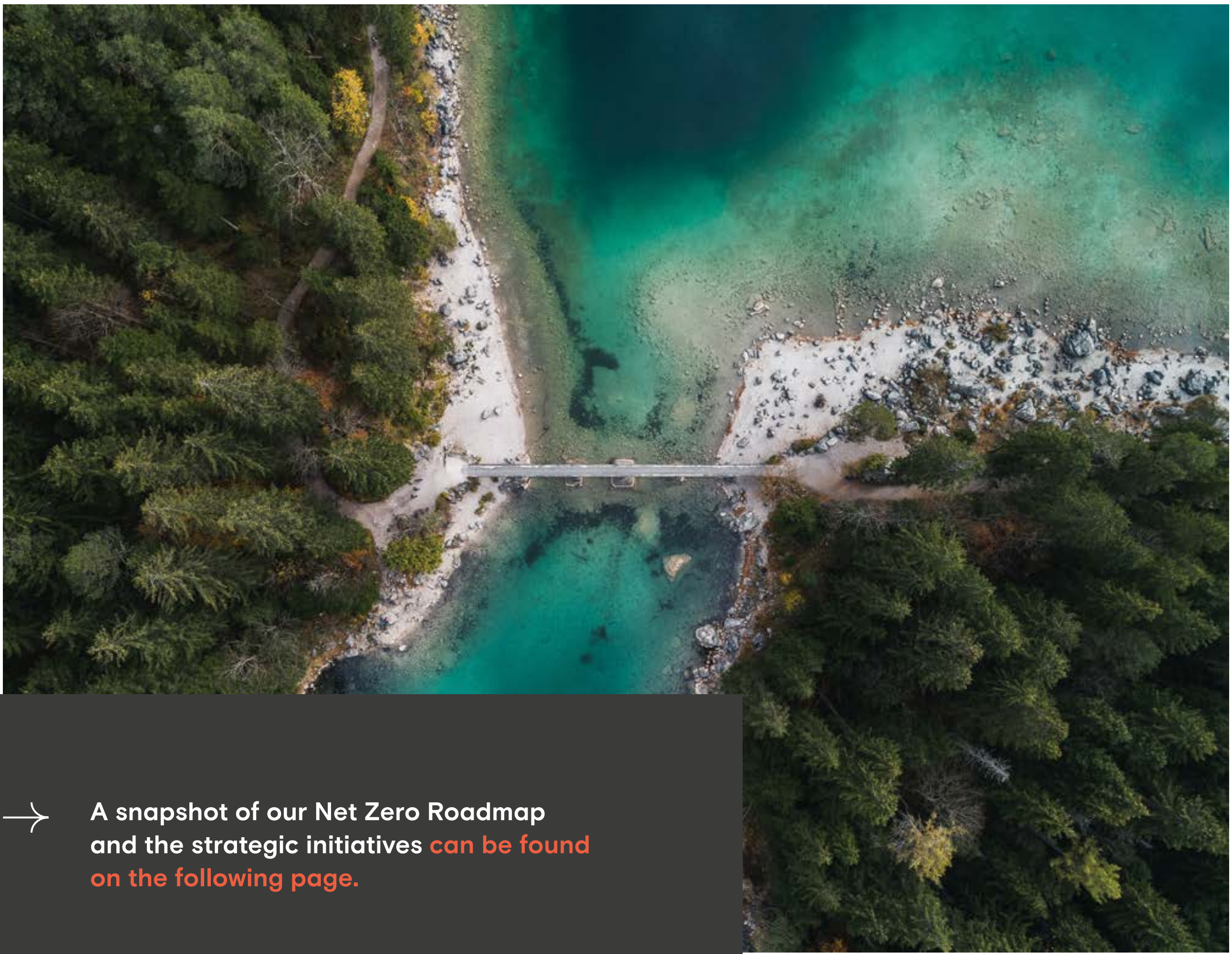
- Damage to property and potential loss of life.
- Rising cost of business operations.
- Scarcity of resources such as water, etc.

Scenario analysis outcomes

Based on the physical risk analysis, the key risks impacting most of the offices are heatwave and drought especially in a high emissions scenario (RCP 8.5).

In response to the analysis, we have identified and begun initiatives within the office sites for mitigation and adaptation which include:

- Energy efficient HVAC and installation of LED lightings.
- Water efficient plumbing and water fixtures.
- Sourcing of on-site or off-site renewable energy (i.e. solar, wind, hydro).



A snapshot of our Net Zero Roadmap and the strategic initiatives can be found on the following page.

Net-zero roadmap

Our roadmap outlines the key strategies and actions to be taken across our business to achieve net-zero emissions by 2030.

Roadmap targets	Net-zero emissions by 2025 for business operations ▼				Net-zero emissions by 2030 for business operations ▼				
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Scope 1 and 2 emissions									
Optimise office location strategy	Office consolidation			Completion of office optimisation strategy					
Energy efficient sites	Implementation of energy efficient practices	Installation of energy efficient equipment	Gas to electric conversions						
Sustainably sourced energy		Switch to renewable energy providers	Installation of renewable energy	All sites powered by renewable energy[1]					
				Net-zero emissions from sites					
Scope 3 emissions									
Partnering with core suppliers to net-zero		Supplier engagement	Top suppliers committed to net-zero		Sustainable procurement strategy’				
Enable crowd energy efficient practices	Contractor engagement and awareness programs. Implementation of contractor incentive programs and partnerships.								
Support employees in their sustainability journey	Employee engagement and awareness campaigns								
									Net-zero emissions
Offsets									
Core operations offset program	●	●	●	● ●	●	●	●	●	● ●
Supplier/crowd offset program			●	● ●	●	●	●	●	● ●

Travel offsets ramping up to site energy in 2024

Purchase offsets each year from 2024, increasing by 20% annually

1 Where available in the market otherwise offsets utilised.

Identifying and managing risk

We operate in a high-growth, dynamic market and ensuring risk management is embedded in everything we do is critical to meeting our strategic objectives.

Risk appetite

Our risk appetite, in conjunction with our embedded risk management framework, provides direction on the type and level of risk we are willing to take in line with our overall business strategy. Our risk appetite has been defined at a category level and approved by the Board.

Risk culture

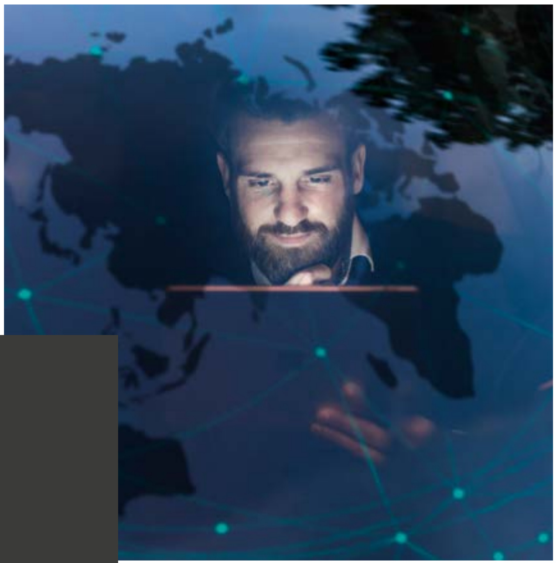
Our approach to risk management is intertwined with our strategic planning and objectives. Embedding risk management across the business from strategy development down to our day-to-day operations, supported by our company values promotes transparency and accountability in decision making. This culture is supported by our Code of Conduct and other policies, regular training and implementation of cost-effective controls.

Key changes in our principal risks

Every year as part our strategic planning process, we revisit our principal risks to ensure congruence with our strategic direction and value drivers. This exercise was conducted concurrently with our materiality assessment to ensure that material risks from all stakeholders were appropriately captured, and our assessment was not materially different to that of our stakeholders. Where there is a direct correlation with previous reported risks the movement year on year has been reported.

Emerging risks

We define emerging risks as uncertainties which might not be clearly understood, or possible to fully assess. We monitor these risks and as part of our annual strategic planning session perform horizon scanning review to identify any that are new and relevant. Our horizon scanning includes consideration of external analysis such as the World Economic Forum Global Risk Report and other available commentary. These risks are considered in conjunction with our principal risks, and once they are more clearly understood, are incorporated into our existing risk reporting structure. Examples of emerging risks that have been incorporated into principal risks are climate change, geoeconomic factors and responsible AI.



→ Further information regarding emerging risks can be found in their corresponding principal risks as identified on the following page.

Governance

Our risk management approach ensures innovation and new possibilities are embraced together with a comprehensive analysis of the potential risks and identification of risk mitigation strategies.

Ultimate responsibility

Board through the Audit & Risk Management Committee

- Provides oversight of risk management and culture which contributes to the ability to achieve strategic objectives.
- Approve the risk management framework.
- Approve the risk appetite statement and subsequent addressing of escalated risk appetite triggers.
- Have oversight of strategic and related ESG risks (including climate related risks and impacts).

Oversight

Executive and Senior Leadership Team

- Responsible for the implementation of the risk management framework and risk aware culture within their teams.
- Assess, manage and monitor risk profiles for identified strategic risks.
- Identify where risk appetite statement triggers may be met and further escalation is required.
- Promote a positive and appropriate attitude towards risk management and ensure employees are aware of their responsibilities.
- Attest that key risks in their area have been identified and managed through controls and mitigants on a bi-annual basis.

Ownership

Operational management

- Identify, prioritise, assess and monitor risks which may arise in the business operations.
- Implement and comply with all controls, policies and procedures within their area of responsibility, including devising and implementing controls to address identified operational risks.

Monitoring and partnering

Risk management function

- Defines the risk management process to be followed by the business (including risk appetite).
- Reviews and challenges the strategic and operational risks ensuring controls identified are operating, and tracks closure of items.
- Facilitates risk process, collating risk registers and consolidating the strategic risk register.

A summary of our principal risks, and how these have changed during the year, mitigation strategies and related trends are detailed in the following tables. This reflects the risks identified by the Board for the year ended 31 December 2022. The risk landscape is continually evolving and we regularly monitor and identify risks on a proactive basis. This means the risk register and associated strategies are not exhaustive and are reflective of efforts at a set point in time.

Principal risk	Mitigation	Value Driver
Business model		
Strategic direction of business The AI market is very dynamic and with client needs and end-user expectations change rapidly. Demand for services can rapidly change depending on technological developments within market segments, geoeconomic confrontations factors (including global conflicts) and regulatory developments which can all impact our business model. **Identified material issues:** → Technology innovation → Innovative customer solutions **Incorporated emerging risk:** geoeconomic factors and confrontations **= Change** This is a revised risk category for the current year and is not directly comparable to prior year categories.	• We have a team that is dedicated to monitoring AI and technology markets, customer trends and regulatory changes. • We use these insights to inform our strategy and technology roadmap, and to evolve our offering. • We scan for additional opportunities to expand into other markets and/or technology to support our existing offering. • Macroeconomic and geopolitical risks, including consideration of potential political uncertainty in certain markets and geographies, are actively factored into our strategic planning processes and investment activity. • We undertake ongoing horizon scanning to monitor potential policy, legal and regulatory developments that may impact our ability to operate in particular industries, markets and geographical locations. We have plans and processes in place to react in an agile manner with minimal business disruption to any changes that may occur.	Customer and brand Global crowd Technology, processes, systems Financial
Market demand and competition In some parts of our business there is competition from niche and low-cost providers. Customers may also choose to do some data annotation tasks in-house and/or use their scale to seek better terms on pricing. The profile of the projects that our customers are undertaking is also changing. **Identified material issue:** → Ongoing customer demand for data **↑ Change** This risk has trended upwards due to the increasing pressure from competitors in the year.	• We monitor new investments in the data annotation sector closely. • We have reprioritised to a product-led focus to ensure our technology capabilities remain ahead of the competition. • We have invested in new sales and marketing capabilities to deepen and expand our relationships with existing and new customers. • We continue to invest in technology to increase the quality of our services and to deploy new capabilities. • Our core Relevance activities are less amenable to replication by machines or insourcing as they require a large-scale diverse crowd performing subjective human judgements.	Customer and brand Technology, processes, systems Financial

Key: ↑ Increase ↓ Decrease = Stable

Principal risk	Mitigation	Value Driver
Changing customer strategy and needs Currently a few large global technology companies are the major buyers of AI training data. The revenue from these clients is significantly larger than the revenue from other clients and the volume can fluctuate. Clients can also reprioritise their spend away from areas of innovation at short notice or have ongoing needs for training data impacted by strategic changes of other players in the sector. **Identified material issues:** → Customer experience and satisfaction → Innovative customer solutions → Customer concentration **↑ Change** This risk has increased in the past year due to disruption in the technology sector and rapid strategic changes that customers have implemented in response to changes in the global economic environment.	• We continue to build relationships with key clients to ensure we can anticipate strategy changes and react accordingly. • We monitor relevant market and customer trends and regulatory changes to identify potential headwinds for our clients which may impact our future revenue. • We continue our product-led focus to meet evolving customer needs. • Inclusion of customer NPS targets within Executive STI.	Customer and brand Technology, processes, systems
Ability to execute on operational requirements The sector we operate in is fast moving, and we need to be agile to meet these expectations. Knowledge and skills need to be developed at the same rate as our clients to continue to execute our operations successfully to meet their expectations. **Identified material issue:** → Customer experience and satisfaction **= Change** This risk has remained stable in the current year as we continue our transformation program against a rapidly changing customer strategy landscape.	• We have a quick response team for our major clients to ensure we can keep pace with their changing needs. • Our transformation team has improved and streamlined our processes to ensure we are able to execute operations in an effective and consistent manner. • Refinement of our customer NPS program which we use to identify gaps and areas of improvement in our operational implementation.	Technology, processes, systems Customer and brand Global crowd

Principal risk	Mitigation	Value Driver
Resilient operational model The loss of data, a physical site or critical employees could result in a major impact to our customers, revenues and reputation. **Identified material issues:** → Managing technology disruptions and business continuity → Platform availability **↑ Change** This risk has increased in the past year due to the increasing frequency of cyber-attacks, extreme weather events, and potential impact on key individuals as a result of the coronavirus pandemic.	• We store data in enterprise grade, cloud-based servers which are duplicated to minimise disruption. • Our engineering team focuses on resilience to mitigate the risks of material or sustained disruption. • We have business continuity plans for facilities that require a physical presence on-site and critical systems. • We have embarked on a process to embed business continuity considerations into our client project plans beyond our critical projects. • We conduct scenario testing for our disaster recovery plans. • Our work-from-home model for data annotators makes our business model extremely flexible and resilient. • We continue to have robust COVID-safe work practices for our employees.	Customer and brand Technology, processes, systems Social and environment
People		
Talent strategy and employee value proposition Our business is reliant on specialised skills. Our ability to grow is dependent on attracting, developing and motivating our talent. **Identified material issues:** → Culture and engagement → Diversity, equity and inclusion → Talent attraction and retention → Wellbeing and safety → Workplace training and development **↓ Change** Ongoing employment market pressure remains a key contributor to this risk, however the internal work over the year has resulted in a lowering of this risk year on year.	• Our HR department works closely with the business to understand the skills and capabilities required to deliver our business objectives and to ensure those needs are met. In 2023, this also includes a revision of the way we manage employee goals and accountability. • We have listened to the feedback provided by our employees as part of the culture work conducted and have introduced new ways of working, additional learning pathways and other programs to improve our employee value proposition. • We continue to benchmark our offerings across the sector to ensure market competitiveness and introduced additional employee benefits programs to retain and attract talent. • Inclusion of employee engagement targets within Executive STI.	Our people Social and environment

Key: ↑ Increase ↓ Decrease = Stable

Principal risk	Mitigation	Value Driver
Managing organisation culture and leadership through change Future proofing our business has been driven by a large-scale transformation program. Reliance on buy-in from employees is critical for the success of any transformation program. **Identified material issue:** → Culture and engagement **↓ Change** This risk has decreased in the year as the transformation program becomes well embedded within our ecosystem however remains a risk due to the speed of change that is required.	• We reinforce our values, desired behaviours and attributes through direct links to reward and recognition. • We have embedded a dedicated transformation team who is responsible for planning, executing, co-ordinating and controlling activities related to change. • All critical transformation programs have accompanying change management plans to ensure buy-in from critical employees.	Our people Technology, processes, systems

Technology and innovation

Principal risk	Mitigation	Value Driver
Investment in technology innovation and transformation Technology innovation is key to improving our capabilities, increasing efficiency and automation, keeping pace with customer expectations and staying ahead of our competition. **Identified material issues:** → Technology innovation → Innovative customer solutions **= Change** This risk has remained stable in the current year as we continued to invest in our product and engineering teams.	• We are investing in our transformation program to improve both customer and crowd experiences, and to deliver automation benefits and efficiencies and new offerings. • We utilise agile methods in our project delivery to ensure investment in engineering projects is appropriately prioritised and oversight is in place.	Technology, processes, systems Customer and brand

Principal risk	Mitigation	Value Driver
Protection of intellectual property With an increasingly product-led strategy the need for solid intellectual property protection strategies are key to delivering outcomes for our customers. **Identified material issue:** → Protection of technology **= Change** This risk has remained stable in the current year but we continue to monitor closely as we anticipate that this risk will increase over subsequent periods.	• We have an Intellectual Property (IP) Committee that looks at new technologies through invention disclosures, develops appropriate protection strategies for that technology and ensures alignment with product directions (including patenting, copyright, trade secret, defensive publication etc.). • We have training to ensure employees are aware of the need to protect confidential information. • Access to core technologies is geographically segmented to improve IP protection. • Brands are protected in relevant markets.	Technology, processes, systems
Crowd		
Crowd conditions Independent contractors are critical to our business. The attraction and retention of skilled contractors enables our competitive advantage and customer value proposition. **Identified material issue:** → Fair pay, treatment and wellbeing **= Change** This risk remained stable in the current year. We continue to see customers requesting information on crowd conditions, particularly in areas related to content moderation.	• Our Crowd Code of Ethics establishes the conditions that we will adhere to, above the minimum legal requirements. • We continue to conduct risk assessments on the locations where there may be issues with contractor conditions as well as changes in employment trends and upcoming legislation. • Our Impact Sourcing strategy provides jobs and career development to people who otherwise have limited prospects for formal employment. • We are working with our customers to ensure the value of fair work is understood and implemented within their own procurement processes to ensure fair conditions to contractors. • Inclusion of crowd NPS targets within Executive STI.	Global crowd Customer and brand

Key: ↑ Increase ↓ Decrease = Stable

Principal risk	Mitigation	Value Driver
Crowd supply meets customer demand Our business model relies on our ability to provide customers with access to a broad range of skills provided by our global crowd. **Identified material issues:** → Crowd diversity and inclusion → Crowd integrity **= Change** This risk remains stable. While there is increasing demand from customers for diverse crowd members, the increasing breadth of our crowd has continued to be to our advantage.	• We have begun new programs to understand how the work we provide fits into the life of an independent contractor and are developing new user experiences and pathways to better tailor the contractor experience to this feedback. • We have implemented new strategies to combat contractor integrity to further guarantee that our clients have access to the best quality contractors. • We have partnerships with sourcing agencies to increase our reach into difficult markets and to stimulate applicant interest.	Global crowd Customer and brand
Data management		
Compliance with security, privacy and other data regulations We manage a large amount of data as part of our operations including a significant amount of personal information which requires increased security requirements. **Identified material issue:** → Data privacy and governance **↑ Change** This risk continues to trend higher due to increasing regulation globally as well as an increase in the amount of sensitive information we are being requested to process.	• We continue to integrate security and privacy requirements into our systems and offerings by increasing the collaboration between our engineering and privacy teams. • We have a team that is responsible for understanding emerging information security risks. They consult with external advisors. • Information security risk assessments are conducted on a regular basis and the IT team undergoes training in risk management. • We have maintained certification for ISO 27001 and SOC 2 as well as gaining ISO 27701 for our China business. • We have policies, procedures and training to ensure employees are aware of their privacy and security obligations. • Privacy and data security are a standing agenda item for our IT Governance Steering Group which reports quarterly to our Audit and Risk Management Committee.	Technology, processes, systems Customer and brand

Principal risk	Mitigation	Value Driver
Emerging cyber security issues We manage sensitive customer information, increasing our exposure and susceptibility to cyber attacks. Cyber threats could lead to a loss of data or service interruption impacting customers and our reputation. **Identified material issue:** → Cyber security **↑ Change** The increasing prevalence of cyber attacks has resulted in an increase in this risk during the year.	• We have implemented a cyber security risk management framework across the organisation. It includes the deployment of physical and technological security measures to identify, protect, detect and respond to information and cyber security risks. We have ISO 27001 and SOC 2 certification. • We conduct audits of our cyber security practices, including maturity assessments, scenario planning, penetration testing and simulation exercises, for cyber security incident management. • The strength of our control environment is tested on an ongoing basis by independent security experts. Their recommendations are implemented in a prioritised manner. • We have policies, procedures and annual training to ensure employees are aware of the threat and their responsibilities, and we conduct regular synthetic phishing tests.	**Technology, processes, systems** **Customer and brand**
Financial sustainability We operate globally and our business can be affected by foreign exchange, changes in debt markets and tax obligations. As a listed entity we also have an obligation to protect shareholders' capital and ensure sustainable earnings. **Identified material issue:** → Sustainable earnings **↑ Change** Global economic uncertainty has resulted in an increase in this risk in the year.	• Improving our market communication strategy away from short term results to longer term focus to better manage stakeholder expectations. • We naturally hedge foreign exchange risk by paying for associated services in the same currency we receive revenue. • We have a formal hedging policy to provide protection where we make payments in Australian dollars with US funds. • Extended our debt facilities for a further four-year term. • We continue to monitor the external landscape and conduct scenario planning to ensure we can appropriately respond to changes, such as tax rates, in a timely manner.	**Financial** **Our people**

Key: ↑ Increase ↓ Decrease = Stable

Principal risk	Mitigation	Value Driver
Support		
Compliance with legal, statutory and ethical obligations We have a responsibility to not only operate in a manner that is congruent with our legal and statutory obligations. We also have an obligation to disseminate and embed responsible AI best practices across our operations and partnerships. **Identified material issues:** → Corporate governance → Corporate citizenship and reputation → Code of conduct compliance **Incorporated emerging risk:** responsible AI **↑ Change** This risk has increased due to growing compliance and ethical expectations from stakeholders and the broader community.	• We regularly review our material obligations to ensure appropriate controls, governance and oversight are maintained. • We understand the local labour and human rights landscapes in the jurisdictions we operate in and ensure we comply with modern slavery requirements. • Our compliance framework includes policies, procedures and a suite of mandatory compliance training which helps drive positive attitudes to compliance across the business. • We have added relevant subject matter expertise across the business and are increasing our training program for all employees to extend our compliance and reporting capabilities. • We have partnered with the World Economic Forum to create responsible AI standards to increase the value of, and trust in AI, for businesses and the community.	Social and environment Financial Our people
Environmental, social and governance (ESG) risks and performance We have a responsibility as a corporate citizen to tackle pressing issues such as climate change, and modern slavery, and address them across our business operations and supply chains. **Identified material issues:** → Responsible AI → Environmental impact and climate change → Corporate citizenship and reputation → Human rights and modern slavery → Supply chain management **Incorporated emerging risk:** climate change **↓ Change** This risk has decreased due to the action that the company is taking to meet our ESG commitments despite an increasing governance and compliance expectations from stakeholders.	• We are a signatory to the United Nations Global Compact and have committed to take action to embed the ten principles within our business practices. • We have completed our initial Net Zero Roadmap and have committed to net zero for our operations by 2025 and for our wider footprint by 2030. • We have committed to the Science Based Target Initiative and disclosing climate-related issues in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.	Social and environment

Our approach to governance

The Board and management team maintain a high standard of corporate governance as part of our commitment to create value for stakeholders through effective strategic planning, risk management, transparency, and corporate responsibility.

Our governance policies and practices are consistent with the 4th edition of the ASX Corporate Governance Council's Principles and Recommendations throughout the year.

The Board regularly reviews governance practices in light of changing stakeholder expectations, changes in the Company and relevant developments in corporate governance practices.

Governance framework

Our governance framework ensures accountability, both of the Board and senior management.

To clarify the roles and responsibilities of directors and management and to assist the Board in discharging its responsibilities, the Board operates under a formal Charter which sets out the functions reserved to the Board and provides for the delegation of functions to Board Committees and to senior management.

The Board is responsible for demonstrating leadership, defining the Company's purpose, establishing strategic objectives, approving our values and the Code of Conduct, and oversight of the management of the Company.

The Board has established two standing Committees which assist with the execution of its responsibilities – the Audit and Risk Management Committee and the People and Culture Committee.

2022 areas of governance focus

Strategic and financial performance

- a Board and executive strategy session was held to focus Appen's response to challenging external operating environment.

Our people

- continue to have robust COVID-safe work practices for our employees.
- introduced new ways of working, additional learning pathways and other programs to improve our employee value proposition.
- the Diversity and Inclusion Committee continued to focus on initiatives to promote gender diversity and implement practices for the benefit of under-represented groups.
- reviewed our organisational structures within each business unit and functional area with a focus on operational efficiency and enhanced agility.
- outlined our Future Ways of Working for our global employees to embrace both employee voice as well as market trends on workplace practices. This included the launch of the Neighbourhood program to help foster and cultivate deeper connections despite geographic dispersion.
- completed a role specific remuneration analysis for every role globally as part of our ongoing commitment to maintain remuneration within market ranges of pay. Where gaps to market were identified, appropriate steps were taken to ensure our continued commitment was honoured.
- executive team strengthened by the addition of two new members.

Global crowd

- reinforced our Crowd Code of Ethics and its role in building our reputation as a company of fairness and integrity in how we partner with our crowd.
- delivered initiatives to ensure the crowd are better matched to projects and onboard more efficiently.

Social and environment

- completed our Net Zero Roadmap and committed to net zero for operations by 2025 and for our wider footprint by 2030.
- committed to the SBTi Initiative.
- became a signatory to the United Nations Global Compact.

Governance and board renewal

- undertook process of board renewal with the appointment of three new Independent Non-executive directors
- Managed CEO succession.

Financial and capital management

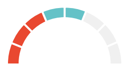
- considered dividend policy in light of current trading performance.
- reviewed and revised foreign exchange hedging policy.

Ethics and responsible decision making

- partnered with our key customers to establish projects to identify and monitor our impact on social impact activities.
- issued our Modern Slavery Statement.

Compliance and risk management

- internal audit program – reviewed and assessed processes across key operational areas, including a review of our transformation projects and processes.
- reviewed the risk management framework, revised the risk appetite statement and updated our strategic risks to incorporate material ESG risks. Confirmed the identified risks through our stakeholder materiality assessment.
- focus on cyber security including a cyber maturity review, ISO27001 compliance across global sites and SOC2 compliance on key platforms.

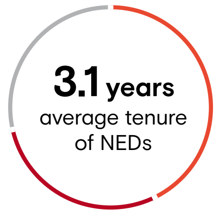
Skill	Description	Skill level
Strategy	Experience in defining strategic objectives, assessing business plans and driving execution. Ability to think strategically and identify and critically assess opportunities and threats and develop effective strategies in the context of changing market conditions.	
Finance	Understanding the financial drivers of the business, experience in financial accounting and reporting, tax, corporate finance and internal financial controls.	
Risk	Experience in the identification, monitoring and management of material financial and non-financial risks, the oversight of compliance frameworks and controls, and the ability to identify and oversee mitigation strategies for emerging risk and compliance issues in the organisation.	
Industry experience	Experience and broad understanding of the application of language technology, machine learning and artificial intelligence, including market drivers, risks and trends and encompassing policies, competitors, end users, regulatory policy and frameworks.	
Customer/ client	Experience developing customer/client strategy and delivering customer/client outcomes.	
Capital markets	Expertise in considering and implementing efficient capital management including alternative capital sources and distributions, yields and markets.	
Corporate transactions	Experience in assessing and completing complex business transactions, including mergers, acquisitions, divestments, capital management, major projects and business integration.	
People and culture management	Board Committee or senior executive equivalent experience relating to people management and human resources, corporate culture, diversity and inclusion, and remuneration issues of a global organisation.	
Governance	Knowledge and experience in best practice governance structures, policies and processes.	
Technology and innovation	Experience and expertise in identifying, assessing, implementing and leveraging digital technologies and other innovations.	
Data and security	Understanding the use of data and the risks associated with data security, cyber security and privacy.	
International business experience	Experience in international business, trade and/or investment at a senior executive level and exposure to global markets and a range of different political, regulatory, and business environments.	
Environment, social and governance	Expertise in the areas of environment, social and governance (ESG), and the ability to advise the Company of required policies, actions and disclosures on these matters.	

■ High competency and experience ■ Medium competency and experience

Board diversity

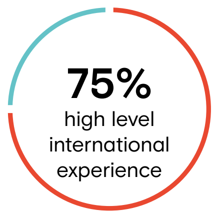
Male	50.0%
Female	50.0%

Non-executive director tenure



0–1 year	43.0%
1–3 years	28.5%
3–5 years	0.0%
5+ years	28.5%

International business experience



High	75.0%
Medium	25.0%

Director independence

Independent	7
CEO	1

Board of Directors

Richard Freudenstein

BEc, LLB (Hons)
Non-executive Chair

Appointed: Chair on 28 October and joined as non-executive Director on 12 August 2021

Board Committee:
Member of the People and Culture Committee

Richard is a director of Coles Group Limited (ASX: COL), REA Group Ltd (ASX: REA) and Cricket Australia. Previously, he was Chair of REA Group Ltd and a director of Ten Network Holdings Ltd (ASX: TEN), Foxtel and Astro Malaysia Holdings Berhad. Richard has held the roles of Chief Executive Officer (CEO) at Foxtel (2011–2016), News Digital Media at News Ltd (2006–2010) and The Australian and was Chief Operating Officer (COO) at British Sky Broadcasting (2009–2006). He is currently Deputy Chancellor and Fellow of the Senate at the University of Sydney.

Steve Hasker

BCom, MBA, MIA, ACAA
Independent Non-executive Director

Appointed: 7 April 2005

Board Committee:
Member of the People and Culture Committee

Steve has extensive experience as a CEO, COO and Advisor in the US. Steve has been President and CEO of Thomson Reuters since March 2020. He was a Senior Advisor to private equity firm TPG Capital (2019–2020) and CEO of CAA Global, a TPG Capital portfolio company (2018–2019). At Nielsen Holdings PLC, he served as Global President and COO (2015–2017) and President, Global Products (2009–2014). Steve was a partner with McKinsey (1998–2009). Before that, he spent five years in several financial roles in the U.S. and other countries.

Robin Low

BCom, FCA, GAICD
Independent Non-executive Director

Appointed: 30 October 2014

Board Committee:
Chair of the Audit and Risk Management Committee

Robin is a non-executive director who serves on the boards AUB Group Limited (ASX: AUB), IPH Limited (ASX: IPH) and Marley Spoon (ASX: MMM). She has extensive finance, risk and business experience from her 28-year career at PricewaterhouseCoopers where she was a partner specialising in assurance and risk. Robin is a past Deputy Chair of the Auditing and Assurance Standards Board and is a Fellow of the Institute of Chartered Accountants Australia and New Zealand.

Vanessa Liu

AB Psychology (magna cum laude with highest honors); JD (cum laude)
Independent Non-executive Director

Appointed: 27 March 2020

Board Committee:
Member of the Audit and Risk Management Committee

Vanessa has a deep understanding of emerging technology trends and enterprise uptake of artificial intelligence, especially in the US market. She is the Founder and CEO of SaaS technology company Sugarwork, and is an non-executive director of Goodman Group (ASX: GMG). Most recently she was Vice President of SAP.iO, the early-stage venture arm of SAP. Prior, Vanessa was the COO at Trigger Media Group, a digital media incubator. Before that, she was Associate Partner at McKinsey where she served clients in media and high-tech sectors on issues of digital strategy, emerging market strategy, growth and innovation.

Stuart Davis

LLB
Independent Non-executive Director

Appointed: 30 March 2022

Board Committee:
Member of the Audit and Risk Management Committee

Stuart is a director and Chair of the Remuneration Committee of NEXTDC Limited (ASX: NXT), non-executive director of Bank of South Pacific Limited and Chair of the Risk Committee, and director and Chair of the Risk Committee of PayPal Australia Ltd. He has more than 30 years' experience as an international banker with the HSBC Group where he was CEO, HSBC India (2009–2012), CEO and Executive Director for HSBC Bank Australia Limited (2002–2009) and CEO HSBC Taiwan (1999–2002). He was a member of the Australian Bankers Association from 2002 to 2009 and Deputy Chair from 2006 to 2009.

Lynn Mickleburgh

BSc (Hons) in Mathematics, MBA
Independent Non-executive Director

Appointed: 30 March 2022

Board Committee:
Member of the People and Culture Committee

Lynn has experience as an ASX non-executive director, a board advisor and transformational leader of both Fortune 500 companies and high growth SAAS companies. She is currently a non-executive director at Altium Limited (ASX: ALU), where she is Chair of the HR committee and also serves as a member of the Audit and Risk Committee. Previously, she was Head of Business Optimisation at Atlassian Inc, VP Finance at Citrix Systems and held various global and operational roles at Adobe Systems and Apple Computer.

Mini Peiris

BSc
Independent Non-executive Director

Appointed: 4 November 2022

Board Committee:
Member of the People and Culture Committee

Mini is a go-to-market advisor for high growth SaaS companies within the portfolio of Scale Venture Partners and is Chief Marketing Officer (CMO) of Doma (NYSE: DOMA), a real estate technology company. Prior to that, she was the CMO at Elementum (a Lightspeed company) and Ambra Health (acquired by Hg's Intelerad). Mini spent 12+ years at cloud-pioneer company NetSuite (NYSE: N), from its early stages through to its IPO and beyond. She helped drive product growth as VP of Product Management, then went on to lead a global team as VP Worldwide Marketing that delivered go-to-market scale from US$100 million to US$750 million.

Executive team

Armughan Ahmad
CEO, President & Managing Director

Appointed: January 2023
Bachelor of Computer Science

Armughan brings more than 25 years of experience in scaling multi-billion dollar businesses and building strong teams. Most recently he served as the President & Managing Partner of Digital at KPMG, a global leader in delivering innovative digital transformation services across industry sectors. Before that he was the Senior Vice President & General Manger at (NYSE:Dell), where he led the company's Cloud, HPC and Solutions business. He oversaw product, engineering, sales, marketing, services and alliances, growing Dell's business to multi-billions in revenue. Armughan played a vital role in integrating Dell's acquisition of EMC data storage, architecting multiple successful multi-cloud platforms, including Microsoft, VMWare, and RedHat. Prior to Dell, Armughan held global executive positions at Hewlett Packard (HP) through the acquisition of 3Com/H3C (NYSE:3COM) a networking and security business, and he has held operating roles with tech companies backed by private equity.

Armughan serves on the board of Future Skills Center innovating the future of work with human and machine collaboration. He also serves on the international advisory and school of engineering boards of University of Waterloo.

Kevin Levine
Chief Financial Officer

Appointed: January 2016
BComm, BAcc

Kevin is responsible for the finance, IT and corporate functions of the company. He is a chartered accountant with more than 25 years' experience in executive operations and financial roles, in listed and unlisted companies, with particular exposure to start-up, high growth and distressed companies in the services and technology sectors.

Prior to joining Appen, Kevin was the CEO and Chief Financial Officer (CFO) of Rubicor Group Limited (ASX:RUB), one of the largest networks of specialist recruitment businesses in Australasia. Before that Kevin was the CFO of Trade Wind Communications Limited, an Australian public technology company previously listed in Canada and the USA. Kevin was admitted as a Chartered Accountant in 1989 in South Africa and in 1995 in Australia.

Sean Carithers

SVP and General Manager, Global

Appointed: November 2022
BA (Political Science)

Sean is responsible for strategy, sales, delivery and operations for our largest Global accounts. He brings 25 years of cross-industry experience, delivering technology innovation to start-up, large enterprise and Fortune 500 companies in B2C, B2B and B2B2X global markets.

He has worked in executive roles for technology, consulting and global outsourcing companies, providing large-scale service and technology solutions for advertising, marketing, sales, retail, customer care, workforce management, billing and payments, blockchain and artificial intelligence/machine learning. Sean is a certified Business Architect.

Eric de Cavaignac

Chief Transformation Officer

Appointed: November 2021
MBA (Beta Gamma Sigma, Dean's List), BA (Hons)

Eric is responsible for driving programs to scale operations and delivery, and support revenue growth. He brings more than 25 years of experience in partnering with investors and management to transform businesses, and to deliver lasting growth and profit improvement.

Before joining Appen, Eric worked across several industries, including TMT, ecommerce, health, financial services and luxury, where he helped drive digital transformation, international expansion, strategic M&A, and business restructuring. Eric has worked in New York, London, and Sydney including 10 years as an advisor with McKinsey running a strategy and capital advisory business, and a number of executive positions reporting to the CEO of multinational companies executing a turnaround or transformation.

Jen Cole

SVP and General Manager, Enterprise

Appointed: November 2021
MA (Psychology), BS (Psychology)

Jen has more than 22 years of experience building enterprise marketing and data platforms, leading go-to-market teams, and scaling the delivery of technology enabled services. She is responsible for Appen's Enterprise business including go-to-market strategy, sales, delivery and operations to ensure continued growth and sustained client success.

Prior to joining Appen, Jen was the President at Sincro, an Ansira company, where she led a 1000-person global team-building advertising technology, ecommerce platforms and marketing solutions for distributed ecosystem business environments. Prior to that Jen was the SVP Digital at CDK Global, focused on growing digital capabilities within CDK's end-to-end technology solutions for the automotive retail sector.

Andrea Clayton

Chief People Officer

Appointed: February 2022

MBA, BA (International Management)

Andrea is responsible for leading the people operations function. She has more than 20 years of progressive experience in building innovative people programs, leading people operations teams, and transforming company cultures. Andrea has served in a variety of global human resource (HR) leadership roles, in listed and unlisted companies, lived and worked in five countries, and has experience leading HR in 30+ countries.

Prior to joining Appen, Andrea served as Chief People Officer at Thrive Pet Healthcare, one of the largest and fastest growing veterinary companies in the United States. Through the introduction of industry first programs, flexible policies and achievement of significant gender diversity at all levels o leadership, Thrive was recognised as the #1 company in the industry for women by InHerSight. Andrea was also a global HR leader at General Electric Financial Assurance (now Genworth) for 11 years, including HR Director for Genworth Australia through its IPO in 2014.

Mike Davie

SVP and General Manager, Quadrant

Appointed: 2021

BBA, MSc (Database management and business intelligence)

Mike brings a strong background of experience in location data and location-based business solutions that are fit for purpose, easy to use and simple to organise. Prior to joining Appen, Mike was the founder and CEO of Quadrant, growing the business mobile location data services to a portfolio of more than 450 million unique devices per month, enabling companies to see and understand movement patterns in the real world. With Quadrant he also developed a proprietary platform, 'Geolancer', which provides authentic, accurate and up-to-date Point-of-Interest data, manually verified on the ground.

Previously, Mike provided leadership and strategy to the Advanced Mobile Product Strategy team at Samsung where he developed GTM strategies for cutting edge technologies there.

Wilson Pang

Chief Technology Officer

Appointed: November 2018

MEng (ElecEng), BEng (ElecEng)

Wilson has more than 17 years' experience in software engineering and data science. He co-authored the book Real World AI: A Practical Guide to Responsible Machine Learning, which hit the bestseller list on Amazon in March 2021.

Prior to joining Appen, Wilson was Chief Data Officer of CTrip in China, the second largest online travel agency company in the world, where he led data engineers, analysts, data product managers and scientists to improve user experience and increase operational efficiency that grew the business. Before that, he was senior director of engineering in eBay in California and provided leadership to various domains including data service and solutions, search science, marketing technology and billing systems. He worked as an architect at IBM prior to eBay, building technology solutions for various clients.

Sujatha Sagiraju

Chief Product Officer

Appointed: September 2021

MBA (Technology Management), MS (Petroleum Engineering), BS (Chemical Engineering)

Sujatha is responsible for Appen's product strategy. She is a technology pioneer with more than 20 years of broad experience in building disruptive large-scale online services and AI/ML and data platforms. She joined Appen from Microsoft where she held leadership roles in several groups including Bing and Azure AI Platform.

Roc Tian

SVP and General Manager, China, Japan and Korea

Appointed: August 2019

PhD (Computer Software), MA (Computer Applications)

Roc comes to Appen with more than 20 years of sales, consulting and management experience from Fortune 100 companies. He is responsible for Appen's business strategy, sales, marketing, delivery, operations and government relationships in China, Japan and Korea, to ensure continued growth and high client satisfaction. Roc brings a wealth of sales, consulting, delivery and management experience to Appen, with a track record of success in scaling technology organisations.

Most recently, Roc was senior partner of IBM GBS where he led the client services, public sector and enterprise application service lines across the mainland China, Hong Kong and Taiwan markets with remarkable business performance and achievements. Before that, Roc was also a core leader responsible for the growth of IBM's global delivery centre in China from 4,000 to more than 10,000 people. Before IBM, Roc was a business quality director for HP's global delivery centre in China and a key leader responsible for helping HP grow from a start-up to more than 3,000 people across China. Roc was also the founder and CTO of a technology start-up that grew to more than 100 people.

Directors' report

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 year ended 31 December 2022.

Directors

The following persons were Directors of Appen Limited during the whole of the year and up to the date of this report, unless otherwise stated. The Directors' biographies are provided on pages 60-61 of the Annual Report.

Richard Freudenstein – Chairman
Armughan Ahmad – Chief Executive Officer, President and Managing Director from 9 January 2023
Mark Brayan – Managing Director and Chief Executive Officer to 15 December 2022
Stephen Hasker
Stuart Davis – from 29 March 2022
Vanessa Liu
Robin Low
Lynn Mickleburgh – from 29 July 2022
Mini Peiris – from 4 November 2022
Deena 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, we enable organisations to launch the world's most innovative artificial intelligence systems. Our expertise includes a global crowd of more than one 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 evolved significantly since 1996 and particularly in the last five years, from being a language data service provider to become a leading data for the AI lifecycle provider.

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:** in September 2021, 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 segments reflect Appen's growth strategy:

Global Services: represents the services that Appen provides to its five major US technology customers (Global customers) using the customers' 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 collection, annotation and evaluation products, coupled with the provision of at-scale crowd management with Appen Connect and Appen's considerable expertise and knowhow built up over the last 26 years. This enables Appen to deliver high-quality outcomes for customers.

Dividends

Dividend declared during the year

Given the annual performance and to ensure appropriate allocation of capital, the Directors have determined not to pay a final dividend for the year ended 31 December 2022.

No interim dividend was declared for the half-year ended 30 June 2022.

Dividends paid

On 18 March 2022, the 2021 final dividend of AU 5.5 cents per share was paid. This dividend was 50% franked.

Non-cash asset impairment charge

On 13 February 2023, Appen announced that following a review of the value of cash generating units (CGU) and of the carrying value of its assets in accordance with the relevant accounting standards, the Company expected to recognise a non-cash, pre-tax impairment charge of $204.3 million for the year ended 31 December 2022. This financial report confirms this amount. Accordingly, the carrying value of non-Goodwill intangibles attributable to the New Markets CGU was reduced by $15.4 million and the carrying value of Goodwill was reduced by $188.9 million.

There remains high conviction in the future growth prospects of the New Markets business units, however given the FY22 performance, future revenue growth assumptions had to be reset, and the revised forecast growth assumptions have been based on lower growth rates, resulting in an impairment loss.

We have significant headroom in our larger, more established Global Services CGU.

The impairment charge is non-cash related and is a non-operating item. Therefore, underlying EBITDA and underlying NPAT are not impacted. Additionally, there are no related covenant impacts on our debt facilities.

Please refer to Note 16 of the financial report on pages 129-135 for further information in relation to the impact of the impairment charge on the Group's intangible assets.

Investment in Synthetic Data business Mindtech

During the year, 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 GBP2.0 million (equivalent to $2.6 million) 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 are difficult to capture. The synthetic data market is forecast to grow to $1.15 billion by 2027, according to *Cognilytica: Synthetic Data Generation Market: Research Snapshot Feb. 2022.*

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.

Appointment of New Chief Executive Officer (CEO) and President

On 15 December 2022, the Board announced the appointment of Armughan Ahmad as Chief Executive Officer (CEO), President and Managing Director, effective from no later than 30 January 2023. Mr Ahmad's formal commencement date was 9 January 2023.

Mr Ahmad brings over 25 years of global experience in the technology industry having led product, sales, and services organisations at KPMG, Dell Technologies, and Hewlett Packard.

Mr Ahmad is based out of our offices in North America.

Appen's previous CEO and Managing Director, Mark Brayan, will remain with Appen until 28 February 2023 to ensure a smooth transition, however Mr Brayan ceased in his role as CEO and Managing Director on 15 December 2022 and became an advisor to the Chair from 15 December 2022 to 28 February 2023.

Matters subsequent to the end of the year

Other than the commencement of the new Chief Executive Officer, 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.

Directors' report

for the year ended 31 December 2022

Likely developments and expected results of operations

As part of our strategy, we set FY26 targets for revenue, profitability, and business mix. Our FY22 revenue performance impacts our ability to deliver on these targets in the original timeframe and may also require higher than expected benefits from our offshoring strategy. While we are not stepping away from our growth agenda or product-led focus, we plan to review our strategic direction and present these findings to shareholders in May 2023.

Board and Committee meetings

Details of Board and Committee meetings held during the year and individual directors' attendance at these meetings is summarised below.

	Board		Audit and Risk Management Committee		People and Culture Committee	
	A	B	A	B	A	B
Richard Freudenstein	22	22	–	–	3	3
Robin Low	22	21	4	4	3	3
Steve Hasker	22	21	–	–	3	3
Deena Shiff [1]	13	13	1	1	–	–
Mark Brayan [2]	21	19	–	–	–	–
Vanessa Liu	22	22	4	4	–	–
Stuart Davis [3]	19	19	3	3	–	–
Lynn Mickleburgh [4]	7	7	–	–	–	–
Sithumini (Mini) Peiris [5]	3	3	–	–	–	–

A: Meetings eligible to attend.
B: Meetings attended.
1 Resigned 27 May 2022.
2 Resigned 15 December 2022.
3 Appointed 29 March 2022.
4 Appointed 29 July 2022.
5 Appointed 04 November 2022.

Environmental regulation

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

Company Secretary

Carl Middlehurst was appointed as Company Secretary on 8 February 2019. Carl was admitted to practice as a solicitor in NSW in 1988. In addition, he is also a member of the California bar. He was an adjunct professor at Santa Clara University Law School where he taught internet, ecommerce and privacy law in the late nineties. He has worked in Australia and United States and has held the position of General Counsel for various companies and been Company Secretary for an unlisted public company and private companies in Australia.

Shares under performance rights

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

Plan	Number of rights
2019	121,459
2020	227,448
2021	583,641
2022	3,830,336
	4,762,884

The performance rights relate to the grant of rights under the Group's Long-term incentive (LTI) Plan and vesting is dependent on the fulfillment of the performance conditions and service-based conditions specific to each grant.

Shares issued on the exercise of performance rights

371,440 (2021: 729,311) ordinary shares of the Company were issued on the exercise of performance rights during the year ended 31 December 2022.

Indemnity and insurance of officers

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

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Auditor independence and non-audit services

The directors received an independence declaration from KPMG as required under section 307C of the *Corporations Act 2001*. It is set out immediately after the Directors' report.

During the year KPMG, the Group's auditor, performed certain other services in addition to the audit and review of the financial statements. These relate to transfer pricing and advisory services. Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 29 to the financial statements.

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

Verification and assurance

In recognition of the important role that corporate reporting plays in communicating with our investors and other stakeholders, this year the Board formalised its process to verify the integrity of our periodic corporate reports, which includes the Directors' report.

The approach we adopt, to ensure that the report is materially accurate, balanced and provide our investors with appropriate information, as outlined below:

- information about *How we create value, Identifying and managing risk, Our approach to governance,* and the *Remuneration report* were prepared by management in consultation with the Board. The content of this report is guided by regulatory requirements and our interactions with investors and other stakeholders throughout the year, which helps us to understand what matters most to our investors and what information should be included in the Directors' report.
- The information in the report has been derived from the Group's internal records and has been through an internal verification process.

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 US dollars, or in certain cases, the nearest US dollar.

Remuneration report

Dear Shareholder

On behalf of Appen's People and Culture Committee, I am pleased to present our audited Remuneration Report for the year ended 31 December 2022, which represents the first year of implementation of our new executive remuneration framework. The framework includes our financial and non-financial performance, and better aligns remuneration outcomes with long-term shareholder returns.

2022 key remuneration framework changes

Below is a summary of the key changes made to the remuneration framework from 1 January 2022. All changes were foreshadowed in the 2021 Remuneration Report, which was approved by shareholders at the 2022 AGM with a vote in favour of 94.34%.

Short-term incentive (STI)

- Non-financial measures, which are critical to the sustainable long-term success of Appen, were added to the STI scorecard for Executive KMP, to focus their efforts on ensuring we have satisfied customers, crowd workers, and employees, via the metrics of customer net promoter score (NPS), crowd NPS and employee engagement ratings.
- STI deferral was introduced and applies to 25% of the CEO's STI earned, to align Appen with the Australian market and shareholder expectations.

Long-term incentive (LTI)

- Appen introduced two Long-term incentive (LTI) schemes: one that allows us to compete for talent in the highly competitive technology sector in the US, and one for the Australian market. The Australian LTI scheme is 100% performance and service-hurdle based, with all LTI vesting at the end of year three, subject to meeting the performance metrics of revenue CAGR of 15%, Underlying Basic Earnings per Share (UBEPS) CAGR of 7.5%, and three years continuous employment. The three year vesting period better aligns executive rewards to shareholder expectations. The former CEO, and CFO, were both subject to the Australian LTI scheme. The US LTI scheme has a time-based component which will vest over a three year period, vesting in three equal tranches annually. The annual vesting of time-based LTI ensures Appen remains competitive in the US market, where LTI generally vests annually, quarterly, or even monthly for many US technology companies. For senior management in the US, the LTI scheme also has a performance component which aligns with the Australian Executive KMP LTI scheme.
- For all LTI grants from 2022 onwards, annual testing has been removed and no re-testing can occur.

Governance

- To better align with shareholder expectations, the Board implemented formal policies with respect to (i) a Minimum Shareholding Requirement (MSR) for all KMP. For example, the CEO must own shares to the value of 100% of fixed remuneration, following five years of commencement and (ii) malus and clawback for all eligible participants of an STI and/or LTI.

The new remuneration structure is designed to focus Executive KMP and all employees on the delivery and achievement of our annual operating plans and long-term strategic objectives. Whilst we have long-term strategic objectives, the Board considers that STI focused on annual financial and non-financial metrics and performance based LTI which vests in three years, provides for sufficient time for the Executives to demonstrate their ability to generate sustainable revenue and earnings growth.

2022 performance

FY22 was a challenging year for Appen. External operating and macro conditions resulted in weaker digital advertising revenue and a slowdown in spending by some of our major customers. This has impacted our ad related programs and has had a flow on impact to other core programs. Appen's FY22 revenue and underlying EBITDA decreased 13% and 86% respectively.

However, we saw positive momentum in some areas. The number of projects that the Global Division won in FY22 was at an all-time high and our non-Global business grew, as evident in our Enterprise Division with end-of-year bookings up 36%. While the projects and deals won were generally smaller and at an earlier stage with lower margins than our core Global programs, it provides evidence of the reliance and trust that our Global and non-Global customers place in Appen, to deliver quality AI training data.

During the year, Appen undertook significant investment in its customers, crowd, and people, including strategic investment in transformation, technology, and product development associated with our strategic long-term objectives and key goals of automation, scale, margin expansion, and growing our addressable market.

2022 remuneration outcomes

A summary of remuneration outcomes for FY22 are as follows:

STI

- All KMP received an STI with respect to exceeding the challenging threshold targets set for some of the non-financial metrics (customer NPS and employee engagement) that comprise up to 20% of STI. No STI was paid to any KMP with respect to the crowd NPS non-financial metric (worth 10% of STI) or the 70% financial metric, as FY22 financial performance was not in line with the targets set. Appen will always regard its financial outcomes as paramount, and accordingly has allocated a 70% STI weighting to financial metrics. However, the non-financial metrics associated with customers, crowd and employees are important in driving the delivery of our long-term strategic objectives. The key to Appen's return to being a high-growth Company is to ensure that the business is underpinned by delighted customers and crowd and fully engaged employees. Exceeding the challenging targets set for non-financial metrics is the key to success in exceeding the challenging targets set for financial metrics.

LTI

- The 2019 Executive LTI award (tranches 1 and 2) were tested following the end of FY21 and vested in full in FY22 for Australian Executive KMP following fulfilment of the necessary performance and service conditions. Tranche 3 of the 2019 Executive LTI award did not vest and has expired unexercised, as the challenging UBEPS target of 20% growth was not met.

- With respect to the 2020 Executive Award (tranches 1, 2, and 3), the relevant performance condition of 20% UBEPS annual (year-on-year) growth has not been met in FY20, FY21, or FY22, and as such the rights have been forfeited.
- With respect to the 2021 Executive Award (tranches 1 and 2), the relevant performance condition of 20% UBEPS growth has not been met in FY21 and FY22. In order for these tranches to vest (on release of the FY23 financial results), a significantly more challenging UBEPS target will need to be met, i.e. UBEPS growth of 73% over three years. The share-based payment expense in relation to these tranches has been reversed.
- The 2022 Australian Executive KMP LTI award and the performance component of the US Executive KMP LTI award will not vest until 2024, given the three year performance condition. There is no annual testing during the vesting period.

Non-executive directors

- Non-executive director fees remained unchanged in FY22 and no change is proposed for FY23.

Changes to KMP and remuneration arrangements

On 15 December 2022, Appen announced the appointment of Armughan Ahmad as Chief Executive Officer (CEO), President and Managing Director. Mr Ahmad's formal commencement date was 9 January 2023. Mr Brayan ceased in his role as CEO and Managing Director from 15 December 2022 and became an advisor to the Chair to 28 February 2023. Mr Brayan remains a KMP until 28 February 2023.

Former CEO and Managing Director, Mr Brayan

- During FY22, Mr Brayan did not receive a fixed remuneration increase and remained on A$750,000.
- As announced to the market on 15 December 2022, Mr Brayan ceased in his role as CEO. During his leadership, Mr Brayan has driven the Company from around $60 million in revenue in 2015 to over $400 million in FY21 (and $388 million in FY22). This includes ensuring our customers and crowd are, and remain, excited about Appen's products, processes, and capabilities and ensuring our employees are engaged, motivated, and happy. Mr Brayan has built and maintained an experienced and talented executive team around him.
- Mr Brayan remains with Appen on the same fixed remuneration, as an advisor to the Chair, until 28 February 2023 to ensure a smooth transition.
- On termination in his role as CEO, all performance rights granted to Mr Brayan under the LTI plans lapsed. After careful consideration by the Board, given the challenging threshold targets for the customer NPS and employee engagement metrics were met, the Board determined an STI outcome equal to 11.68% of maximum be awarded to Mr Brayan. Aligned to the changes in the remuneration framework announced last year, 25% of his award will be deferred and paid in shares in 12-months time.

Given Mr Brayan's considerable contribution to Appen over his more than seven years as CEO and influential relationships across the market, to protect Appen's business interests, Mr Brayan is subject to competitor restraints and non-socialisation clauses for 10 months from the date of cessation with the Company. In addition to his contractual entitlement to payment in lieu of notice (six months), the Board determined another four months' fixed remuneration be paid to enforce the restraints in place. In total, this represents $625,000 or 10/12ths of his fixed remuneration, payable on 1 July 2023. Mr Brayan will not receive any other termination or severance payments, other than his statutory annual and long-service leave entitlements.

Incoming CEO, President and Managing Director, Mr Ahmad

- Mr Ahmad commenced with Appen in the CEO role on 9 January 2023 and is based in North America. Mr Ahmad's remuneration reflects his extensive global experience in the technology industry, strong shareholder value and reward alignment and compensation for incentives foregone at his previous place of employment.
- Mr Ahmad's base salary is set at US$600,000.
- Mr Ahmad's STI is equivalent to 100% of base salary at target, up to 150% at maximum, subject to the same mix of financial and non-financial metrics as other KMP, with 25% of any STI awarded to be deferred into equity for 12 months.
- The LTI is valued at US$5,000,000 which vests over a three year performance period, subject to Appen's absolute total shareholder return (ATSR) over a three year period being equal to or greater than 190%, which is the minimum vesting requirement up to 320% to trigger full vesting. This performance measure was chosen to align Mr Ahmad's interests with shareholders from commencement. Mr Ahmad will only be rewarded for delivering significant shareholder value. Mr Ahmad will not be eligible for another LTI grant until after 31 December 2025.
- There is also a sign-on bonus equivalent to US$2,000,000, payable through monthly vesting of equity over two years, reflective of technology industry practice and replaces a portion of what Mr Ahmad would have otherwise received at his previous employer.
- All equity grants are subject to shareholder approval at the 2023 AGM.

Page 86 of the remuneration report outlines the remuneration arrangements for both the incoming and outgoing CEO.

Looking ahead

Appen remains firmly focused on its long-term growth objective and we believe that the remuneration framework implemented for the first time in FY22 will incentivise management to deliver long-term value creation for shareholders. Our aim is to continue to align remuneration structure, framework, and outcomes with sustainable shareholder value creation, while attracting and retaining talent in the highly competitive US and Australian technology markets.

The Board is committed to an ongoing review of executive remuneration arrangements given the commencement of the new CEO and strategic direction of the Company, and to facilitate this ongoing review, we will engage with proxy advisors, shareholders, and their representatives on matters related to remuneration and we look forward to hearing your views and comments at the 2023 AGM.

Yours sincerely

Stephen Hasker
Chair of the People and Culture Committee

Remuneration report

for the year ended 31 December 2022

Who is covered by this Report?

Key Management Personnel (KMP) are defined as persons having authority and responsibility for planning, directing, and controlling the activities of the Company and the Group. KMP comprise the Directors of the Company and Executives of the Company and the Group.

The current names and titles of KMP are set out below. There have been no other changes to KMP following the end of the financial year.

NAME	POSITION	STATUS	TERM AS KMP
Non-Executive KMP:			
Richard Freudenstein	Independent Director and Non-Executive Chairman	Full year	
Stephen Hasker	Independent Non-Executive Director	Full year	
Vanessa Liu	Independent Non-Executive Director	Full year	
Robin Low	Independent Non-Executive Director	Full year	
Stuart Davis	Independent Non-Executive Director	Part year	from 29 March 2022
Lynn Mickleburgh	Independent Non-Executive Director	Part year	from 29 July 2022
Sithumini (Mini) Peiris	Independent Non-Executive Director	Part year	from 4 November 2022
Deena Shiff	Independent Non-Executive Director	Part year	to 27 May 2022
Executive KMP:			
Mark Brayan	Chief Executive Officer (CEO) and Managing Director	Part year	to 15 December 2022
	Advisor to the Chair	Part year	from 15 December 2022 (to 28 February 2023)
Kevin Levine	Chief Financial Officer (CFO)	Full year	
Tom Sharkey[1]	Senior Vice-President (SVP), Global Division	Part year	to 1 September 2022

1 US-based executive. As Tom Sharkey departed close to the end of the year, the role of planning, directing and controlling the activities of the Global division, was carried out by the two existing KMP, Mark Brayan and Kevin Levine.

Armughan Ahmad commenced as CEO, President, and Managing Director of the Appen Group on 9 January 2023, and is a KMP from this date. No remuneration was paid to Mr Ahmad in FY22. A summary of the key terms of Mr Ahmad's employment agreement was disclosed to the ASX on 15 December 2022 and appears on page 86 of this report.

Our remuneration framework

Link between business strategy and remuneration framework

Our remuneration framework has been designed to motivate our people to deliver and achieve the Company's annual business plans and long-term growth objective and key strategic pillars.

Our remuneration framework and outcomes are designed to:

- Enhance executive remuneration alignment by linking the Group STI scorecard and LTI measures to Appen's annual business plans, long-term growth objective and key strategic pillars which is key to delivering sustainable and superior returns for shareholders. Exceeding the challenging growth targets set for each of the financial and non-financial metrics is key to delivery of a high-growth future. First and foremost, all employees are incentivised to deliver strong and diversified revenue and underlying EBITDA each year. Employees are also incentivised to ensure that the business in underpinned by delighted customers and crowd and fully engaged employees. These three non-financial metrics must always be top-of-mind each and every day for all Appen employees, when communicating with customers, our crowd and each other, as strong relationships with these three groups, will drive future financial growth for Appen.
- Strengthen alignment of executives with shareholders by setting challenging STI and LTI targets and removing all re-testing associated with LTI for grants made from FY22 onwards; and
- Provide for differentiated remuneration structures that reflect local market practices in the US and Australia and enable Appen to successfully compete for talent in these highly competitive labour markets.

Our remuneration strategy and 2022 remuneration principles

Our goal is to ensure that the level and composition of remuneration aligns with shareholder interests, and allows Appen to compete in some of the tightest markets in the world and attract and retain high-performing talent in the highly competitive technology sector. The key objectives that underpin Appen's 2022 remuneration framework are as follows:

Heavy weighting to performance-based pay

Align the KMP remuneration outcomes to our short and long-term strategy, which is underpinned by, and dependent upon, strong financial and non-financial success.

Alignment to creation of long term shareholder value

Ensure employees think and act like long-term owners through performance-based pay, challenging targets, and equity.

Fair and competitive to attract and retain top talent globally

Independently benchmarked annually against industry peers to ensure that remuneration is appropriate in each of the global markets in which Appen operates and competes with for talent.

Reinforce responsible business practice

Formalised policy providing for Board discretion in relation to malus and clawback of both STI and LTI.

Simple and clear

Transparency on metrics, targets, assessment, and outcomes.

Remuneration report

for the year ended 31 December 2022

Executive remuneration elements

Total fixed remuneration (FR)

Objective:
Provide market competitive base salary and benefits commensurate with skills and experience to attract the best people around the world to design and lead the delivery of our growth strategy.

Structure:
Cash salary, superannuation, and additional benefits. Additional benefits are in the form of 401(k) retirement plan and insurance benefits provided to US-based executives.

Current year approach and alignment to strategy
Fixed remuneration reflects:

- the scope of the executive's role,
- the executive's skills, experience, and qualifications, and
- individual performance.

Fixed remuneration is benchmarked against US technology companies and similarly sized ASX-listed companies on an annual basis. Fixed remuneration is intended to be positioned below the median of peers, with greater emphasis on at-risk pay-for-performance. There is no guarantee of an annual increase in fixed remuneration.

Short-term incentive (STI)

Objective:
Linked to challenging performance-related key annual financial and non-financial metrics, which are consistent with the execution of our annual business plans, which in turn focuses on year-on-year financial success, and long-term strategy, which is underpinned by both financial and non-financial success.

Structure:
STI are performance-based incentives designed for executives (and employees) to deliver and outperform key financial and non-financial metrics to lead to sustainable, superior returns for shareholders. STI is delivered in the form of an annual cash bonus payment to all employees, other than the CEO where 25% of any STI earned will be deferred into equity with a holding lock of one year. For the purposes of measuring STI, the performance period is 12 months.

Current year approach and alignment to strategy
The Group STI scorecard comprises:

- revenue (**50%**): split 30% total revenue and 20% revenue from non-Global customers to incentivise customer diversification,
- underlying EBITDA (UEBITDA) (**20%**),
- customer net promoter score (NPS) (**10%**),
- crowd NPS (**10%**), and
- employee engagement (**10%**).

These measures directly align to our long-term growth strategy by focusing on revenue and earnings growth, diversified revenue, delighted customers and crowd workers, and fully engaged employees. Each of these components, both financial and non-financial, are essential for Appen to deliver sustainable growth and superior returns for shareholders.

Long-term incentive (LTI)

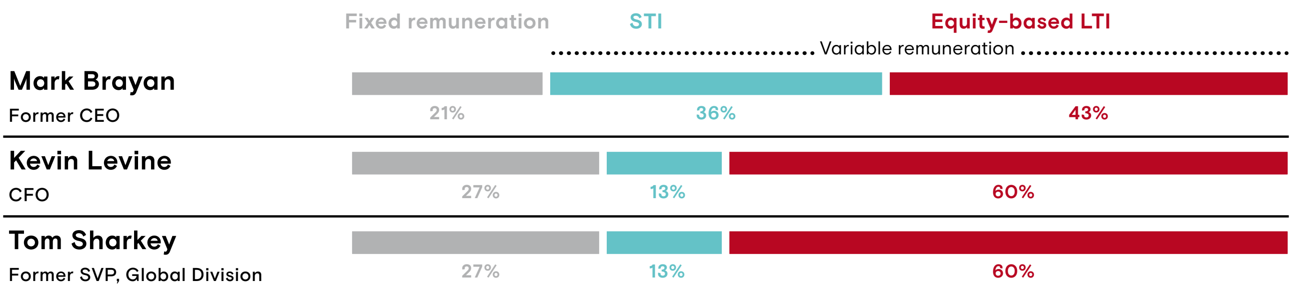
Objective:
Incentivise the achievement of long-term sustainable growth in earnings and shareholder value, designed to strongly align with long-term shareholder wealth creation, and support the attraction and retention of high performing executives.

Structure:
LTI is a form of equity-based compensation that is awarded in the form of performance rights. The LTI plan is designed to incentivise and challenge senior management to achieve long-term sustainable growth in earnings and shareholder value. It also supports the retention of high performing executives. Appen operates in a dynamic, fast paced and extremely competitive industry, with executives operating primarily in the United States and Australia. To ensure that the LTI scheme is relevant and appropriate in the hiring, motivation, and retention of key employees, the People and Culture Committee undertakes regular reviews of the LTI practices in both these markets.

Current year approach and alignment to strategy
Appen has two LTI schemes: one for Australian Executive KMP and employees who are subject to Australian requirements, and one for all other executives and employees for whom the Company requires a US-style scheme. The reason for a separate US LTI scheme is to remain competitive in the US market. LTI is set at relatively quite modest levels, compared to our competitors in the US, and annual time-based vesting is critical for us to attract and retain key talent, as many US technology companies offer LTI that vest annually, quarterly, or even monthly and sometimes with no performance hurdles. Whilst our growth strategy is long-term, the Board considers that LTI, which focuses on the delivery of a three year revenue CAGR of 15%-20% and underlying Basic Earnings per Share (UBEPS) CAGR of 7.5%-10% and vest in three years, provides for sufficient time for the Executives to demonstrate their ability to generate sustainable revenue and earnings growth.

Executive KMP remuneration mix (percentage of total remuneration)

The diagram below illustrates the target 2022 remuneration mix (including the target STI opportunity and LTI grant value), for each Executive KMP that was set at the start of FY22.



For all Executive KMP, there is a heavy skew towards pay-for-performance, leading to lower fixed remuneration (FR) and higher at-risk variable remuneration, in the form of STI and LTI.

STI detail

The FY22 financial and non-financial metrics applicable to each Executive KMP and their relevant weighting is shown below:

Name	Group revenue	Revenue diversific-ation	Divisional revenue	Group EBITDA	Divisional EBITDA	Customer NPS	Crowd NPS	Employee engagement
Mark Brayan – CEO (to 15 December 2022)/ Kevin Levine – CFO	30%	20%	Not applicable	20%	Not applicable	10%	10%	10%

In 2022, all financial and non-financial metrics for all KMP were set significantly higher than 2021 outcomes. For example, revenue was set 24% higher, revenue diversification 66% higher, and underlying EBITDA 17% higher. For non-financial metrics, customer NPS was set 300% higher, crowd NPS 13% higher, and employee engagement 6% higher (FY22 target set was 82% v FY21 actual of 76%).

Target opportunity is a percentage of fixed remuneration (excluding retirement and insurance benefits for US-based executives).

The on-target STI cash payment ranges from 0% to 167% of the relevant executive's fixed remuneration (excluding retirement and insurance benefits for US-based executives). The maximum weighted-average STI payout percentage is capped at 150% of target for all employees. Payout for each STI measure is calculated separately, subject to meeting threshold targets. No STI is awarded for an STI measure unless the STI scorecard measure is at 90% of target (2021: 80% of target). Refer to the table below for full details on the threshold targets and actual award payouts.

Achievement – % against target	Actual award – % of target payout
Below 90%	Nil
90%	50%
100%	100%
120% or more	150%

The Board has discretion to adjust the level of STI to prevent any inappropriate shareholder outcomes. This includes reducing the level of STI down to zero. In 2022, the Board exercised this discretion to reduce Mr Brayan's STI from 15% of maximum to 11.68% of maximum. Please see page 91 for information relating to our Malus and Clawback policy for further information.

LTI detail

The table below outlines key features of both of our LTI schemes.

<table>
<tr><th>Feature</th><th>Description</th></tr>
<tr><td>Rules applicable to both LTI schemes</td><td>
Annual grants of performance rights (with quantum determined at Board discretion based on market remuneration analysis).
Performance rights cannot be traded on the ASX and do not have any dividend or voting rights until they vest and are exercised.
The number of performance rights granted is based on face value (actual share price) rather than a discounted fair value.
No amount is payable in return for the grant of the performance rights.
No amount is payable in return for the issue or transfer of APX Shares.
</td></tr>
<tr><td>Conversion to shares</td><td>
Australian Executives: Rights convert to shares, assuming all the performance and employment conditions are met, once the executive submits a conversion notice.
US Executives: Rights convert to shares on the vesting date, assuming all the performance and employment conditions are met.
</td></tr>
<tr><td>Vesting conditions</td><td>
The Australian LTI scheme is 100% hurdle-based with all LTI vesting in year three, subject to hurdle achievement and tenure, with no re-testing. This aligns with Australian market practice and our long-term strategic goals. The vesting requirement is:

50% weighted to growth in group revenue, and
50% weighted to growth in underlying basic EPS (UBEPS).

Group revenue growth is a key metric aligned with our business strategy. Winning customers, deals, and projects is key to our long-term success and is a key metric for technology companies.
UBEPS growth remains a relevant long-term measure as it aligns executive performance to shareholder experience.
Performance rights granted in 2022 may vest in 2025, subject to the CEO and all Australian Executive KMP achieving three year compound annual growth rates (CAGR) for revenue and UBEPS of at least 15% and 7.5% respectively.
The key components of the performance rights granted to Australian Executive KMP are as follows:

achievement of compound annual growth in revenue (FY24 versus FY21).
achievement of compound annual growth in UBEPS (FY24 versus FY21), and
continuation of employment until 1 January 2025, being the beginning of the calendar year in which the performance rights are subject to vesting. The number of rights which may vest in respect of a performance period will be determined by reference only to achievement of the performance conditions set out in the table below:

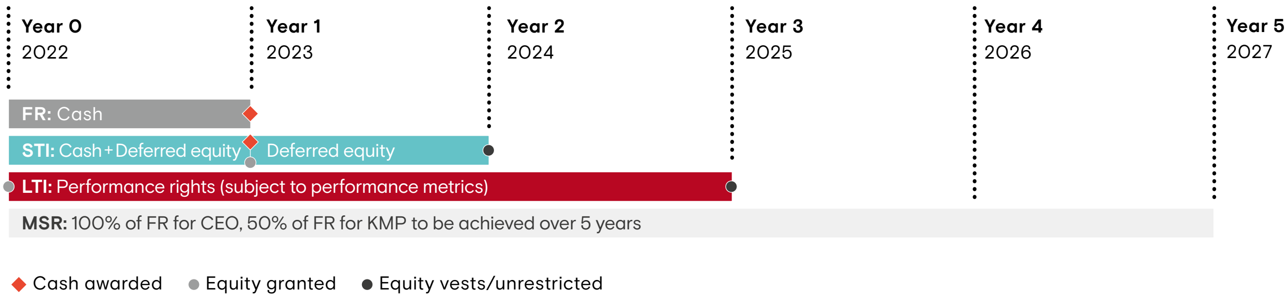
<table>
<tr><th></th><th>Weighting</th><th colspan="2">Threshold</th><th colspan="2">Maximum</th></tr>
<tr><th>Target</th><th></th><th>Target</th><th>Vesting</th><th>Target</th><th>Vesting</th></tr>
<tr><td>Group Revenue (CAGR)</td><td>50%</td><td>15%
(FY24 vs FY21)</td><td>50%</td><td>20%
(FY24 vs FY21)</td><td>100%</td></tr>
<tr><td>Underlying Basic EPS (CAGR)</td><td>50%</td><td>7.5%
(FY24 vs FY21)</td><td>50%</td><td>10%
(FY24 vs FY21)</td><td>100%</td></tr>
</table>
Vesting levels for the achievement of targets are set out in the table below:
<table>
<tr><th>Achievement Criteria</th><th>% performance rights allocated</th></tr>
<tr><td>100% or more of Maximum</td><td>100%</td></tr>
<tr><td>Between Threshold and Maximum</td><td>50-100% (linear)</td></tr>
<tr><td>Below Threshold</td><td>Nil</td></tr>
</table>
As mentioned above, the US LTI scheme is tailored to the US market with 50% of rights issued subject to a time-based vesting condition only, that vest annually. 50% is subject to the same performance-based hurdles that apply to Australian executives and these rights may vest after three years, like the Australian LTI scheme. It also contains the continuation of employment service condition.
</td></tr>
</table>

Feature	Description
Performance period	**Australian Executives:** performance rights may vest at the end of the three year vesting period subject to the achievement of the performance and continuing employment hurdles specified on page 76. **US Executives:** 50% of performance rights granted may vest annually, which is typical for US remuneration practices, subject to the achievement of the continuous employment hurdles. The other 50% of performance rights granted may vest at the end of three years subject to the achievement of the performance and employment hurdles for grants issued during the year, like the Australian LTI scheme.
Malus and Clawback	The Board maintains absolute discretion to adjust LTI and all performance-based remuneration that has not been realised or vested if the Board consider that such remuneration would be an unfair or inappropriate benefit to an Executive. The Board has absolute discretion to reduce, cancel, or clawback the performance-based remuneration to an Executive. For example, this can include such circumstances as: – making a material misstatement or omission in the group financial statements. – if the employee acts fraudulently or engages in misconduct, or – any other circumstance that the Board determines in good faith to have resulted in an unfair or inappropriate benefit to the Executive. The Board also has discretion to ensure that the targets are achieved in the right way, and factors like acquisitions may be adjusted for if it unjustly boosts one or more of the financial metrics associated with the STI or LTI.

Australian Executives:

The diagram below shows the vesting timeline for all remuneration payable to Australian Executives.

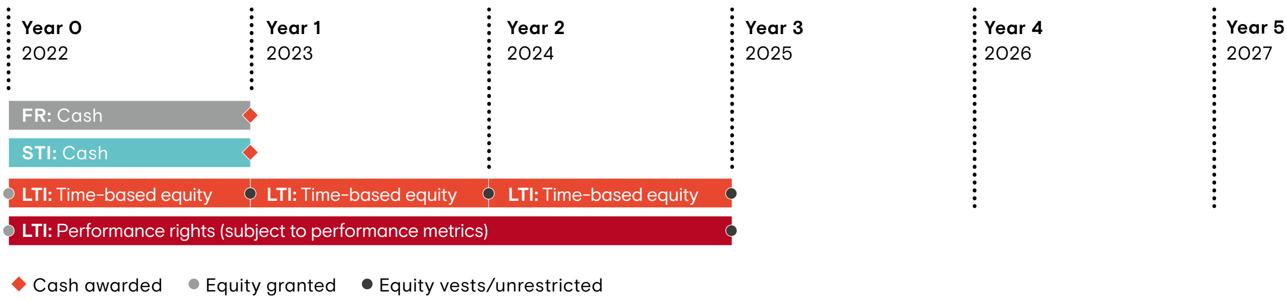
Vesting timeline



US Executives:

The diagram below shows the vesting timeline for all remuneration payable to US Executives.

Vesting timeline



For both Australian and US executives, no vesting occurs (and no STI payment is made), if the performance outcome is less than 90% of target.

Malus and clawback apply to both the STI and LTI. In FY22, a formalised policy was implemented in the interest of good governance and to address shareholder outcomes and expectations.

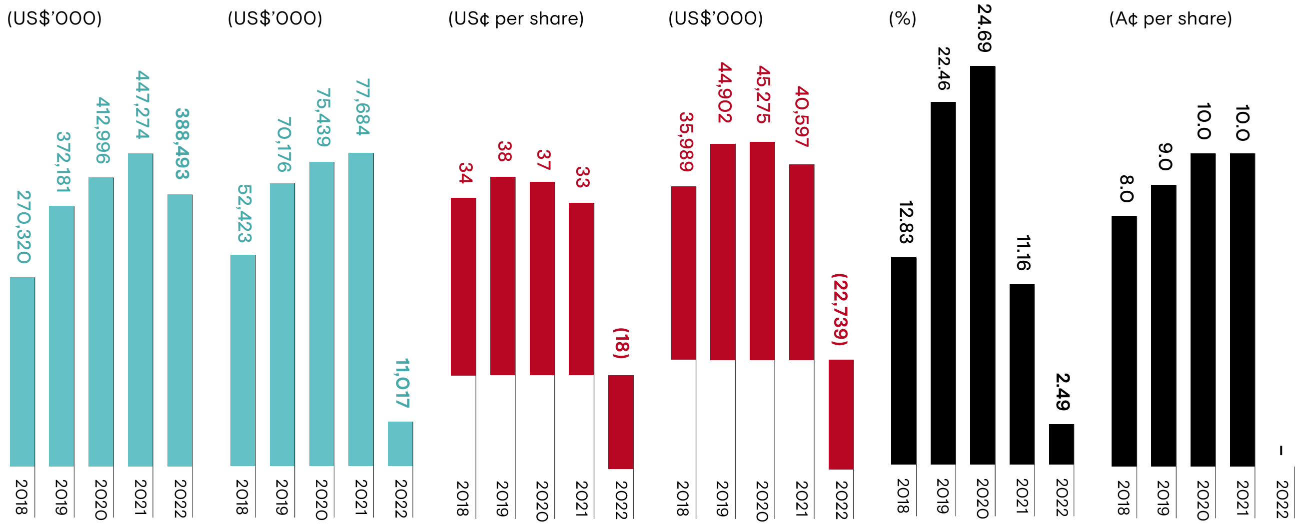
Specifically, in making its assessment of performance, the Board maintains overarching discretion. It will look to the quality of financial or non-financial metrics achieved and the impact of any acquisitions to ensure both STI and LTI targets have been achieved in the right way, thus truly rewarding progress towards achieving our long-term strategic outcomes. Please see page 91 for more information.

Appen's five year performance

One of the key principles of the Company's remuneration framework is to align Executive KMP remuneration outcomes with the Company's performance and shareholder returns.

Short-term incentive measures | **Long-term incentive measures** | **Shareholder returns**

Revenue | Underlying EBITDA[1] | Underlying basic EPS[1] | Underlying NPAT[1] | Share price at 31 Dec (A$) | Dividend (full year)



Short-term incentive payments are linked to revenue and underlying EBITDA for our Australian Executive KMP, and to revenue, underlying EBITDA and divisional targets for our US Executives.

Long-term incentive awards are linked to revenue and underlying basic earnings per share (UBEPS) growth, which ensures that executive remuneration outcomes are aligned with a metric that executives have direct influence over and aligns with shareholders' experience.

Appen's FY22 share price performance reflects challenging external operating conditions. In response, we revised our dividend policy and did not pay an interim or full year dividend to ensure appropriate allocation of capital.

1 Underlying NPAT, EBITDA and EPS exclude impairment losses, restructure costs, transaction costs, inventory losses and acquisition-related share-based payments expenses.

Executive KMP remuneration outcomes

Short-term incentive (STI)

Performance and 2022 STI outcomes

The STI is weighted 70% to financial metrics and 30% to non-financial metrics. Both are critical to the long-term success of Appen. These metrics were designed to challenge Executive KMP, aligning shareholder interests with executive remuneration outcomes.

With respect to the 70% financial metric component, the FY22 revenue target was approximately 24% higher than 2021 actuals, revenue diversification target 66% higher, and underlying EBITDA 17% higher. The achievement percentage outcomes for each of the financial metrics was well below the minimum payout threshold of 90%, and as a result no STI was paid with respect to these metrics.

With respect to the 30% non-financial metric component, customer NPS was set at 300% higher than FY21, crowd NPS 13% higher and employee engagement 6% higher (FY22 target set was 82% v FY21 actual of 76%).

The Executive KMP exceeded the minimum payout threshold for two of the non-financial metrics, being customer and employee engagement ratings, which were above the 90% minimum threshold for all eligible KMP, being the former CEO (Mr Brayan) and CFO. The overall FY22 customer rating was 153.3% of target and the overall FY22 employee engagement rating was 94.9% of target. Hence, the former CEO and CFO received an STI for exceeding the non-financial metric threshold for customer and employee engagement rating(s), resulting in a FY22 STI of US$149,342 (11.68% of maximum) and US$42,274 (15% of maximum) respectively. In relation to the former CEO, the Board reviewed the overall performance of the Company and decided to exercise discretion to reduce the STI payable from 15% of maximum to 11.68% of maximum, by capping the customer NPS outcome at 10% and not rewarding overachievement. The non-financial metrics are important to ensure that we have customers that have full confidence in Appen to deliver high quality AI data promptly and ensure that we have crowd workers and employees that are highly engaged, motivated to work for us, and excited about Appen's future. Delivering the challenging targets set for non-financial metrics is the key component to building a long-term, financially sustainable business which will enable us to exceed the challenging targets set for the financial metrics.

Mr Sharkey did not receive a pro-rata award from 1 January 2022 on the date of his departure on 1 September 2022.

FY22 STI metric assessment of Executive KMP

The below table discloses the performance of Executive KMP and whether they have met or exceeded the target or hurdle associated with each financial and non-financial STI scorecard metric.

Metric	Performance against the 90% target set	Outcome
Group revenue	Below target	Group revenue of $388.5 million, was down 13% from the prior year, primarily caused by challenging external operating and macro conditions in which some of our large Global customers have reduced costs and re-prioritised their spend, directly impacting our large Global programs. Despite this, our Global division project count is at an all-time high. However, the projects we won are smaller and in their early stages, and therefore insufficient to offset the reduction in revenue from our large Global programs.
Revenue diversification	Below target	While FY22 non-Global revenue was 18% of total group revenue up from 14% in the prior year, the quantum of this non-Global revenue was not at the level of the challenging targets that were set at the start of FY22.
Group underlying EBITDA	Below target	Group underlying EBITDA of $11.0 million was down 86% from the prior year, and reflected the challenging external operating and macro conditions mentioned above, as well as investment in product, technology, and transformation to ensure that we automate our processes, increase scale and margins, and increase our addressable market associated with our long-term growth strategy.
Divisional EBITDA	Below target	All of our operating divisions are going through a period of transition as they invest in product, technology, and transformation to achieve scale and revenue and EBITDA growth to meet their future targets.

Metric	Performance against the 90% target set	Outcome
Customer NPS	Above target	FY22 customer rating was 153.3% of target, which was well above the 90% payout threshold. Delighted customers are key to winning more deals and more work, which translates to higher revenue and higher earnings. Appen has built trusted relationships with our customers and has undertaken several initiatives to improve and enhance this relationship even further. Some of these initiatives include the following: – Customers need high levels of data labelled fast, and Appen has been responsive and adaptive to our customer's needs by augmenting human labelling with automation. – Quality Flow and Quality Audit features have provided curated customers for specific jobs. This has resulted in the creation of various dashboards to allow customers and project managers to view real-time information quickly and easily in relation to the progress, quality, and efficiency of customer jobs to assess timeframes, easily deal with any issues and ensure budgets are not exceeded and costs tightly managed. – Build and release of the new Roster Fill Dashboard to help project teams keep track of the rosters for our top 85 projects across Global and Enterprise. These rosters are essential to keep rosters full and deliver for our customers. – Dedicated customer-facing teams to service customers directly and be responsive to their issues in almost real time. For further information and initiatives undertaken, please refer to the **value drivers** section of the annual report relating to *Customer and Brand* on pages 28–33.
Crowd NPS	Below target	Crowd NPS showed varied results from quarter to quarter in FY22. The overall FY22 crowd rating was 72.9% of target, which was below the 90% payout threshold. Responders identified project availability as their key concern, as well as amount of pay, and support or communication. To address these issues, the Executive team have overseen the delivery of several initiatives to ensure that our over one million crowd contributors are matched to their skills and experience, are on-boarded to available projects quickly and efficiently, and develop their skills to be successful on as many projects as possible. This in turn enhances contributor satisfaction and promotes retention. Examples of key initiatives undertaken in FY22 include: i. **Roster-fill**, designed to run flawless, fast, and efficient processes to fill rosters and manage contributors through the funnel from application to invoicing. **ii. Improvements to the contributor experience in Appen Connect**, via initiatives such as project mapping and global profile, designed to match projects to contributors' skills, and iii. **Zendesk**, designed to create a self-service function, where contributors have access to user guides and automation tools and can efficiently interact with Appen allowing prompt responses to their queries. In addition, during the year the Executive team appointed David Botello as our new VP, Crowd Operations. Our objective is to treat our crowd contributors like customers and provide crowd contributors with an engaging experience that attracts them to Appen. Crowd workers that want to work for Appen, are the key to rosters being filled and projects being completed efficiently, and to a high quality. This translates to the winning of more deals, new logos and new customers, which in turn translates to higher revenue and higher earnings. For further information and initiatives undertaken, please refer to the **value drivers** section of the annual report relating to *Global Crowd* on pages 20–23.

Metric	Performance against the 90% target set	Outcome
Employee engagement	At (threshold) target	Employee engagement scores increased when compared to the start of FY22. FY22 rating was 94.9% of target, which was above the 90% payout threshold. Appen recognises that its people are paramount to the ongoing success of Appen, because highly engaged and motivated employees are critical to the delivery of higher revenue and earnings. In FY22, we implemented a number of key initiatives for the benefit of employees, designed to promote flexibility, choice, teamwork connections, diversity, and inclusion: – Launch and implementation of the Future Ways of Working Initiative which has two key elements: i. **Neighbourhood Connections Program**, focusing on providing more opportunities for employees that live in the same city, town, or community to connect and exchange ideas. In just over three months, the Executive team launched six neighbourhoods globally as a pilot and will launch another ten globally. ii. **Face-to-Face (F2F) Collaboration**, which provides employees and teams with the flexibility to decide how they wish to work and from where, without prescriptive mandates or policies, while encouraging in-person teamwork. – Introduction of significantly greater transparency with respect to pay and promotion, allowing for maximum opportunity for qualified internal talent to apply for a role, with greater transparency on what the role is and the specific requirements. – 2022 Global Compensation Review: In response to employee concerns about global inflation and cost-of-living pressures, coupled with the commitment of the Executive team to ensure that market competitive pay is offered in each of the markets and locations that Appen operates for each employee, the Executive team benchmarked the remuneration for each and every single employee and for those employees that were found to be paid below market, their base pay was increased to a market competitive level. – Appen celebrates the diverse cultural backgrounds of our employees across our global operations. The Diversity and Inclusion Committee has been in operation for two years and continues to actively promote an inclusive workforce and groups that are under-represented in the community. – Continue the strong focus on promoting and hiring women in senior leadership positions. At 31 December 2022, the % of females in senior leadership positions was 43%. For further information and initiatives undertaken, please refer to the **value drivers** section of the annual report relating to *Our People* on pages 24–27.

STI outcomes

The STI amounts earned and associated achievement and payout (rounded) percentages are disclosed in the table below:

Executive KMP		Currency	Fixed remuneration [1] $	STI target % of fixed remuneration [2] %	STI target $	% STI earned as a % of target %	% STI earned as a % of maximum %	Total STI earned $	Total STI earned (USD) $	Total STI deferred (USD) $
Mark Brayan	**2022**	**AUD**	**750,000**	**167%**	**1,250,000**	**17.5%**	**11.7%**	**218,983** [3]	**149,342** [3]	**37,336** [3]
	2021	AUD	750,000	167%	1,250,000	0%	0%	–	–	–
Kevin Levine [4]	**2022**	**AUD**	**550,000**	**50%**	**275,000**	**22.5%**	**15.0%**	**61,988**	**42,274**	**–**
	2021	AUD	500,000	50%	250,000	0%	0%	–	–	–
Tom Sharkey [5]	**2022**	**USD**	**301,863**	**50%**	**150,931**	**0%**	**0%**	**–**	**–**	**–**
	2021	USD	425,000	50%	212,500	67.4%	44.9%	143,147	143,147	–

1 Includes superannuation contributions for Australian Executive KMP.
2 Percentage of fixed remuneration (excluding retirement and insurance benefits for US Executive KMP).
3 The Board reviewed the overall performance of the Company and decided to exercise discretion to reduce the STI payable for Mr Brayan from 15% of maximum to 11.68% of maximum, by capping the customer NPS outcome at 10% and not rewarding overachievement. 25% of the total STI earned will be deferred for 12 months.
4 Mr Levine's fixed remuneration increased by 10%, however his LTI reduced by A$125,000 and his total remuneration reduced by A$50,000.
5 Mr Sharkey finished on 1 September 2022 and received an STI of $143,147 for the FY21 year, which was received in March 2022.

Performance and 2022 LTI outcomes

In order for performance rights to vest, Executive KMP must meet service and performance conditions. During FY22, performance rights vested in full for Executive KMP with respect to the following plan:

- 2019 Executive Award Plan (tranches 1 and 2) for Australian executives with a UBEPS performance hurdle of 20%.

The table below summarises the tranches that were either performance tested or had previously met performance conditions and vested due to meeting service conditions in FY22. See the table on page 92 for a detailed summary on the performance rights that vested in FY22.

Award	Tranche	Was there a performance condition required to be met in FY22 for the rights to vest?	Performance hurdle applied	Performance period [1]	Performance achieved
2019 Executive Award	1	N/A	Performance condition of 20% annual UBEPS growth met at end of 2019.	2019 vs 2018	35% UBEPS growth over 2018
2019 Executive Award	2	N/A	Performance condition of two year UBEPS CAGR of 20% met at end of 2020.	2020 vs 2018	30% UBEPS CAGR

1 2019 base and target UBEPS restated in April 2019 to adjust for the loss-making Figure Eight on acquisition, but prior to full integration into Appen.

With respect to the 2020 Executive Award (tranches 1, 2 and 3), the relevant performance condition of 20% UBEPS annual (year-on-year) growth has not been met in FY20, FY21 or FY22 and as such the rights have been forfeited.

With respect to the 2021 Executive Award (tranches 1 and 2), the relevant performance condition of 20% UBEPS growth has not been met in FY21 and FY22 and in order for these tranches to vest (on release of the FY23 financial results), a significantly more challenging UBEPS target will need to be met i.e. UBEPS growth of 73% over three years. The share-based payment expense in relation to these tranches has been reversed.

2022 Executive awards granted

The following awards were granted to Executive KMP for the 2022 year. The grant of performance rights to Mr Brayan was approved by shareholders at the Annual General Meeting on 27 May 2022. These performance rights and all other unvested performance rights granted to Mr Brayan were forfeited on Mr Brayan's termination as CEO, on 15 December 2022.

All active performance-related awards will vest in year three, subject to hurdle achievement and tenure, with no re-testing.

Australian Executive KMP

The vesting requirement is 50% weighted to growth in group revenue and 50% weighted to growth in underlying basic EPS (UBEPS). 50% of the LTI will vest if compound annual growth in revenue (FY24 versus FY21) is 20%, while 25% of the LTI will vest if compound annual growth in revenue (FY24 versus FY21) is 15%. 50% of the LTI will vest if compound annual growth in UBEPS (FY24 versus FY21) is 10.0%, while 25% of the LTI will vest if compound annual growth in UBEPS (FY24 versus FY21) is 7.5%. Both are also subject to three years continuous service (i.e. tenure).

Plan	Grant date	Expiry date	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date	Value per right at grant date
2022	22 March 2022	N/A	N/A	1	Revenue	15.0%–20.0%	End 2024	Pending	Employed at 1 Jan 2025	Release of 2024 annual results	A$6.65
2022	22 March 2022	N/A	N/A	1	UBEPS	7.5%–10.0%	End 2024	Pending	Employed at 1 Jan 2025	Release of 2024 annual results	A$6.65

US Executives

The vesting requirement is 50% weighted to annual service (i.e. tenure) conditions over three tranches, with each tranche vesting annually over a three year period. The remaining 50% is weighted equally to growth in group revenue and growth in underlying basic EPS (UBEPS), consistent with the Australian Executive KMP.

Plan	Grant date	Expiry date	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date	Value per right at grant date
2022	17 October 2022	N/A	N/A	1	N/A	N/A	N/A	Yes	Employed at 1 Jan 2023	Release of 2022 annual results	A$2.96
2022	17 October 2022	N/A	N/A	2	N/A	N/A	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 annual results	A$2.95
2022	17 October 2022	N/A	N/A	3	N/A	N/A	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 annual results	A$2.82
2022	17 October 2022	N/A	N/A	4	50% Revenue 50% UBEPS	15.0% – 20.0% 7.5% – 10.0%	End 2024	Pending	Employed at 1 Jan 2025	Release of 2024 annual results	A$2.82

Remuneration received

Actual remuneration received by Executive KMP

The table below details the actual remuneration that was received by current and former Executive KMP for FY22 and FY21. The remuneration for Mr Brayan and Mr Levine are disclosed in Australian Dollars, as both receive their remuneration in Australian Dollars. This table differs to the statutory remuneration table on page 85 which is prepared in accordance with accounting standards. The STI amount (if any) is the payment made in recognition of performance for that year. The LTI value at vesting date is the value of shares issued during the year as a result of the vesting of performance rights issued in prior years.

			Fixed			STI [2]	LTI value at vesting date [5]		LTI value at grant date
Executive KMP		Currency	Cash salary [1] $	Super-annuation [1,4] $	Termination payments $	$	$	Total value $	$
Mark Brayan	**2022**	AUD	**725,570**	**24,430**	**133,333** [3]	**218,983** [2]	**651,729**	**1,754,045**	**1,653,323**
	2021	AUD	727,369	22,631	–	–	2,735,817	3,485,817	1,351,399
Kevin Levine	**2022**	AUD	**525,570**	**24,430**	**–**	**61,988** [2]	**325,865**	**937,853**	**826,662**
	2021	AUD	477,369	22,631	–	–	1,772,049	2,272,049	875,444
Tom Sharkey [6]	**2022**	USD	**301,863**	**27,000**	**283,251** [7]	**–**	**–**	**612,114**	**–**
	2021	USD	425,000	26,000	–	143,147	492,686	1,086,833	308,507
Jon Kondo [8]	2021	USD	188,304	26,000	135,463	–	368,428	718,195	894,000

1 Annualised fixed remuneration in the form of cash salary plus superannuation did not change for Mr Brayan. Mr Levine's fixed remuneration increased by 10%, however his LTI reduced by A$125,000 and his total remuneration reduced by A$50,000.

2 Mr Brayan and Mr Levine will receive an STI with respect to FY22 for exceeding the 90% payout threshold set for customer and employee non-financial metrics. The Board reviewed the overall performance of the Company and decided to exercise discretion to reduce the STI payable for Mr Brayan from 15% of maximum to 11.68% of maximum, by capping the customer NPS outcome at 10% and not rewarding overachievement. 25% of the total STI earned by Mr Brayan will be deferred for 12 months. No STI was payable to either Mr Brayan or Mr Levine for FY21.

3 Represents the FY22 portion of the 10/12ths of Mr Brayan's fixed remuneration of A$750,000, payable on 1 July 2023, representing six months notice and four months additional pay to enforce a restraint. No other termination or severance payments will be made to Mr Brayan.

4 Includes discretionary company contributions to an approved 401(k) retirement plan and insurance contributions in the US.

5 Value of LTI at vesting date is based on the market price of shares at the date that the LTI vest.

6 To 1 September 2022.

7 Is comprised of a termination payout of $248,503 and a payment for all unused annual leave of $34,748.

8 To 24 June 2021.

Remuneration report

for the year ended 31 December 2022

Statutory remuneration for Executive KMP

The table below details the statutory accounting expense of all remuneration-related items for the Executive KMP. All figures are presented in US Dollars, which is Appen's presentational currency. This includes translating the remuneration of Mr Brayan and Mr Levine to US Dollars, even though they were paid in Australian Dollars. The average AUD/USD exchange rates used were 0.6950 for 2022 and 0.7515 for 2021. The 31 December closing AUD/USD exchange rates used were 0.6816 for 2022 and 0.7261 for 2021.

		Fixed				Variable		
Executive KMP		Cash salary [1] $	Super-annuation [1,4] $	Leave entitlements $	Termination payments $	STI $	LTI [5] $	Total $
Mark Brayan	2022	**504,283**	**16,979**	**38,316**	**90,885** [3]	**149,342** [2]	**(771,531)**	**28,274**
	2021	546,640	17,008	40,265	–	–	167,133	771,046
Kevin Levine	2022	**365,280**	**16,979**	**27,539**	**–**	**42,274** [2]	**(176,058)**	**276,014**
	2021	358,757	17,008	33,903	–	–	29,913	439,581
Tom Sharkey [6]	2022	**301,863**	**27,000**	**3,692** [7]	**248,503**	**–**	**(605,042)**	**(23,984)**
	2021	425,000	26,000	2,348	–	143,147	(26,612)	569,883
Jon Kondo [8]	2021	188,304	26,000	–	135,463	–	(674,353)	(324,586)

1 Annualised fixed remuneration in the form of cash salary plus superannuation did not change for Mr Brayan. Mr Levine's fixed remuneration increased by 10%, however his LTI reduced by A$125,000 and his total remuneration reduced by A$50,000.

2 Mr Brayan and Mr Levine will receive an STI with respect to FY22 for exceeding the 90% payout threshold set for customer and employee non-financial metrics. The Board reviewed the overall performance of the Company and decided to exercise discretion to reduce the STI payable for Mr Brayan from 15% of maximum to 11.68% of maximum, by capping the customer NPS outcome at 10% and not rewarding overachievement. 25% of the total STI earned by Mr Brayan will be deferred for 12 months. No STI was payable to either Mr Brayan or Mr Levine for FY21.

3 Represents the FY22 portion of the 10/12ths of Mr Brayan's fixed remuneration of A$750,000, payable on 1 July 2023, representing six months notice and four months additional pay to enforce a restraint. No other termination or severance payments will be made to Mr Brayan.

4 Includes discretionary company contributions to an approved 401(k) retirement plan and insurance contributions in the US.

5 The values for equity-settled remuneration were measured at grant date in accordance with AASB 2 *Share-based Payments* and represent the current year amortisation of the fair value of the rights over the vesting period. Certain FY22 statutory LTI figures are negative because they include 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 or are not expected to vest. Another reason is that for Mr Brayan and Mr Sharkey all unvested rights were forfeited.

6 To 1 September 2022.

7 Mr Sharkey was paid out all of his unused annual leave provision which totalled $34,748 (see footnote 8 of the actual remuneration received table). The figure of $3,692 represents the accounting expense from 1 January 2022 to 1 September 2022.

8 To 24 June 2021.

Executive KMP service contracts

Service contracts

Remuneration and other terms of employment for KMP are formalised in service contracts. All Executive KMP service contracts provide for immediate termination in the event of serious misconduct. There are no guaranteed base pay increases in any executive service contracts.

Details of the other key terms are as follows:

Executive KMP	Role	Contract term	Annual salary review	Notice period by either party
Armughan Ahmad	CEO, President, and Managing Director (from 9 January 2023)	No fixed term	1 March	12 months
Kevin Levine	CFO	No fixed term	1 March	3 months

Former CEO and Managing Director

- During FY22, Mr Brayan did not receive a fixed remuneration increase and remained on A$750,000.
- As announced to the market on 15 December 2022, Mr Brayan ceased in his role as CEO. During his leadership, Mr Brayan has driven the Company from around $60 million in revenue in 2015 to over $400 million in FY21 (and $388 million in FY22). This includes ensuring our customers and crowd are, and remain, excited about Appen's products, processes, and capabilities and ensuring our employees are engaged, motivated, and happy. Mr Brayan has built and maintained an experienced and talented executive team around him.
- Mr Brayan remains with Appen on the same fixed remuneration, as an advisor to the Chair, until 28 February 2023 to ensure a smooth transition.
- On termination in his role as CEO, all performance rights granted to Mr Brayan under the LTI plans lapsed. After careful consideration by the Board, given the challenging threshold targets for the customer NPS and employee engagement metrics were met, the Board determined an STI outcome equal to 11.68% of maximum be awarded to Mr Brayan. Aligned to the changes in the remuneration framework announced last year, 25% of his award will be deferred and paid in shares in 12 months time.

Given Mr Brayan's considerable contribution to Appen over his more than seven years as CEO and influential relationships across the market, to protect Appen's business interests, Mr Brayan is subject to competitor restraints and non-socialisation clauses for 10 months from the date of cessation with the Company. In addition to his contractual entitlement to payment in lieu of notice (six months), the Board determined another four months' fixed remuneration be paid to enforce the restraints in place. In total, this represents $625,000 or 10/12ths of his fixed remuneration, payable on 1 July 2023. Mr Brayan will not receive any other termination or severance payments, other than his statutory annual and long-service leave entitlements.

New CEO, President, and Managing Director – FY23

While not applicable for FY22, outlined below are the key terms of Mr Ahmad's employment as previously disclosed to the market. Mr Ahmad commenced work with Appen on 9 January 2023.

In determining Mr Ahmad's remuneration for FY23, the Board took into account:

- Mr Ahmad's extensive global experience in the technology industry and the skills and experiences needed of a CEO to scale Appen to its next phase of growth.
- The need to compete globally for executive talent in the technology industry and references to industry benchmarks which are different to general industry. Mr Ahmad is based in North America.
- Strong shareholder value and reward alignment.
- Compensation for remuneration Mr Ahmad would have otherwise received had he not ceased employment at his previous employer.

Mr Ahmad's FY23 remuneration is made up of the following components:

Base salary

- US$600,000 inclusive of compulsory Australian superannuation contributions and salary sacrifice arrangements.

Short Term Incentive (STI)

- Target STI of 100% of the base salary with the opportunity to earn up to 150% of base salary subject to the achievement of financial and non-financial performance measures including revenue, earnings (before interest, taxes, depreciation, and amortisation), customer and crowd net promoter scores and employee engagement metrics.
- The KPIs and their respective weightings will be determined by the Board annually.
- The STI will be delivered 75% in cash and 25% in deferred equity, which vests over 12 months subject to continued service.

Long Term Incentive (LTI)

- One-off LTI equity grant valued at US$5,000,000, subject to approval by shareholders at the 2023 AGM.
- The LTI will vest over a three year performance period subject to the Company's Absolute TSR performance. The 2023 LTI has stretching targets and will commence vesting at threshold performance (50%) when the Company's Absolute TSR is equal to or greater than 190%, with full vesting at target performance when Absolute TSR is equal to or greater than 320% at the end of the performance period. The 2023 LTI will vest on a straight-line basis between threshold and target performance. For the LTI grant provided to Mr Ahmad, the relevant performance metric is Absolute TSR rather than group revenue and underlying BEPS. This performance measure was chosen to align Mr Ahmad's interests directly with shareholders from commencement. Mr Ahmad will only be rewarded for driving and delivering significant shareholder value.
- Mr Ahmad will not be eligible for further LTI grants until after 31 December 2025 (being the end of the three year performance period for the 2023 LTI).

Sign-on Bonus

- One-off equity grant valued at US$2,000,000, subject to approval by shareholders at the 2023 AGM.
- The sign-on bonus is designed to replace a portion of Mr Ahmad's incentives foregone, which he would have otherwise received with his previous employer. The sign-on bonus will vest in equal monthly tranches, subject to continued service over a two year period. This approach to vesting is designed to strike a balance between the entitlements Mr Ahmad would have received had he not ceased employment, align and reward for delivery of shareholder value immediately and mirror US practices in technology companies where equity often vests monthly. In the event Mr Ahmad resigns or is terminated for cause, any unvested amount of the sign-on bonus will lapse. If the Company terminates Mr Ahmad for convenience, vesting will continue until the date of termination.

Non-executive director remuneration arrangements

Non-executive director remuneration framework

Non-executive director remuneration reflects the Company's desire to attract, motivate, and retain experienced directors and to ensure their active participation in advocating for the interests of shareholders, in areas such as strategy, corporate governance, remuneration, compliance, risk, and ESG. The size of the remuneration pool that can be paid to non-executive directors is governed by resolutions passed at a General Meeting of shareholders.

At the AGM held on 28 May 2021, shareholders approved an increase in the total non-executive director remuneration pool from A$900,000 to A$1,400,000 per annum. This change was made in response to revisions in the Company's Constitution, in which the maximum number of directors permitted to sit on the Board increased from seven to ten, associated with the Board renewing its composition in 2021 and 2022, in which long-standing directors retired. The increase in the number of directors was to ensure a smooth transition, so that the Company would have the flexibility to have more than seven directors on the Board at any one time. As a result of Board renewal initiatives implemented during the year, the Board currently has eight directors.

The Company aims to provide a level of remuneration for non-executive directors comparable with its general industry peer group. Non-executive directors receive an annual fee for Board membership and for service as Chair of Board Committees. No additional payment is made for being a Member of Board Committees. There has been no change to the level and quantum of fees payable to the non-executive directors in FY22 relative to what was paid in FY21.

Role	Fee 2022 A$
Board Chair	$240,000
Non-executive director	$120,000
Audit and Risk Management Committee Chair	$20,000
People and Culture Committee Chair	$20,000

All fees presented above include statutory superannuation for Australian directors.

All Non-executive directors are remunerated by way of Board and Committee fees. These fees reflect the workload associated with a complex global business and the governance oversight required to implement our long-term growth objective and key strategic pillars and to oversee the business transformation process. Non-executive directors do not receive any short-term or long-term incentive.

There are no changes to the level of non-executive director fees proposed for 2023.

Amounts paid to non-executive directors in USD

Details of fees paid to non-executive directors for FY22 and FY21 in US Dollars are outlined below.

	2022			2021		
Director	Fees US$	Super-annuation US$	Total US$	Fees US$	Super-annuation US$	Total US$
Richard Freudenstein [1]	**166,804**	**–**	**166,804**	44,026	4,403	48,429
Stephen Hasker	**102,203** [2]	**–**	**102,203**	90,184	–	90,184
Vanessa Liu	**83,402**	**–**	**83,402**	90,184	–	90,184
Robin Low	**97,302**	**–**	**97,302**	105,214	–	105,214
Stuart Davis [3]	**62,547**	**86**	**62,633**	–	–	–
Lynn Mickleburgh [4]	**33,680**	**–**	**33,680**	–	–	–
Mini Peiris [5]	**12,541**	**–**	**12,541**	–	–	–
Deena Shiff [6]	**35,583**	**–**	**35,583**	86,178	4,006	90,184
Chris Vonwiller [7]	**–**	**–**	**–**	136,950	13,487	150,437
William Pulver [8]	**–**	**–**	**–**	63,561	6,234	69,795
	594,062	**86**	**594,148**	616,297	28,130	644,427

Variances in fees for those non-executive directors that have served a full year term in FY21 and FY22 relates to the impact of FX translation from Australian dollars to US dollars. All the above non-executive directors provided services for the full year unless stated otherwise.

In accordance with the Board's renewal policy:

1 Richard Freudenstein was appointed to the Board on 12 August 2021 and commenced as Chair from 28 October 2021.
2 Part of the amount paid to Mr Hasker in FY22 ($2,203) relates to Mr Hasker's FY21 fee as Chair of the People and Culture Committee.
3 Stuart Davis was appointed on 29 March 2022.
4 Lynn Mickleburgh was appointed on 29 July 2022.
5 Mini Peiris was appointed on 4 November 2022.
6 Deena Shiff retired on 27 May 2022.
7 Chris Vonwiller retired as Chair on 28 October 2021.
8 William Pulver retired on 25 August 2021.

Remuneration report

for the year ended 31 December 2022

Amounts paid to non-executive directors in AUD

Details of fees paid to non-executive directors for FY22 and FY21 in Australian Dollars are outlined below. The total amount paid in FY22 and FY21 is less than the A$1,400,000 limit approved by shareholders at the 2021 AGM.

	2022			2021		
Director	Fees A$	Super-annuation A$	Total A$	Fees A$	Super-annuation A$	Total A$
Richard Freudenstein [1]	**240,000**	**–**	**240,000**	60,419	6,042	66,461
Stephen Hasker	**147,051** [2]	**–**	**147,051**	120,000	–	120,000
Vanessa Liu	**120,000**	**–**	**120,000**	120,000	–	120,000
Robin Low	**140,000**	**–**	**140,000**	140,000	–	140,000
Stuart Davis [3]	**91,259**	**126**	**91,385**	–	–	–
Lynn Mickleburgh [4]	**50,461**	**–**	**50,461**	–	–	–
Mini Peiris [5]	**18,768**	**–**	**18,768**	–	–	–
Deena Shiff [6]	**49,229**	**–**	**49,229**	114,670	5,330	120,000
Chris Vonwiller [7]	**–**	**–**	**–**	180,666	17,793	198,459
William Pulver [8]	**–**	**–**	**–**	83,198	8,160	91,358
	856,768	**126**	**856,894**	818,953	37,325	856,278

All the above non-executive directors provided services for the full year unless stated otherwise.

In accordance with the Board's renewal policy:

1 Richard Freudenstein was appointed to the Board on 12 August 2021 and commenced as Chair from 28 October 2021.
2 Part of the amount paid to Mr Hasker in FY22 (A$7,051) relates to Mr Hasker's FY21 fee as Chair of the People and Culture Committee.
3 Stuart Davis was appointed on 29 March 2022.
4 Lynn Mickleburgh was appointed on 29 July 2022.
5 Mini Peiris was appointed on 4 November 2022.
6 Deena Shiff retired on 27 May 2022.
7 Chris Vonwiller retired as Chair on 28 October 2021.
8 William Pulver retired on 25 August 2021.

Remuneration report

for the year ended 31 December 2022

Remuneration governance

The role of the People and Culture Committee is to focus on our strategic human resources objectives, including the well-being of our employees and culture, as well as provide advice, recommendations, and assistance to the Board in relation to compensation arrangements for Directors and Executives. The members of the People and Culture Committee during the reporting period were:

Stephen Hasker, Member and Committee Chair for the whole financial year
Richard Freudenstein, Member for the whole financial year
Lynn Mickleburgh, Member from 30 November 2022
Mini Peiris, Member from 30 November 2022
Robin Low, Member to 30 November 2022

The graphic below shows the relationship between the People and Culture Committee and the Board, Executive team, and Audit and Risk Committee.

Board

Approves and has oversight of Appen's remuneration policy including Executive and Non-executive KMP remuneration.

People and Culture Committee

Members:
Stephen Hasker
Richard Freudenstein
Lynn Mickleburgh
Mini Peiris

Audit and Risk Committee

Advises the People and Culture Committee of material risk issues, behaviours and/or compliance breaches.

Executive team

Proposes executive appointments, succession plans, policies, remuneration structures and outcomes to the People and Culture Committee for review and approval or recommendation to the Board.

Independent external advisors

To ensure the Committee is appropriately informed, advice and information is sought from independent external advisors, as required.

The number of Committee meetings and attendance by members during the reporting period is set out in the 'Board and Committee meetings' section on page 68.

Remuneration report

for the year ended 31 December 2022

Board oversight of remuneration

The Board ensures variable rewards are only paid when a senior executive creates value for shareholders through meeting their financial and non-financial targets and exceeding their agreed work plan objectives. The Board reviews all targets on an annual basis to ensure that they are sufficiently challenging and are consistent with the Company's long-term business strategy.

Consistent with good governance and to address shareholder expectations, during the year the Board formalised a policy with respect to malus and clawback, such that the Board may forfeit any entitlement to performance-based remuneration (both LTI and STI), if in the opinion of the Board, the employee may receive an inappropriate benefit. Examples where Board discretion may be applied include: if the employee acts fraudulently or dishonestly, is in breach of their obligations to the Group, mismanages a material risk affecting the Group, or any other circumstance which the Board determines to have resulted in an inappropriate benefit.

The Board also has the discretion to determine that a portion or all of an employee's unvested or vested STI and LTI awards be forfeited if, in the Board's opinion, negative or adverse circumstances affecting the performance or reputation of the Appen Group have come to the Board's attention where circumstances, had they been known at the time when the STI or LTI was awarded, would have caused the Board to make a lower award or no award.

No Board discretion in relation to malus or clawback was applied in FY22.

Corporate Governance Statement

Further information about the People and Culture Committee is set out in the Corporate Governance Statement. The Statement is available at: appen.com/investors/corporate-governance/

Independent remuneration advisors

Where appropriate, the Board and the People and Culture Committee engage external and independent remuneration advisors to provide industry benchmarks, peer comparison information and specific local knowledge of country-specific remuneration practices.

External advice is used as a guide only and is not a substitute for the Board and People and Culture Committee's thorough consideration of the relevant remuneration matter. No remuneration recommendations were provided.

Securities trading policy

KMP (both executive and non-executive directors) must not enter into transactions in associated products that operate to limit the economic risk of security holdings in the Company. A copy of the Company's Securities Dealing Policy is available at appen.com/investors/corporate-governance/

Minimum shareholding requirement (MSR)

The Board has adopted a Minimum Shareholding Policy to assist in aligning the interests of all directors with our shareholders.

The value of such shares is based on their price at the time of acquisition. Once the requirement has been met, directors are considered compliant even if there are subsequent changes in the share price.

Directors are compliant where Appen securities are held either by them personally or by a related party.

CEO and other Executive KMP

From 1 January 2022, the formal MSR is 100% of fixed remuneration for the CEO and 50% of fixed remuneration for other Executive KMP over a five year period.

This is in addition to the requirement for the CEO to defer 25% of any STI earned in equity for a 12 month period.

As at the date of this report, all Executive KMP that have been employed for at least five years are in compliance with the MSR.

Non-executive directors

Non-executive directors are required to hold Appen shares to the value of at least 100% of the annual non-executive director pre-tax base fee within three years of their appointment, using the base fee at the time of appointment (excluding Committee fees).

As at the date of this report, all non-executive directors that have served on the Board for at least three years are in compliance with the MSR.

Other remuneration tables

Securities holdings of Executive KMP

Executive KMP	Number of performance rights held	Number of ordinary shares held (direct and indirect)
Mark Brayan	–	588,698
Kevin Levine	256,327	226,179

Performance rights holdings of Executive KMP

The movement during the reporting period of performance rights held by Executive KMP is outlined in the table below:

Name	Plan	Held at 1 January 2022	Granted during the year	Exercised during the year	Forfeited	Held at 31 December 2022	Vested during the year
Mark Brayan	2019	160,000	–	(106,666)	(53,334)	–	(106,666)
	2020	78,125	–	–	(78,125)	–	–
	2021	55,908	–	–	(55,908)	–	–
	2022	–	187,500	–	(187,500)	–	–
		294,033	**187,500**	**(106,666)**	(374,867)	–	**(106,666)**
Kevin Levine	2019	80,000	–	(53,333)	(26,667)	–	(53,333)
	2020	48,828	–	–	–	48,828	–
	2021	51,249	–	–	–	51,249	–
	2022	–	156,250	–	–	156,250	–
		180,077	**156,250**	**(53,333)**	**(26,667)**	**256,327**	**(53,333)**
Tom Sharkey	2019	45,000	–	–	(45,000)	–	–
	2020	35,000	–	–	(35,000)	–	–
	2021	34,626	–	–	(34,626)	–	–
	2022	–	175,387	–	(175,387)	–	–
		114,626	**175,387**	–	**(290,013)**	–	–

Performance rights vesting table

The performance details relating to the rights exercised during the year, are shown in the table below:

Grant date	Tranche	Performance condition	Measurement date	Base UBEPS US cps	Target UBEPS US cps	Actual UBEPS US cps	Annual growth %	Actual UBEPS CAGR %	Performance condition met	Service condition	Vesting date
31/1/19	1	FY19 UBEPS growth over FY18 UBEPS >= 20%	End 2019	N/A [1]	28.26 [1]	38.19	35%	35%	Yes	Employed at 1 Jan 2022	1 Jan 22
31/1/19	2	FY20 UBEPS growth over FY18 UBEPS >= 20%	End 2020	28.26	33.91	36.75	-4%	30%	Yes	Employed at 1 Jan 2022	1 Jan 22

1 2019 base and target UBEPS restated in April 2019 to adjust for the loss-making Figure Eight on acquisition, but prior to its full integration into Appen.

Performance rights exercised during the year by Executive KMP

Executive	Number of rights exercised	Value of rights at grant date (US$)	Value of rights at exercisable date (US$)
Mark Brayan	106,666	$1,180,507	$475,049
Kevin Levine	53,333	$590,254	$237,524
Tom Sharkey	–	–	–

The rights exercised during the year relate to vesting of the relevant plans as detailed above, upon the successful achievement of the relevant performance and employment hurdles.

Unvested performance rights held by Executive KMP

The number of unvested performance rights held by Executive KMP at 31 December 2022 are:

Plan	Mark Brayan [1]	Kevin Levine
2020	–	48,828
2021	–	51,249
2022	–	156,250
Total	–	**256,327**

1 All of Mr Brayan's unvested performance rights were forfeited on his termination as CEO on 15 December 2022.

Executive and Non-executive Director shareholdings

	Number of shares				
Director	1 January 2022	Purchased/ exercised during the year	Sold during the year	Ceased to be KMP	31 December 2022
Richard Freudenstein	30,000	14,975	–	–	**44,975**
Mark Brayan [1]	482,032	106,666	–	–	**588,698**
Stephen Hasker	50,000	–	–	–	**50,000**
Vanessa Liu	4,000	–	–	–	**4,000**
Robin Low	172,946	–	–	–	**172,946**
Deena Shiff [2]	50,432	–	–	(50,432)	**–**
Stuart Davis [3]	–	–	–	–	**–**
Lynn Mickleburgh [4]	–	–	–	–	**–**
Mini Peiris [5]	–	–	–	–	**–**
	789,410	121,641	–	(50,432)	**860,619**

1 Director to 15 December 2022.
2 To 27 May 2022.
3 From 29 March 2022.
4 From 29 July 2022.
5 From 4 November 2022.

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

Richard Freudenstein
Director

27 February 2023
Sydney

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

to the directors of Appen Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Appen Limited for the financial year ended 31 December 2022 there have been:

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

ii. No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Cameron Slapp
Partner

Sydney

27 February 2023

Contents

Financial report

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2022

	Note	Group 2022 $000	Group 2021 $000
Services revenue	4	**388,133**	447,154
Other income		**177**	110
Interest income calculated using the effective interest method		**183**	10
Expenses			
Crowd labelling services		**(237,712)**	(268,378)
Employee expenses	5	**(94,221)**	(71,015)
Share-based payments expense	5	**(1,492)**	(516)
Depreciation and amortisation expense	5	**(41,582)**	(35,038)
Professional fees		**(9,994)**	(7,088)
Recruitment costs		**(6,143)**	(2,394)
Information technology costs		**(12,829)**	(8,772)
Communication and travel expenses		**(2,982)**	(1,339)
Transaction costs	5	**(1,556)**	(2,729)
Deemed interest on earn-out liability	24	**(772)**	(657)
Net foreign exchange loss		**(2,560)**	(1,176)
Other expenses		**(9,718)**	(8,669)
Finance costs	5	**(996)**	(1,372)
Impairment charges on New Markets CGU	16	**(204,326)**	–
Restructure costs		**(678)**	(2,256)
(Loss)/profit before income tax expense		**(239,068)**	35,875
Income tax benefit/(expense)	8	**–**	(7,356)
(Loss)/profit after income tax benefit/(expense) for the year attributable to the owners of Appen Limited	27	**(239,068)**	28,519
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		**(1,291)**	(1,579)
Other comprehensive loss for the year, net of tax		**(1,291)**	(1,579)
Total comprehensive (loss)/income for the year attributable to the owners of Appen Limited		**(240,359)**	**26,940**

	Note	Cents	Cents
Basic earnings per share	6	**(193.78)**	23.19
Diluted earnings per share	6	**(193.78)**	22.85

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

Consolidated statement of financial position

as at 31 December 2022

	Note	Group 2022 $000	Restated[1] 2021 $000
Assets			
Current assets			
Cash and cash equivalents	11	**23,429**	47,878
Trade and other receivables	12	**64,282**	89,243
Contract assets	13	**30,448**	10,471
Derivatives	18	**262**	–
Income tax refund due	8	**2,492**	8,963
Prepayments		**3,112**	3,729
Inventory		**649**	1,679
Total current assets		**124,674**	161,963
Non-current assets			
Property, plant and equipment	14	**3,726**	3,118
Right-of-use assets	15	**9,061**	13,557
Intangibles	16	**109,560**	318,830
Investments	17	**2,418**	–
Deferred tax	8	**5,078**	4,060
Other assets		**424**	629
Total non-current assets		**130,267**	340,194
Total assets		**254,941**	502,157
Liabilities			
Current liabilities			
Trade and other payables	19	**39,740**	41,609
Derivatives	18	**–**	816
Contract liabilities	20	**18,737**	14,060
Lease liabilities	22	**3,152**	5,004
Employee benefits	23	**3,390**	3,030
Other liabilities		**71**	73
Total current liabilities		**65,090**	64,592
Non-current liabilities			
Borrowings	21	**–**	–
Lease liabilities	22	**7,025**	10,056
Deferred tax	8	**15,270**	16,858
Employee benefits	23	**439**	420
Earn-out liability	24	**19,131**	18,359
Total non-current liabilities		**41,865**	45,693
Total liabilities		**106,955**	110,285
Net assets		**147,986**	391,872
Equity			
Issued capital	25	**262,917**	262,917
Reserves	26	**128,154**	132,972
Accumulated losses	27	**(243,085)**	(4,017)
Total equity		**147,986**	391,872

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

1 The 2021 comparative numbers have been restated to reflect acquisition accounting adjustments during the year. Refer to note 33 for further information.

Consolidated statement of changes in equity

for the year ended 31 December 2022

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)/expense for the year	**–**	**–**	**(239,068)**	**(239,068)**
Other comprehensive income for the year, net of tax	**–**	**(1,291)**	**–**	**(1,291)**
Total comprehensive (loss)/income for the year	**–**	**(1,291)**	**(239,068)**	**(240,359)**
Transactions with owners in their capacity as owners:				
Share-based payments (note 5)	**–**	**1,492**	**–**	**1,492**
Dividends paid (note 7)	**–**	**(5,019)**	**–**	**(5,019)**
Balance at 31 December 2022	**262,917**	**128,154**	**(243,085)**	**147,986**

Group	Issued Capital $000	Reserves $000	Accumulated Losses $000	Total equity $000
Balance at 1 January 2021	262,917	114,784	(4,017)	373,684
Profit after income tax expense for the year	–	–	28,519	28,519
Other comprehensive loss for the year, net of tax	–	(1,579)	–	(1,579)
Total comprehensive (loss)/income for the year	–	(1,579)	28,519	26,940
Transfer between reserves	–	28,519	(28,519)	–
Transactions with owners in their capacity as owners:				
Share-based payments (note 5)	–	516	–	516
Dividends paid (note 7)	–	(9,268)	–	(9,268)
Balance at 31 December 2021	262,917	132,972	(4,017)	391,872

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

Consolidated statement of cash flows

for the year ended 31 December 2022

	Note	Group 2022 $000	Group 2021 $000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**395,568**	434,261
Payments to suppliers and employees (inclusive of GST)		**(380,816)**	(374,170)
		14,752	60,091
Interest received		**183**	10
Interest paid		**(491)**	(629)
Income taxes received/(paid)		**3,784**	(5,549)
Net cash from operating activities	36	**18,228**	53,923
Cash flows from investing activities			
Payments for intangibles	16	**(24,892)**	(21,794)
Payment for investment	17	**(2,633)**	–
Transaction costs	5	**(1,556)**	(2,729)
Payments for property, plant and equipment	14	**(3,039)**	(1,301)
Payment for strategic acquisitions, net of cash acquired	33	**–**	(24,999)
Net cash used in investing activities		**(32,120)**	(50,823)
Cash flows from financing activities			
Payments for lease liabilities		**(4,508)**	(4,877)
Dividends paid	7	**(5,019)**	(9,268)
Net cash used in financing activities		**(9,527)**	(14,145)
Net (decrease) in cash and cash equivalents		**(23,419)**	(11,045)
Cash and cash equivalents at the beginning of the financial year		**47,878**	60,488
Effects of exchange rate changes on cash and cash equivalents		**(1,030)**	(1,565)
Cash and cash equivalents at the end of the financial year	11	**23,429**	47,878

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

Notes to the consolidated financial statements

for the year ended 31 December 2022

Note 1. General information

The financial statements cover Appen Limited as a Group consisting of Appen Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in United States (US) dollars, which is Appen Limited'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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2023.

Note 2. Basis of preparation

Statement of compliance

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

Basis of consolidation

The financial statements include the assets and liabilities of all subsidiaries in the Group as at 31 December 2022 and the results for all subsidiaries for the year ended 31 December 2022. Inter-entity transactions, with, or between subsidiaries have been eliminated in full, on consolidation.

Historical cost convention

The financial statements have been prepared on an accruals basis and are based on the historical cost convention, except for derivative financial instruments, investments, earn-out contingent consideration and share-based payments which are measured at fair value.

Critical accounting estimates

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

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 32.

Change in accounting policies

Material accounting policies adopted in the preparation of these financial statements are included in the relevant notes. The accounting policies adopted are consistent with those of the previous years.

Note 2. Basis of preparation (continued)

Current and non-current classification

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

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

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 US dollars, or in certain cases, the nearest US dollar.

New, revised or amended Accounting Standards

The AASB has issued a number of standards or amendments to standards that are mandatory or effective for the first time for the reporting period commencing 1 January 2022. The Group has assessed and determined that there are no new or amended accounting standards applicable for the first time for the 31 December 2022 financial report, that materially affects the Group's accounting policies or any of the amounts recognised in the financial statements, with the exception of:

Classification as Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023. However, the IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2024. Due to these ongoing developments, the Group is unable to determine the impact of these amendments on the consolidated financial statements in the period of initial application. The Group is closely monitoring for any developments.

Notes to the consolidated financial statements

The notes to the consolidated financial statements have been presented in the following sections:

- Group performance, dividends and tax
- Risk management
- Balance sheet-related disclosures
- Group disclosures

Group performance, dividends and tax

Note 3. Operating segments

Appen's 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 collection, annotation and evaluation products and tools, 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 statutory 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.

Major customers

During the year ended 31 December 2022, approximately 81.9% (2021: 87.0%) 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 years ended 31 December 2022 and 31 December 2021. The revenue and segment results for the New Markets segment for the year ended 31 December 2022, includes the full year contribution from Quadrant, which was acquired on 13 September 2021.

Notes to the consolidated financial statements

for the year ended 31 December 2022

Note 3. Operating segments (continued)

31 December 2022	Global Services $000	New Markets $000	Corporate (Unallocated) $000	Total $000
Services revenue	**299,755**	**88,378**	**–**	**388,133**
Interest	**–**	**–**	**183**	**183**
Other income	**–**	**–**	**177**	**177**
Total revenue & other income				**388,493**
Segment underlying EBITDA	**54,524**	**(36,506)**		**18,018**
Share based payment – employees				**(1,443)**
Investment in transformation benefits				**(3,048)**
Foreign exchange loss				**(2,560)**
Other				**50**
Group underlying EBITDA				**11,017**
Depreciation and amortisation				**(41,582)**
Restructure costs				**(678)**
Deemed interest on earn-out liability				**(772)**
Net interest expense				**(813)**
Transaction costs				**(1,556)**
Loss on revaluation of inventory – Cryptocurrency				**(309)**
Acquisition-related share based payments				**(49)**
Impairment loss - New Markets				**(204,326)**
Loss before income tax benefit				**(239,068)**
Income tax benefit				–
Loss after income tax benefit				**(239,068)**

31 December 2021	Global Services $000	New Markets $000	Corporate (Unallocated) $000	Total $000
Services revenue	344,679	102,475	–	447,154
Interest	–	–	10	10
Other income	–	–	110	110
Total revenue & other income				447,274
Segment underlying EBITDA	91,156	(11,523)	–	79,633
Share based payment – employees				(773)
Foreign exchange loss				(1,176)
Group underlying EBITDA				77,684
Depreciation and amortisation				(35,038)
Restructure costs				(2,256)
Deemed interest on earn-out liability				(657)
Net interest expense				(1,362)
Transaction costs				(2,729)
Cloud computing costs				(24)
Acquisition-related share based payments				257
Profit before income tax				35,875
Income tax expense				(7,356)
Profit after income tax expense				28,519

Note 3. Operating segments (continued)

Geographical information

Geographical information	Sales income 2022 $000	Sales income 2021 $000	Geographical non-current assets 2022 $000	Geographical non-current assets 2021 $000
Australia	**865**	1,332	**10,178**	50,311
US	**337,594**	412,876	**96,661**	275,660
Other countries	**49,674**	32,946	**17,926**	9,534
	388,133	447,154	**124,765**	335,505

Note 4. Revenue

	2022 $000	2021 $000
Services revenue	**388,133**	**447,154**

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).

31 December 2022	Global customers $000	New Markets customers $000	Corporate (Unallocated) $000	Total $000
Revenue – Global Services segment	**299,755**	**–**	**–**	**299,755**
Revenue – New Markets segment	**18,177**	**70,201**	**–**	**88,378**
Total revenue	**317,932**	**70,201**	**–**	**388,133**

31 December 2021	Global customers $000	New Markets customers $000	Corporate (Unallocated) $000	Total $000
Revenue – Global Services segment	344,679	–	–	344,679
Revenue – New Markets segment	41,652	60,823	–	102,475
Total revenue	386,331	60,823	–	447,154

Note 4. Revenue (continued)

Accounting policy

The Group recognises revenue as follows:

Revenue from contracts with customers

Appen derives most of its revenue from two distinct performance obligations, being:

- revenue from delivering collected, annotated and evaluated data on a customers' platform; and
- revenue from customers accessing the Group's platform and tools for evaluating their data.

Revenue is recognised over time as the services are provided at an amount that reflects the consideration to which the Group is expected to be entitled to in exchange for the services per customer requirements.

Revenue from the delivery of collected, annotated and evaluated data on the customers' platforms relates to the Global Services segment. Revenue is recognised over-time based on the services performed to date as a percentage of total contracted services.

Revenue from customers accessing the Group's platform and tools relates to the New Markets segment. Customers enter into contracts for a specified period of time and usage limits to analyse and evaluate their data. Revenue is recognised over time based on the utilisation of the platform and tools. Unused limits are recognised as revenue using estimates based on the terms and conditions of the contract, experience, historical and expected future trends.

Variable consideration relating to its performance obligations are contained within the transaction price, if any, and may reflect concessions provided to the customer such as discounts, rebates and refunds. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a liability.

Interest

Interest revenue is recognised on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to the assets' net carrying value.

Other revenue

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

Foreign exchange gains and losses

Foreign currency transactions are translated into US dollars using the exchange rates prevailing at the date of the transaction. Foreign exchange gains (and losses) resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies (i.e. non US dollars) are recognised in profit or loss.

Note 5. Expenses

(Loss)/profit before income tax includes the following specific expenses:

	Group	
	2022 $000	**2021 $000**
Depreciation and amortisation		
Depreciation:		
Leasehold improvements	**758**	751
Fixtures and fittings	**162**	168
Computer equipment	**1,346**	1,091
Audio equipment	**17**	27
Motor Vehicle	**15**	–
Right-of-use assets – land and buildings	**4,930**	5,192
Total depreciation	**7,228**	7,229
Amortisation:		
Systems implementation	**76**	40
Product development	**20,583**	16,025
Other intangibles	**423**	218
Amortisation sub-total	**21,082**	16,283
Amortisation – acquisition related [1]:		
Product development	**8,932**	7,130
Customer relationships and contracts	**4,271**	4,321
Brand	**69**	75
Amortisation – acquisition related sub-total	**13,272**	11,526
Total depreciation and amortisation	**41,582**	35,038

1 The 31 December 2022 expense includes the amortisation expense related to Quadrant acquisition-related intangible assets, which have been identified, recognised and valued as part of the finalised 31 December 2022 valuation of goodwill associated with the acquisition of Quadrant under AASB 3 *Business Combinations*. Refer to notes 16 and 33 for further information.

	Group	
Finance costs	**2022 $000**	**2021 $000**
Interest and finance charges paid/payable on borrowings	491	629
Interest and finance charges paid/payable on lease liabilities	505	743
	996	1,372
Deemed interest on Quadrant earn-out liability	772	657
Finance costs expensed	1,768	2,029

Note 5. Expenses (continued)

Share-based payments expense	Group 2022 $000	Group 2021 $000
Share-based payment in respect of Appen performance rights	**1,443** [1]	773
Share-based payment in respect of Quadrant or Figure Eight acquisitions	**49**	(257) [2]
Total share-based payments expense	**1,492**	516

1 Includes a true-up adjustment of share-based payments expense in relation to the 2020, 2021 and 2022 Long-Term Incentive Plans, for rights that did not or were unlikely to vest, as performance conditions were not met or expected to be met.
2 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 or were unlikely to vest, as performance conditions were not met or expected to be met.

Transaction costs	Group 2022 $000	Group 2021 $000
Strategic consulting costs	**1,326**	1,484
Integration costs	**112**	20
Other	**118**	109
Transaction costs related to the Quadrant acquisition	**–**	1,116
Total transaction costs	**1,556**	2,729

Employee expenses	Group 2022 $000	Group 2021 $000
Defined contribution superannuation expense	**5,518**	917
Employee expenses	**88,703**	70,098
Total employee expenses	**94,221**	71,015

Note 5. Expenses (continued)

Accounting policy

Depreciation expense

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

Amortisation expense

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

Finance costs

All finance costs are expensed in the period in which they are incurred.

Share-based payments expense

All share-based payments are expensed over the relevant vesting period. The share-based payments expense is based on expected targets and hurdles.

Employee expenses

Includes all short-term employee benefits (wages, paid annual leave and sick leave and any non-monetary benefits), post-employment benefits and other long-term or termination employee benefits.

Note 6. Earnings per share

	Group 2022 $000	2021 $000
(Loss)/profit after income tax attributable to the owners of Appen Limited	**(239,068)**	28,519

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**123,371,758**	122,956,759
Adjustments for calculation of diluted earnings per share:		
Rights over ordinary shares	– [1]	1,857,243
Weighted average number of ordinary shares used in calculating diluted earnings per share	**123,371,758**	124,814,002

	Cents	Cents
Basic earnings per share	**(193.78)**	23.19
Diluted earnings per share	**(193.78)**	22.85

1 Whilst there are unvested performance rights at 31 December 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.

Accounting policy

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive positive ordinary shares and the weighted average number of shares assumed to have been issued for consideration in relation to dilutive potential ordinary shares.

Note 7. Dividends

Dividends

Dividends paid during the financial year were as follows:

	Group	
	2022 $000	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
2022 interim dividend of AU nil cents per share (2021: 2021 interim dividend of AU 4.5 cents per share)	**–**	4,026
	5,019	9,268

In order to ensure appropriate allocation of capital, no interim or final dividend was paid for the year ended 31 December 2022.

Franking credits

	Group	
	2022 $000	2021 $000
Franking credits available for subsequent financial years based on a tax rate of 30%	**6**	18

The above amounts represent the balance of the franking account as at the end of the financial year. The lower franking credit levels reflect tax refunds received in FY22 and FY21.

Accounting policy

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

Note 8. Income tax

	Group 2022 $000	Group 2021 $000
Income tax (benefit)/expense		
Current tax	**2,075**	3,381
Deferred tax – origination and reversal of temporary differences	**(1,872)**	3,587
Adjustment recognised for prior periods – current tax	**410**	1,402
Adjustment recognised for prior periods – deferred tax	**(613)**	(1,014)
Income tax (benefit)/expense	**–**	7,356
Deferred tax included in income tax (benefit)/expense comprises:		
(Increase)/decrease in deferred tax assets	**(1,289)**	4,114
Decrease in deferred tax liabilities	**(1,194)**	(1,540)
Deferred tax – origination and reversal of temporary differences	**(2,483)**	2,574
Reconciliation of income tax (benefit)/expense and tax at the statutory rate		
(Loss)/profit before income tax expense	**(239,068)**	35,875
Tax at the statutory tax rate of 30%	**(71,720)**	10,763
Tax effect amounts which are not deductible/(taxable) in calculating taxable (loss)/income:		
Impairment loss	**61,298**	–
Share-based payments	**(759)**	(1,533)
Deferred tax adjustments	**10,148**	(1,419)
Non-deductible transaction costs related to acquisition	**–**	348
Sundry items and exchange differences	**342**	2
	(691)	8,161
Adjustment recognised for prior periods	**(203)**	388
Difference in overseas tax rates	**894**	(1,193)
Income tax (benefit)/expense	**–**	7,356

Note 8. Income tax (continued)

	Group	
	2022 $000	2021 $000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	**6**	–
Tax losses – China [1]	**2,295**	2,489
Revenue received in advance	**1,013**	1
Employee benefits	**774**	690
Accrued expenses	**355**	150
Other expenses and exchange differences	**635**	730
Deferred tax asset	**5,078**	4,060
Movements:		
Opening balance	**4,060**	8,240
Credited/(debited) to profit or loss	**1,289**	(4,114)
Exchange differences	**(271)**	(66)
Closing balance	**5,078**	4,060

1 Losses expire after five years. Sufficient profits are forecast to fully utilise the tax losses within the next five years.

Note 8. Income tax (continued)

	Group 2022 $000	Group 2021 $000
Deferred tax liability		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax loss from Figure Eight acquisition [2]	**–**	(958)
Intangible assets	**19,391**	16,467
Revenue received in advance	**1,203**	1,591
Quadrant acquisition – intangible assets and deferred revenue (note 33)	**–**	5,256
Other expenses and exchange differences	**(5,324)**	(5,498)
Deferred tax liability	**15,270**	16,858
Movements:		
Opening balance	**16,858**	13,057
(Debited)/credited to profit or loss	**(1,194)**	(1,540)
Quadrant acquisition – intangible assets and deferred revenue (note 33)	**–**	5,256
Other expenses and exchange differences	**(394)**	85
Closing balance	**15,270**	16,858

2 US tax losses to be applied in future periods amounts to $44 million (gross), of which none have been recognised as a deferred tax asset.

	Group 2022 $000	Group 2021 $000
Income tax refund due	**2,492**	8,963

Note 8. Income tax (continued)

Critical accounting judgements, estimates and assumptions

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

Recoverability 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.

Accounting policy

Current tax

Current tax comprises the expected payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates for each jurisdiction enacted or substantively enacted at the reporting date, and reflects uncertainty in income taxes, if any.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Risk management

Note 9. Financial risk management

Financial risk management objectives

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

Risk management is carried out by the CFO under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. The CFO reports to the Board on a monthly basis.

Market risk

Foreign currency risk

Given that 90% of Appen's revenue and assets are denominated in US dollars and the Group's reporting currency is United States (US) dollars, foreign currency risk is not material for the Group.

However, the Group is still exposed to some foreign currency risk, as certain transactions, principally corporate head office expenses and costs associated with listing on the ASX are denominated in Australian Dollars.

In order to mitigate foreign currency risk, the Group has entered into forward foreign exchange contracts. Appen's policy is to hedge at least 80% of its Australian Dollar denominated expenses for a rolling 12 month period.

Note 9. Financial risk management (continued)

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

	Purchase Australian dollars		Forward exchange rates	
	2022 $000	2021 $000	2022 $000	2021 $000
FX Forward Contracts				
Sell United States dollars				
Foreign exchange forward contract maturity:				
0–3 months	**6,370**	20,119	**1.4815**	1.3148
3–6 months	**8,296**	4,291	**1.4815**	1.3002
6–12 months	**9,778**	10,077	**1.4815**	1.3615
More than 12 months	**9,778**	13,831	**1.4815**	1.3969

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

	Average exchange rates		Reporting date exchange rates	
	2022	2021	2022	2021
United States Dollars				
Australian Dollars	**1.4430**	1.3371	**1.4663**	1.3769
United Kingdom Pound Sterling	**0.8140**	0.7275	**0.8261**	0.7400
European Economic and Monetary Union Euro	**0.9521**	0.8479	**0.9338**	0.8815
Hong Kong Dollars	**7.8325**	7.7737	**7.8078**	7.7971
Philippine Pesos	**54.538**	49.359	**55.732**	51.042
Chinese Yuan	**6.7515**	6.4382	**6.8973**	6.3588
Japanese Yen	**131.77**	113.49	**131.06**	115.09
Singapore Dollars	**1.3785**	1.3434	**1.3403**	1.3493
Korean Won	**1,291.0**	–	**1,261.4**	–

Note 9. Financial risk management (continued)

Foreign exchange risk recognises financial assets and financial liabilities denominated in a currency that is not the US dollar and the risk is measured using sensitivity analysis. The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at reporting date were as follows:

	Assets		Liabilities	
Group	2022 $000	2021 $000	2022 $000	2021 $000
Australian Dollars	**4,373**	10,066	**1,277**	722
United Kingdom Pound Sterling	**2,130**	1,732	**142**	191
European Economic and Monetary Union Euro	**2,386**	1,304	**–**	–
Hong Kong Dollars	**–**	–	**13**	–
Philippine Pesos	**663**	1,428	**385**	436
Chinese Yuan	**13,589**	7,788	**1,847**	1,153
Japanese Yen	**569**	56	**47**	16
Singapore Dollars	**318**	20	**–**	–
Korean Won	**118**	–	**1**	–
	24,146	22,394	**3,712**	2,518

The Group had financial net assets denominated in foreign currencies of $20,434,000 (2021: net assets of $19,876,000). Financial net assets exclude intangibles, fixed assets, intercompany balances and other non-monetary balances.

Based on this exposure, had the US dollar weakened by 10% or strengthened by 10% (2021: weakened by 10% or strengthened by 10%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year based on the assets denominated in foreign currency, excluding the translation difference for consolidated reporting purpose, and the Group's equity would have been lower or higher as appears on the following page:

Note 9. Financial risk management (continued)

	USD strengthened			USD weakened		
Group – 2022	% change	Effect on profit before tax $000	Effect on equity $000	% change	Effect on profit before tax $000	Effect on equity $000
Australian Dollars	10%	–	(310)	10%	–	310
United Kingdom Pound Sterling	10%	(9)	(194)	10%	9	194
European Economic and Monetary Union Euro	10%	(73)	(239)	10%	73	239
Hong Kong Dollars	10%	–	1	10%	–	(1)
Philippine Pesos	10%	–	(28)	10%	–	28
Chinese Yuan	10%	–	(1,174)	10%	–	1,174
Japanese Yen	10%	(8)	(52)	10%	8	52
Singapore Dollars	10%	(8)	(32)	10%	8	32
		(98)	(2,028)		98	2,028

	USD strengthened			USD weakened		
Group – 2021	% change	Effect on profit before tax $000	Effect on equity $000	% change	Effect on profit before tax $000	Effect on equity $000
Australian Dollars	10%	–	(393)	10%	–	393
United Kingdom Pound Sterling	10%	(3)	(153)	10%	3	153
European Economic and Monetary Union Euro	10%	(130)	(47)	10%	130	47
Hong Kong Dollars	10%	–	1	10%	–	(1)
Philippine Pesos	10%	–	(99)	10%	–	99
Chinese Yuan	10%	–	(664)	10%	–	664
Japanese Yen	10%	–	(4)	10%	–	4
Singapore Dollars	10%	(2)	–	10%	2	–
		(135)	(1,359)		135	1,359

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

Note 9. Financial risk management (continued)

Price risk

The Group holds an immaterial amount of cryptocurrency assets which, prima facie, may be subject to price risk. Cryptocurrency is a core and integral part of Quadrant's business operations, as cryptocurrency is used to pay geolancers and some suppliers, because cryptocurrency provides various benefits to Quadrant, such as: (i) real-time settlement and (ii) allowance for micropayments. This is because many of the tasks that geolancers perform involve small data volumes and small or micro payment amounts are provided as consideration. Cryptocurrency allows and can handle these small micropayments, with the added benefit of not imposing fees on the recipient. Cryptocurrency assets are classified as inventory and valued in these financial statements at the lower of cost and net realisable value (refer to note 33 for further information).

Interest rate risk

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

At the reporting date, the Group had no borrowings (refer to note 21 for further information).

Credit risk

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

Generally, trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan and a failure to make contractual payments for a period greater than one year.

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	Group	
	2022 $000	2021 $000
Facility A (Senior debt)	**20,000**	20,000
Facility B (Working capital)	**13,640**	14,525
Facility C (Acquisition funding)	**24,137**	24,137
	57,777	58,662

Note 9. Financial risk management (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities.

Group – 2022	Weighted average interest rate %	1 year or less $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000	Remaining contractual maturities $000
Non-derivatives						
Non-interest bearing						
Trade payables	–	24,685	–	–	–	24,685
Other payables	–	15,055	–	–	–	15,055
Interest-bearing – fixed rate						
Lease liability (including interest)	3.99%	3,277	2,638	4,012	941	10,868
Total non-derivatives		43,017	2,638	4,012	941	50,608

Group – 2021	Weighted average interest rate %	1 year or less $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000	Remaining contractual maturities $000
Non-derivatives						
Non-interest bearing						
Trade payables	–	25,311	–	–	–	25,311
Other payables	–	16,298	–	–	–	16,298
Interest-bearing – fixed rate						
Lease liability (including interest)	4.18%	5,214	3,116	5,880	1,917	16,127
Total non-derivatives		46,823	3,116	5,880	1,917	57,736

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

Notes to the consolidated financial statements

for the year ended 31 December 2022

Balance sheet-related disclosures

Note 10. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

Group – 2022	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Forward foreign exchange contracts	**–**	**262**	**–**	**262**
Investments	**–**	**–**	**2,418**	**2,418**
Total assets	**–**	**262**	**2,418**	**2,680**
Liabilities				
Earn-out liability and associated deemed interest in respect of the Quadrant acquisition	**–**	**–**	**19,131**	**19,131**
Total liabilities	**–**	**–**	**19,131**	**19,131**

Group – 2021	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Total assets	–	–	–	–
Liabilities				
Forward foreign exchange contracts	–	816	–	816
Earn-out liability and associated deemed interest in respect of the Quadrant acquisition	–	–	18,359	18,359
Total liabilities	–	816	18,359	19,175

There were no transfers between levels during the financial year.

The following two investments have been classified as level 3 at 31 December 2022:

- The investment in Mindtech (as disclosed in note 17) because its value is based on the cost at acquisition date on 8 March 2022, adjusted to reflect the 31 December 2022 exchange rate and any other fair value movements based on unobservable inputs.
- The earn-out liability and associated deemed interest in respect of the Quadrant acquisition is based on an assessment by management of future revenue projections.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Note 10. Fair value measurement (continued)

Valuation techniques for fair value measurements categorised within level 2

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

	Group $000
Assets – movement	
Additions	
Balance at 31 December 2021	–
Investment in Mindtech (see note 17)	2,633
Foreign exchange loss	(215)
Balance at 31 December 2022	2,418
Liabilities – movement	
Balance at 1 January 2021	–
Additions	
Earn-out liability in respect of Quadrant acquisition (see note 24)	17,702
Deemed interest in respect of Quadrant acquisition (see note 24)	657
Balance at 31 December 2021	18,359
Additions	
Deemed interest in respect of Quadrant acquisition (see note 24)	772
Balance at 31 December 2022	19,131

Accounting policy

When an asset or liability is measured at fair value, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and assumes the transaction will take place either in a principal or advantageous market.

Assets and liabilities measured at fair value are classified into the three levels discussed above. External valuers may be used for recurring and non-recurring fair value measurements when internal expertise is not available or the amount is material.

Note 11. Cash and cash equivalents

	Group 2022 $000	Group 2021 $000
Current assets		
Cash on hand	**2**	3
Cash at bank	**23,427**	47,875
	23,429	47,878

Accounting policy

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

Note 12. Trade and other receivables

	Group 2022 $000	Group 2021 $000
Current assets		
Trade receivables	**61,407**	87,546
Less: Allowance for expected credit losses	**(288)**	(242)
	61,119	87,304
Other receivables	**2,375**	1,860
GST receivable	**788**	79
	64,282	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 31 December 2022, the billing milestone was satisfied just after the 31 December reporting period. Hence, December 2022 invoices were classified as a contract asset. Refer to note 13 for more information.

Note 12. Trade and other receivables (continued)

Impairment and allowance for expected credit losses

At 31 December 2022, the Group has recognised a provision of $288,000 (2021: $242,000) in respect of the impairment of receivables.

The ageing of the receivables and allowance for expected credit losses provided for are as follows:

Group	Carrying amount 2022 $000	Carrying amount 2021 $000	Allowance for expected credit losses 2022 $000	Allowance for expected credit losses 2021 $000
Not overdue	**50,400**	83,092	**–**	–
0 to 3 months overdue	**9,163**	3,667	**–**	–
3 to 6 months overdue	**987**	553	**–**	8
Over 6 months overdue	**857**	234	**288**	234
	61,407	87,546	**288**	242

Movements in the allowance for expected credit losses are as follows:

	Group 2022 $000	Group Restated 2021 $000
Opening balance	**242**	622
Amounts provided for during the year as uncollectable	**169**	152
Amounts reversed	**(123)**	(532)
Closing balance	**288**	242

Critical accounting judgements, estimates and assumptions

The allowance for expected credit losses assessment requires a degree of estimation and judgement, based on review and circumstances of each amount overdue including recent sales experience and historical collection rates and forward-looking information that is available.

Accounting policy

Trade receivables are initially recognised at fair value. Trade receivables are generally due for settlement within 30-60 days. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms.

Management is of the view that past models and historical experience may not represent current expectations, and greater reliance is placed on up-to-date information about the circumstances about each debtor.

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

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

Note 13. Contract assets

	Group 2022 $000	Group 2021 $000
Current assets		
Contract assets	**30,448**	10,471

Reconciliation

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

	Group 2022 $000	Group 2021 $000
Balance at 1 January	**10,471**	31,516
Subsequently invoiced and transferred to receivables – reversal	**(10,471)**	(31,516)
Accrued revenue recognised – 30 June	**30,334**	28,177
Balance at 30 June	**30,334**	28,177
Subsequently invoiced and transferred to receivables – reversal	**(30,334)**	(28,177)
Accrued revenue recognised – 31 December [1]	**30,448**	10,471
Balance at 31 December	**30,448**	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 12). For 31 December 2022, the billing milestone was fully satisfied after the 31 December reporting period and hence December invoices were classified as a contract asset as above.

Note 14. Property, plant and equipment

	Group	
	2022 $000	2021 $000
Non-current assets		
Leasehold improvements – at cost	**4,128**	3,915
Less: Accumulated depreciation	**(3,472)**	(2,898)
	656	1,017
Fixtures and fittings – at cost	**1,198**	1,183
Less: Accumulated depreciation	**(940)**	(870)
	258	313
Computer equipment – at cost	**8,304**	6,166
Less: Accumulated depreciation	**(5,543)**	(4,411)
	2,761	1,755
Audio equipment – at cost	**173**	182
Less: Accumulated depreciation	**(157)**	(149)
	16	33
Motor Vehicle – at cost	**50**	–
Less: Accumulated depreciation	**(15)**	–
	35	–
	3,726	3,118

Note 14. Property, plant and equipment (continued)

Reconciliations

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

Group	Leasehold improvements $000	Fixtures and fittings $000	Computer equipment $000	Audio equipment $000	Motor Vehicle $000	Total $000
Balance at 1 January 2021	1,596	438	1,880	59	–	3,973
Additions	226	1	1,072	2	–	1,301
Disposals	(9)	–	(34)	–	–	(43)
Exchange differences	(45)	42	(72)	(1)	–	(76)
Depreciation expense	(751)	(168)	(1,091)	(27)	–	(2,037)
Balance at 31 December 2021	1,017	313	1,755	33	–	3,118
Additions	**454**	**47**	**2,487**	**1**	**50**	**3,039**
Disposals	**–**	**–**	**(5)**	**–**	**–**	**(5)**
Exchange differences	**(57)**	**60**	**(130)**	**(1)**	**–**	**(128)**
Depreciation expense	**(758)**	**(162)**	**(1,346)**	**(17)**	**(15)**	**(2,298)**
Balance at 31 December 2022	**656**	**258**	**2,761**	**16**	**35**	**3,726**

Critical accounting judgements, estimates and assumptions

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. 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 assets that have been abandoned or sold will be written off or written down.

Accounting policy

Each class of property, plant and equipment is carried at cost or fair value, less any accumulated depreciation or impairment losses. The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciation rates used for each class of depreciable assets are:

Leasehold improvements	Over the lease term
Fixtures and fittings	1–13 years
Computer equipment	1–4 years
Motor vehicle	3–5 years
Audio equipment	1–4 years

Any gain or loss on disposal of an item of plant and equipment is recognised in the consolidated statement of profit or loss.

Note 15. Right-of-use assets

	Group	
	2022 $000	**2021 $000**
Non-current assets		
Land and buildings – right-of-use	**19,689**	25,944
Exchange differences	**(304)**	238
Less: Accumulated depreciation	**(10,324)**	(12,625)
	9,061	13,557

Reconciliations

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

	Group	
Group	**2022 $000**	**2021 $000**
Opening written down value	**13,557**	17,993
Additions	**903**	1,022
Exchange differences	**(469)**	(266)
Depreciation expense (refer to note 5)	**(4,930)**	(5,192)
Closing written down value	**9,061**	13,557

For other AASB 16 and lease related disclosures refer to the following:

- Refer to note 5 for interest on lease liabilities and other lease payments;
- Refer to note 22 for lease liabilities;
- Refer to note 9 for contract maturity analysis of lease liabilities; and
- Refer to the consolidated statement of cash flows for repayment of lease liabilities.

Accounting policy

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities. The leases have varying terms, escalation clauses and renewal rights. On renewal, the lease terms are re-negotiated.

Depreciation is charged on a straight-line basis over the term of the lease. The Group leases land and buildings for its offices under lease agreements of between three and 11 years. Short-term leases are those with a lease term of 12 months or less. The costs associated with these leases are recognised as an expense in the consolidated statement of profit or loss as incurred.

Judgement

Options to extend leases are assessed for reasonable certainty in assessing the term of the lease to charge the depreciation expense.

Note 16. Intangibles

	Group 2022 $000	Group 2021[1] $000
Non-current assets		
Goodwill – at cost	**242,051**	241,817
Less: Impairment	**(188,937)**	–
	53,114	241,817
Systems implementation – at cost	**1,515**	1,515
Exchange differences	**(1)**	1
Less: Accumulated amortisation	**(1,370)**	(1,294)
	144	222
Product development – at cost	**133,689**	110,258
Exchange differences	**(180)**	(37)
Less: Accumulated amortisation	**(79,993)**	(50,478)
	53,516	59,743
Customer relationships – at cost	**36,052**	31,500
Less: Accumulated amortisation	**(20,669)**	(16,398)
Less: Impairment	**(15,383)**	–
	–	15,102
Brand – at cost	**1,094**	1,094
Exchange differences	**(56)**	–
Less: Accumulated amortisation	**(669)**	(600)
	369	494
Customer contracts – at cost	**2,372**	2,372
Less: Accumulated amortisation	**(2,372)**	(2,372)
	–	–
Other intangibles – at cost	**3,396**	1,935
Exchange differences	**(83)**	(16)
Less: Accumulated amortisation	**(890)**	(467)
Less: Impairment	**(6)**	–
	2,417	1,452
	109,560	318,830

1 The 31 December 2021 balances have been re-stated to reflect the acquisition accounting adjustments made during the year with respect to opening balances (refer to note 33 for further information).

Note 16. Intangibles (continued)

Reconciliations

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

Group	Goodwill $000	Systems implement-ation $000	Product develop-ment $000	Customer relation-ships $000	Brand $000	Customer contracts $000	Other intangibles $000	Total $000
Balance at 1 January 2020	202,595	67	53,075	19,370	75	53	561	275,796
Additions	–	195	20,574 [2]	–	–	–	1,025	21,794
Additions related to Quadrant acquisition (see note 33)	39,609 [3]	–	9,385 [1]	–	494 [1]	–	–	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	241,817	222	59,743	15,102	494	–	1,452	318,830
Additions/ reallocations	**–**	**–**	**23,431 [2]**	**4,552 [4]**	**–**	**–**	**1,461**	**29,444**
Exchange differences	**234**	**(2)**	**(143)**	**–**	**(56)**	**–**	**(67)**	**(34)**
Amortisation expense	**–**	**(76)**	**(29,515)**	**(4,271)**	**(69)**	**–**	**(423)**	**(34,354)**
Impairment expense	**(188,937)**	**–**	**–**	**(15,383)**	**–**	**–**	**(6)**	**(204,326)**
Balance at 31 December 2022	**53,114**	**144**	**53,516**	**–**	**369**	**–**	**2,417**	**109,560**

1 The 31 December 2021 balances have been re-stated to reflect the acquisition accounting adjustments made during the year with respect to opening balances (refer to note 33 for further information).

2 The additions in product development during the year relate to continued investment by Appen, in development and the addition of new features, to drive future revenue growth, scale and cost efficiency.

3 During the prior year ended 31 December 2021, the then-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 33). The pre-impairment value of goodwill was finalised on 13 September 2022 (12 months after the acquisition of Quadrant).

4 This was a reallocation of the customer contracts balance relating to Figure Eight and previously disclosed in note 20.

Note 16. Intangibles (continued)

Impairment of assets and allocation of goodwill to cash-generating units (CGUs)

Timing and indicators for impairment testing

At each reporting period, an assessment of the carrying value of non-current assets is performed. AASB 136: *Impairment of Assets*, requires an entity to perform a detailed recoverable amount assessment for an asset when any of the following impairment indicators are present:

- There are observable indications that an asset's value has declined during the period more than that which would be expected as a result of the passage of time or normal use;
- Technological, market, economic, or legal environment in which the entity operates has changed or will change with adverse impact on the entity;
- Market interest rates or other market rates of return on investments have increased during the period and are likely to have an impact on discount rates;
- Carrying amount of the net assets of the entity is more than its market capitalisation;
- Evidence that assets are obsolete or physically damaged;
- Significant changes with an adverse impact on the entity have taken place during the period impacting the manner or extent to which an asset is used or expected to be used (restructure etc); or
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

In addition to the above, goodwill and indefinite life intangible assets (whether in-use or not ready for-use) must be tested, at least annually, for impairment. As a result, management performed impairment testing at 31 December 2022.

Appen's assessment of its cash generating units (CGUs)

In FY21, following the business re-organisation, management assessed and identified that the Group has three CGUs: Global Services, New Markets (ex-China) and China, on the basis of how:

- cash flows are identified and measured; and
- resources are allocated and performance monitored, consistent with Appen's long-term strategic goals of revenue and customer diversification.

How was goodwill allocated across the Group?

Each acquisition that Appen has made has contributed to the goodwill carrying value at 31 December 2022 of $53,114,000. The below table summarises the allocation of goodwill to each CGU based on expected synergies each acquisition provides the Group and the level at which the performance of a CGU inclusive of goodwill is monitored.

Cash-generating unit	Pre-impairment 31 December 2022 carrying value ($000)	Impairment loss ($000)	Post-impairment 31 December 2022 carrying value ($000)
Goodwill allocated to the New Markets (ex-China) CGU	188,937	(188,937)	–
Goodwill allocated to the Global Services CGU	53,114	–	53,114
Total	**242,051**	**(188,937)**	**53,114**

Goodwill is measured and monitored at the lowest level within the entity for which information about goodwill is available and should not be larger than the corresponding operating segment.

Measurement of the recoverable amount of the New Markets (ex-China) CGU

In order to identify an impairment loss, management assessed if there was a relevant indicator or indicators of impairment, after considering the detailed list of indicators outlined above. As a result of this review, management considered that there were possible impairment indicators. For example, estimated future cash inflows from the New Markets (ex-China) CGU, was less than expected.

Note 16. Intangibles (continued)

As a result of identifying at least one indicator, management compared the higher of value-in-use of the CGU/fair value less costs of disposal (FVLCD), to determine the CGU's recoverable amount, and compared this to the CGU's carrying value, and concluded that based on the assumptions made, the CGU's carrying value exceeded its recoverable amount, and hence the CGU had a quantifiable impairment loss.

Value-in-use is defined as the present value of the future cash flows expected to be derived from an asset or CGU from both its continuing use and ultimate disposal.

The carrying amount of the New Markets (ex-China) CGU was determined to be higher than its recoverable amount, as measured by the CGUs value-in-use, resulting in an impairment loss of $204,326,000. Please see the section titled *How did management account for the impairment loss* for further information.

Management concluded that it is unlikely that the FVLCD would be higher than the CGU's value-in-use, as this would require a market participant to apply a higher probability weighting for the market participant scenario, than is currently assumed in the value-in-use model (see below).

What assumptions were made in calculating the New Markets (ex-China) CGU value-in-use ?

Cash flows were projected based on forecast operating results over the five year period from the year ended 31 December 2023 (FY23) to 31 December 2027 (FY27), derived by applying conservative estimates to Appen's latest five year plan approved by the Board. Each of the key assumptions made is presented in the table below.

Key assumption	Basis for determining value in use assigned to key assumption
Revenue growth rate	Given the FY22 performance, future revenue growth assumptions had to be reset, and the revised forecast growth assumptions have been based on lower growth rates. The blended compound annual growth rate over the five year period of FY23 to FY27 was forecast to be 22.5% (CAGR) and 19.0% (CAGR) from FY23 to terminal value. This was achieved by applying a weighted probability approach to the revenue forecasts that comprises the New Markets CGU (ex-China) business units, being Global Product, Enterprise, Government and Quadrant. Specifically, management considered three possible scenarios when calculating the forecast revenue (Budget/Board case, Market Participant case and Bear case) and applied probability weightings to each of these scenarios to determine the revenue growth rate for each year between FY23 and FY27 for each business unit. The Budget/Board scenario was based on revenue growth assumptions that were adopted in the budget that was presented to the Board. The Market participant scenario was based on revenue growth projections prepared by reputable investment banks and brokers. Where available, revenue growth rates specific to each business unit were also adopted. The Bear scenario was based on revenue continuing to move directionally in line with the historic percentage revenue movement experienced in FY22 (i.e. low or declining revenue CAGR from FY23 to FY27) for each business unit. The revenue growth rate was calculated after considering the following additional factors: – the pipeline from the Enterprise division. – the deal growth pipeline from Quadrant with our Global customers for the provision of POI data. – estimates of the digitisation, business transformation and product development benefits, including the benefits of scale and the positive impact on margins, to be achieved over the course of the next five years, as a result of the significant investment in each of these areas. – low growth for Global Product and Government based on their FY22 performance. This was sanity checked by benchmarking to industry growth analysis and reports.
Terminal value growth rate	All future years of the model use a constant growth rate of 3%. The rate was referenced against management's view of the growth rate for each business unit and the long-term growth rate of the AI industry.
Discount rate	The discount rate applied to post-tax cash flows was 12.50% (2021: 11%).

The values assigned to each assumption represents management's conservative assessment of future performance of New Markets (ex-China) CGU.

Note 16. Intangibles (continued)

How did management account for the impairment loss ?

As mentioned above, management assessed that the impairment loss relating to the New Markets (ex-China) CGU at 31 December 2022, was $204,326,000.

Below is a summary of the steps management took to allocate this impairment loss against the assets that comprise the New Markets (ex-China) CGU.

Step	Procedure
1	Performed a bottom-up test of each of the assets (ex-goodwill) that comprise the New Markets (ex-China) CGU. This test required an assessment of the future cash flows of each asset at an individual asset level with a comparison made to the asset's carrying value at 31 December 2022. Assets were identified for impairment if the assets recoverable amount was less than its carrying value. All assets identified for impairment, which totalled $15,389,000, were fully impaired at 31 December 2022 and any assets in which the carrying value at 31 December 2022, could be supported were not. See the table below for more information.
2	Management added any relevant corporate assets and goodwill, and tested these assets for impairment at a CGU level. The carrying value of any goodwill allocated to the CGU was reduced, by the remaining impairment loss after applying the loss in step 1. The amount of goodwill that was reduced was $188,937,000.

From a review of each specific asset in the New Markets (ex-China) CGU management identified that the following assets (ex-goodwill) could be impaired (as per step 1 above), as management does not consider that there was material future value in these assets. This is based on an assessment of the impairment indicators specified on page 131. For example, there were observable indicators, from the value of active customer contracts in place at 31 December 2022, that the asset's value has declined more than that which is expected based on the useful life of the asset.

The impairment testing involved the use of judgement and compared the pre-impairment carrying value at 31 December 2022, to the future cash flows likely to be generated from that asset, which as mentioned were either nil or immaterial.

The values presented below are the 31 December 2022, pre-impairment carrying values.

Entity	Asset (ex-goodwill)	Value ($000)	Reason for possible impairment
Figure Eight	Figure Eight – Upfront costs on customer contracts	15,383	Customer base was acquired from Figure Eight as part of the acquisition. Customers have largely churned. Hence, an impairment loss is warranted, because the future cash flows or value-in-use of these customers and customer contracts has been assessed to be immaterial.
Other	Miscellaneous intangible assets	6	Relating to formation costs, internal software and other miscellaneous intangible assets, which have been assessed as unlikely to provide positive cash flow benefits.
	Total impairable assets (ex-goodwill)	**15,389**	

As a result, the impairment loss of $204,326,000 was allocated as follows: specific assets of the New Markets (ex-China) CGU: $15,389,000 and goodwill $188,937,000.

Note 16. Intangibles (continued)

Measurement of the recoverable amount of the Global Services CGU

Goodwill associated with the acquisition of Butler Hill, Leapforce and RaterLabs have been allocated for impairment testing against the Global Services CGU, based on the goodwill calculated at time of acquisition. Refer to page 131 for the table that discloses the amount of goodwill that was allocated to the Global Services CGU, which was $53,114,000.

Cash flows were projected based on forecast operating results over the five year period from FY23 to FY27, derived by applying conservative estimates to Appen's latest five year plan approved by the Board, as follows:

Key assumption	Basis for determining value-in-use assigned to key assumption
Revenue growth rate	Average annual revenue growth rate of 4.5% from FY23 to FY27 underpinned by: – estimates of future growth performance, given FY22 performance. – estimates of the digitisation, business transformation and product development benefits, including the benefits of scale and the positive impact on margins, to be achieved over the course of the next five years, as a result of the significant investment in each of these areas. – consideration of the possibility of a US recession and general global economic uncertainty, and the impact that this may have on our customer's budgets and spending and hence our revenue.
Terminal value growth rate	Referenced using the same assumptions as per page 132 used for the New Markets (ex-China) CGU. All future years of the model use a constant terminal value growth rate of 3%.
Discount rate	The discount rate applied to post-tax cash flows was 11.38% (2021: 11%). The Group has adjusted the discount rate in the current year to reflect the impact of higher global inflation and interest rates. An independent third-party valuer calculated the rate.

The goodwill carrying value of $53,114,000 (2021: $53,150,000) has been allocated to the Global Services CGU. At 31 December 2022, the recoverable amount, being the net amount of discounted future cash flows, significantly exceeds the carrying value of assets in the Global Services CGU.

For the Global Services CGU, no reasonable possible change in key assumptions would result in impairment.

Critical accounting judgements, estimates and assumptions

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.

Goodwill and other indefinite life intangible assets

Goodwill is tested at each reporting date. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised as an expense in the statement of comprehensive income. The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial estimates reviewed by management covering a five year period. Cash flows beyond this five year period are extrapolated using estimated growth rates that do not exceed the long-term average growth rate for the business in which the CGU operates and are consistent with external sources of information.

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.

Note 16. Intangibles (continued)

Accounting policy

General

Expenditure on research activities is recognised as an expense when incurred.

Development costs (for example, product development costs) are capitalised when the Group can demonstrate all of the following: the technical feasibility of completing the asset so that it is available for use or sale; the intention to complete the asset and use or sell it; the ability to use or sell it; how the asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and the ability to measure reliably the expenditure attributable to the asset during its development. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Accounting treatment

Goodwill

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

Systems implementation

Significant costs on systems implementation are deferred and amortised on a straight-line basis over the period of their expected benefit, being the finite life of seven years. However, configuration costs associated with the implementation of cloud-based ERP systems are expensed as incurred.

Product development

Product 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 three to seven years. Amortisation starts at the time that the technology is activated and is used either internally or externally. The capitalised costs include directly attributable costs relating to product development, such as employment costs of the engineering team, product hosting services, external consultants and IT software and hardware.

Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of seven to 10 years.

Brand

Brand names acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit. This includes the acquisition of the Quadrant brand name which has been estimated to have a finite life of five years.

Customer contracts

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

Other intangibles

Costs in relation to other intangibles are capitalised as an asset and amortised on a straight-line basis over the period of their expected benefit being three to five years.

Off-the-shelf databases are internally generated intangibles and are capitalised only if they meet all of the criteria stated in the accounting policy section with respect to the accounting policy associated with development costs. Costs are capitalised at the direct costs incurred and amortised on a straight-line basis over the period of their expected benefit being their finite life of seven years. Amortisation starts at the time that the database is available for use or sale to external customers.

Note 17. Non-current assets – investments

During the year, the Group invested GBP2.0 million in exchange for a minority interest stake in Mindtech Global Limited ("Mindtech").

At 31 December 2022, the Group's investment in Mindtech represents a fair value investment.

Entity	Country of incorporation	Fair value at 31 December 2022 $000	Fair value at 31 December 2021 $000
Mindtech	England	2,418	–

The breakdown of the fair value investment is summarised below.

	31 Dec 2022 $000	31 Dec 2021 $000
Consideration paid at acquisition date	**2,633**	–
Foreign exchange movement on investment	**(215)**	–
Fair value at 31 December 2022	**2,418**	–

Accounting policy

AASB 9: *Financial Instruments* allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Management has applied this election with respect to the Mindtech investment.

Any future dividends in respect of this investment that are a return on investment will be recognised in profit or loss and there is no impairment on disposal of the investment.

Note 18. Derivative financial instruments

	Group	
	2022 $000	2021 $000
Current assets/(liabilities)		
Forward foreign exchange contracts – cash flow hedges	**262**	(816)

Refer to note 10 for further information on fair value measurement.

Accounting policy

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

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

Note 19. Trade and other payables

	Group	
	2022 $000	2021 $000
Current liabilities		
Trade payables	**24,685**	25,311
Other payables and accrued expenses	**15,055**	16,298
	39,740	41,609

Refer to note 9 for further information on ageing of liabilities.

Accounting policy

Trade and other payables are measured at amortised cost and are not discounted due to their short-term nature. The amounts are unsecured and usually paid within agreed payment terms.

Note 20. Contract liabilities

	Group	
	2022 $000	Restated 2021 $000
Current liabilities		
Invoices issued/deposits received in advance	**18,737**	14,060
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	**14,060**	7,458
Payments received in advance	**8,039**	19,671
Transfer to revenue	**(8,548)**	(16,912)
Issue of eQUADs for Geolancer services [1]	**104**	–
Revaluation and fair value amortisation relating to Figure Eight	**530**	580
Re-allocation of customer contracts balance to intangibles (note 16)	**4,552**	–
Additions relating to business combinations (refer to note 33)	**–**	3,263
Closing balance	**18,737**	14,060

1 Quadrant held eQUAD tokens on its balance sheet at acquisition date. These tokens have been re-classified from inventory to contract liabilities, as the tokens represent a future obligation by Quadrant to deliver services to the token holders. Refer to note 33 for further information.

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was $18,737,000 as at 31 December 2022 ($14,060,000 as at 31 December 2021) and is expected to be recognised as revenue in future periods as follows:

	Group	
	2022 $000	2021 $000
Less than 3 months	**4,133**	5,186
Over 3 months	**14,604**	8,874
	18,737	14,060

Accounting policy

Contract liabilities represent the Group's obligations to render services to a customer and reflects the value of advance payments made by customers who have been invoiced for services that will be provided in the future. These are recognised when the customer pays consideration or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the services to a customer.

The Group does not disclose further qualitative information related to remaining performance obligations, as they are either part of a contract that has an original expected duration of one year or less, or the associated revenue is recognised in the amount of which the Group has a right to invoice.

Note 21. Borrowings

The outstanding liabilities at balance date for each Facility is as follows:

	Group	
	2022 $000	2021 $000
Non-current liabilities		
Facility A (Senior debt)	–	–
Facility B (Working capital)	–	–
Facility C (Acquisition funding)	–	–
	–	–

Background information relating to each Facility

Facility A (Senior debt)

The facility was established in December 2017 and varied in April 2019, with a limit of $20 million. This facility has a four year term with a bullet repayment at the end of the term and is not subject to annual review. The facility was used to fund the Leapforce acquisition. This facility attracts interest at a margin over bank reference rates, based on the net leverage ratio. This facility expires on 3 April 2023.

Facility B (Working capital)

This facility was established in December 2017 and varied in April 2019, with a limit of AU$20 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.

The facility is available to assist with the funding for general corporate and working capital needs of the Group (including transaction costs) and excludes funding of any permitted acquisition. The facility attracts interest at a margin over bank reference rates, based on the net leverage ratio. This facility expires on 3 April 2023.

Facility C (Acquisition funding)

The facility was established in April 2019 with an initial limit of $90 million, and was used to fund the Figure Eight earn-out consideration. This limit was reduced to $24.1 million after the earn-out payment was completed in April 2020. The facility has a four year term with a bullet repayment at the end of the term and is not subject to annual review. The facility attracts interest at a margin over bank reference rates, based on the net leverage ratio. This facility expires on 3 April 2023.

Subsequent to year end, we received credit approval for the extension of our debt facilities for nine months to 3 January 2024. The extension agreement is expected to be finalised in the next few weeks. A full debt refinance is planned for the second half of FY23 to achieve an appropriate debt structure to support the current and future needs of the business. Our existing debt facility has been resized to a working capital facility of A$20 million to reflect the current needs of the business.

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Note 21. Borrowings (continued)

Financing arrangements

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

	Group	
	2022 $000	2021 $000
Total facilities		
Facility A (Senior debt)	**20,000**	20,000
Facility B (Working capital)	**13,640**	14,525
Facility C (Acquisition funding)	**24,137**	24,137
	57,777	58,662
Used at the reporting date		
Facility A (Senior debt)	**–**	–
Facility B (Working capital)	**–**	–
Facility C (Acquisition funding)	**–**	–
	–	–
Unused at the reporting date		
Facility A (Senior debt)	**20,000**	20,000
Facility B (Working capital)	**13,640**	14,525
Facility C (Acquisition funding)	**24,137**	24,137
	57,777	58,662

Accounting policy

Loans and other borrowings are initially recognised at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 22. Lease liabilities

	Group	
	2022 $000	**2021 $000**
Current liabilities		
Lease liability	**3,152**	5,004
Non-current liabilities		
Lease liability	**7,025**	10,056

Per AASB 16, the Group has recognised the financial liabilities representing the obligation to make future lease payments across the lease contract terms.

Accounting policy

The Group recognises lease liabilities for contracts identified as containing a lease, except when the lease is for 12 months or less or the underlying asset is of low value.

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in the profit or loss.

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate or borrowing rate relevant for the jurisdiction of the lease. Subsequently, the carrying value of the liability is adjusted to reflect interest and lease payments made. If the borrowing rate for the jurisdiction of the lease cannot be determined, then the Group's incremental borrowing rate is used. Lease liabilities may be measured when there is a change in future lease payments arising from a change in an index or market rate, or if there is a change in the Group's estimate of the amount expected to be payable.

The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred. Variable lease payments may include rent concessions in the form of rent forgiveness or a waiver as a direct consequence of the COVID-19 pandemic. This practical expedient for COVID-19 rent concessions were extended to 30 June 2022.

Note 23. Employee benefits

	Group	
	2022 $000	2021 $000
Current liabilities		
Annual leave	**3,390**	3,030
Non-current liabilities		
Long service leave	**439**	420

Accounting policy

Short-term employee benefits

These are expected to be settled wholly within 12 months after the employees render the related service and include wages, salaries and sick leave. These are measured at the undiscounted amounts expected to be paid when the obligation is settled.

Other long-term employee benefits

Provision is made for long service leave not expected to be settled within 12 months after balance date in which the employees render the related service. Long-term employee benefits are measured at the present value of the expected future payments to be made to employees.

Expected future payments incorporate anticipated future wage and salary levels, duration of service and employee departures. These are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for long-term employee benefits are recognised in profit or loss in the periods for which the changes occur.

Note 24: Earn-out liability

	31 Dec 2022 $000	31 Dec 2021 $000
Non-current liability	**19,131**	18,359
	19,131	18,359

The earn-out liability is due to be settled in February 2024, upon achievement of required milestones.

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

	31 Dec 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 31 December 2022)	**772**
Earn-out liability at 31 December 2022	**19,131**

Note 25. Issued capital

	Group			
	2022 Shares	2021 Shares	2022 $000	2021 $000
Ordinary shares – fully paid	**123,446,356**	123,074,916	**262,917**	262,917

Movements in ordinary share capital

Details	Date	Shares	$000
Balance	31 December 2020	122,345,605	262,917
Issue of shares on exercise of performance rights	25 February 2021	668,527	–
Issue of shares on exercise of performance rights	6 April 2021	53,750	–
Issue of shares on exercise of performance rights	28 June 2021	7,034	–
Balance	31 December 2021	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**	–
Issue of shares on exercise of performance rights			
Balance	**31 December 2022**	**123,446,356**	**262,917**

Ordinary shares

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

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

Share buy-back

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

Capital risk management

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

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders (such as for FY22 where the Directors decided not to declare an interim and final dividend), return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group may raise capital to fund a strategic investment or acquisition. There was no capital raising required to fund the up-front consideration relating to the FY21 acquisition of Quadrant or the FY22 investment in Mindtech.

The capital risk management policy remains unchanged from the prior year.

Accounting policy

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

Note 26. Reserves

	Group	
	2022 $000	2021 $000
Common control reserve	**(1,307)**	(1,307)
Foreign currency translation reserve	**(8,019)**	(6,728)
Share-based payments reserve	**29,211**	27,719
Profits reserve	**106,267**	111,286
Other reserves	**2,002**	2,002
	128,154	132,972

Common control reserve

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

Foreign currency translation reserve

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

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees as part of their remuneration.

Profits reserve

Any available profits are transferred to a separate reserve to quarantine these profits from being appropriated against present or prior year losses. The profits reserve is available for the payment of future dividends.

Other reserves

This reserve represents the equity settled portion of contingent consideration together with any capital raising expenses that are allocated to equity, in connection with the acquisition of Butler Hill.

Movements in reserves

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

Group	Common control $000	Foreign currency translation $000	Share-based payments $000	Profits $000	Other $000	Total U$000
Balance at 1 January 2021	(1,307)	(5,149)	27,203	92,035	2,002	114,784
Foreign currency translation	–	(1,579)	–	–	–	(1,579)
Share-based payments (see note 5)	–	–	516	–	–	516
Transfer from accumulated losses	–	–	–	28,519	–	28,519
Dividends paid	–	–	–	(9,268)	–	(9,268)
Balance at 31 December 2021	(1,307)	(6,728)	27,719	111,286	2,002	132,972
Foreign currency translation	**–**	**(1,291)**	**–**	**–**	**–**	**(1,291)**
Share-based payments (see note 5)	**–**	**–**	**1,492**	**–**	**–**	**1,492**
Dividends paid	**–**	**–**	**–**	**(5,019)**	**–**	**(5,019)**
Balance at 31 December 2022	**(1,307)**	**(8,019)**	**29,211**	**106,267**	**2,002**	**128,154**

Note 26. Reserves (continued)

Accounting policy

Foreign currency translation reserve

The assets and liabilities of foreign operations are translated into US dollars using the exchange rates at reporting date. The revenues and expenses of foreign operations are translated into US dollars using the average exchange rates, which approximate the rates at the transaction dates for the year. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve.

Share-based payments reserve

The Group had a number of share-based payment arrangements that were granted to employees during FY22 and earlier years. The fair value is based on the number of rights granted and expected to vest and the share price at the date of grant less the present value of the future dividend stream.

Profits reserve

Any available after-tax profits are transferred to the profits reserve to facilitate the possible payment of dividends in the future.

Note 27. Accumulated losses

	Group	
	2022 $000	2021 $000
Accumulated losses at the beginning of the financial year	**(4,017)**	(4,017)
(Loss)/profit after income tax (benefit)/expense for the year	**(239,068)**	28,519
Transfer to Profits reserve	**–**	(28,519)
Accumulated losses at the end of the financial year	**(243,085)**	(4,017)

Group disclosures

Note 28. Key management personnel disclosures

Compensation

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

	Group	
	2022 $	2021 $
Short-term employee benefits	**1,957,104**	2,278,145
Post-employment benefits	**400,432**	249,609
Long-term benefits	**69,547**	76,516
Share-based payments	**(1,552,631)**	(503,919)
	874,452	2,100,351

Detailed remuneration disclosures are contained in the remuneration report.

Notes to the consolidated financial statements

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Note 29. Remuneration of auditors

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

	Group	
	2022 $	2021 $
Audit and review services		
Audit or review of the financial statements – Group	**309,924**	311,502
Audit of the financial statements – controlled entities	**23,362**	22,163
Total audit services	**333,286**	333,665
Other services		
Tax compliance services – transfer pricing	**150,450**	72,266
Other services - integrated reporting advice	**7,256**	22,775
Total non-audit services	**157,706**	95,041
Total audit and non-audit services	**490,992**	428,706

Note 30. Contingent liabilities

The Group has given bank guarantees as at 31 December 2022 of $134,000 (2021: $613,000) in satisfaction of its performance obligations with respect to rental premises.

Note 31. Related party transactions

Parent entity

Appen Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Loans to/from related parties

There were no formal loans to or from related parties at the current and previous reporting date, however there were intercompany receivables and payables associated with the movement of funds between entities in the Group.

Note 32. Parent entity information

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

Statement of profit or loss

	Company	
	2022 $000	2021 $000
(Loss) after income tax	**(205,235)**	(4,961)

Statement of financial position

	Company	
	2022 $000	2021 $000
Total current assets	**1,459**	1,393
Total assets	**63,157**	288,821
Total current liabilities	**1,247**	1,175
Total liabilities	**1,247**	1,175
Net assets	**61,910**	287,646
Equity		
Issued capital	**262,917**	262,917
Share-based payments reserve	**29,211**	27,719
Profits reserve	**7,355**	7,355
Translation reserve	**(25,362)**	(3,369)
Other reserves	**2,002**	2,002
Accumulated losses	**(214,213)**	(8,978)
Total equity	**61,910**	287,646

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had a deed of cross guarantee in relation to the debts of its subsidiaries as at 31 December 2022 and 31 December 2021. Refer to note 35 for more information.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2022 and 31 December 2021.

Capital commitments

The parent entity had no material capital commitments as at 31 December 2022 and 31 December 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group except: investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity and dividends received from subsidiaries are recognised as other income by the parent entity.

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Note 33. 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 annual revenues of $3,971,000 (2021: $1,129,000) and an annual loss after tax of $3,466,000 (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 2022 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 reflect the identification and valuation of the acquisition-related intangible assets at acquisition date. The comparative balance sheet information disclosed in these financial statements has been re-stated to include the adjusted fair values detailed below. Comparative profit and loss information has not been restated, as the impact was not considered material. Under the accounting standards, the goodwill measurement period must not exceed one year from the acquisition date (i.e. finalised by 13 September 2022). Accordingly, goodwill is now final.

	Original provisional amount 13 September 2021 $000	Adjustments $000	Re-stated final 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 16)	–	494	494
Platform development (refer to note 16)	–	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**
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**

Note 33. Business combinations (continued)

Measurement of fair values

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 AASB 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 (i.e. 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.

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.

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, which is 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 five 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. 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 seven 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 seven 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 seven 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. 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 33. Business combinations (continued)

Key accounting judgement

Management has exercised judgement in classifying the net assets and measuring the fair values as outlined above, and has relied on the views of an independent third-party expert in forming its view. Specifically, judgement was made by management, based on advice from an independent third party expert, with respect to the classification of eQUAD tokens and cryptocurrency, as deferred revenue and inventory respectively.

Other accounting policies

Business combinations occur when an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. Under the acquisition method, the business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised. Consideration transferred, including any contingent consideration is required to be measured at fair value on the date of acquisition, which takes into account the perspective of a "market participant" and is measured at the amount that the Group would have to pay to such a participant for them to assume the remaining obligations under the contracts to acquire these businesses.

Contingent consideration obligations are classified as equity or liability in accordance with AASB 132 *Financial Instruments: Presentation*. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. Where the accounting standards require that an obligation to be settled in shares is classified as a liability, change in measurement from the point of initial recognition, through to when the milestone is achieved, and the number of shares to be granted is determined, are recognised in profit or loss. Subsequently, once the number of shares is fixed and determined any changes in the value of shares to be granted between the milestone being achieved and the point of settlement are recognised within equity.

The Group has contingent consideration obligations classified as liabilities at the reporting date. Refer to note 24 for further information.

As a consequence, any changes in the fair value of contingent consideration that do not meet the requirements above, such as a subsequent renegotiation and settlement of the obligation or consideration, does not result in a change to the value of goodwill and instead changes to the fair value of contingent consideration is classified as a liability and recognised in the profit or loss. Any goodwill that arises is tested annually for impairment. Transaction costs on the acquisition are expensed as incurred, unless they relate to the issue of debt or equity securities.

The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and have an impact on the assets and liabilities, and as a consequence, required re-statement of the 31 December 2021 statement of financial position.

Note 34. Interests in subsidiaries

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

Name	Principal place of business/ Country of incorporation	Ownership interest 2022 %	2021 %
Appen Butler Hill Pty Limited	Australia	**100%**	100%
Appen Financial Services Pty Ltd	Australia	**100%**	100%
Appen Butler Hill Inc. [1]	United States of America	**100%**	100%
Leapforce Inc.	United States of America	**100%**	100%
RaterLabs Inc.	United States of America	**100%**	100%
Figure Eight Technologies Inc.	United States of America	**100%**	100%
Figure Eight Federal LLC	United States of America	**100%**	100%
Appen AI Europe Limited [1]	Ireland	**100%**	–
Appen (UK) Limited [1]	United Kingdom	**100%**	100%
Mendip Media Group Limited	United Kingdom	**100%**	100%
Appen Butler Hill Limited [1]	Hong Kong	**100%**	100%
Beijing Appen Technology Co., Ltd [1]	China	**100%**	100%
Appen Technology (Wuxi) Co. Ltd	China	**100%**	100%
Appen Data Technology (Shanghai) Co. Ltd	China	**100%**	100%
Appen Limited Korea [1]	Korea	**100%**	–
Appen Japan Pty Ltd [1]	Japan	**100%**	–
Quadrant Pte Ltd [1]	Singapore	**100%**	100%
Quadrant Protocol Ltd [1]	British Virgin Islands	**100%**	100%

1 Wholly-owned subsidiaries of Appen Butler Hill Pty Limited.

Accounting policy

The consolidated financial report incorporates all of the assets, liabilities and results of Appen Limited and all of the subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date control is obtained by the Group. Acquisition of subsidiaries are accounted for using the acquisition method of accounting. A change in ownership interest without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised as directly attributable to the parent.

The consolidation of a subsidiary is discontinued from the date control ceases. When the Group loses control over a subsidiary, it de-recognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Intercompany transactions, balances and unrealised gains or losses on transactions between Group members/subsidiaries are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Note 35. Deed of cross guarantee

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

Appen Limited
Appen Butler Hill Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

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

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

Statement of profit or loss and other comprehensive income	2022 $000	2021 $000
Revenue	**55,864**	57,650
Services purchased – data collection	**(7,674)**	(2,836)
Employee expenses	**(23,123)**	(23,640)
Depreciation and amortisation expense	**(4,206)**	(2,247)
Travel expense	**(715)**	(17)
Professional fees	**(2,066)**	(1,455)
Rent and occupancy expense	**(903)**	(680)
Communication expense	**(1,874)**	(1,337)
Transaction costs	**(1,209)**	(1,772)
Net foreign exchange gain/(loss) [1]	**15,498**	(1,522)
Other expenses	**(10,847)**	(8,248)
Impairment loss	**(204,326)**	–
Finance costs	**(1,493)**	(1,559)
(Loss)/profit before income tax benefit/(expense)	**(187,074)**	12,337
Income tax benefit/(expense)	**350**	(1,827)
(Loss)/profit after income tax benefit/(expense)	**(186,724)**	10,510
Other comprehensive income		
Foreign currency translation	**14,798**	4,732
Other comprehensive income for the year, net of tax	**14,798**	4,732
Total comprehensive income for the year	**(171,926)**	15,242

1 Per AASB 121, at an individual entity level, foreign exchange gains and losses on foreign denominated intercompany investment balances are recognised through profit or loss, but are reflected through other comprehensive income/foreign currency translation reserve on consolidation.

Note 35. Deed of cross guarantee (continued)

Statement of financial position	2022 $000	2021 $000
Current assets		
Cash and cash equivalents	**1,947**	7,070
Trade and other receivables	**6,036**	3,473
Contract assets	**–**	3,047
Derivative financial instruments	**262**	–
Income tax refund due	**2,256**	2,265
Prepayments	**1,049**	879
	11,550	16,734
Non-current assets		
Investments accounted for using the equity method	**3,095**	3,095
Property, plant and equipment	**1,362**	1,055
Right-of-use assets	**4,082**	4,267
Goodwill	**–**	39,609
Intangibles	**9,896**	9,772
Deferred tax	**7,560**	6,662
Intercompany transactions	**88,738**	247,180
Other assets	**424**	310
	115,157	311,950
Total assets	**126,707**	328,684
Current liabilities		
Trade and other payables	**5,876**	3,003
Derivative financial instruments	**–**	816
Contract liabilities	**3,374**	3,048
Provisions	**1,390**	1,200
	10,640	8,067
Non-current liabilities		
Lease liabilities	**4,730**	4,868
Deferred tax liability	**4,109**	5,256
Provisions	**439**	424
Borrowings	**–**	–
Earn-out liability	**19,131**	18,359
	28,409	28,907
Total liabilities	**39,049**	36,974
Net assets	**87,658**	291,710
Equity		
Issued capital	**262,917**	262,917
Reserves and retained earnings	**(175,259)**	28,793
Total equity	**87,658**	291,710

Note 36. Cash flow information

Reconciliation of profit after income tax to net cash from operating activities:

	Group	
	2022 $000	**2021 $000**
(Loss)/profit after income tax expense for the year	**(239,068)**	28,519
Adjustments for:		
Impairment loss	**204,326**	–
Depreciation and amortisation	**41,582**	35,038
Net loss on disposal of property, plant and equipment	**–**	(43)
Share-based payments	**1,492**	516
Foreign exchange differences	**(911)**	(3,506)
Impairment movement on trade receivables	**(46)**	380
Interest expense – deemed interest on earn-out	**772**	657
Interest expense – right-of-use assets	**505**	743
Transaction costs	**1,556**	2,729
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables and contract assets	**4,984**	(17,587)
Decrease/(increase) in prepayments	**617**	(1,385)
(Decrease) in trade and other payables	**(1,869)**	(2,559)
Increase/(decrease) in employee benefits and provisions	**379**	(247)
Increase in contract liabilities	**125**	8,618
Increase in income tax provision	**3,784**	2,050
Net cash from operating activities	**18,228**	53,923

Accounting policy

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

Note 37. Share-based payments

Performance rights

Long-term incentive plan

Appen has two LTI schemes: one for Australian Executive KMP and staff who are subject to Australian requirements and one for all other executives and staff for whom the Company requires a US-style scheme to attract and retain key talent.

The Australian LTI scheme is 100% performance and service hurdle-based with all LTI vesting at the end of year three, subject to hurdle requirements relating to key performance metrics and tenure with no re-testing. The key performance metrics and vesting requirements are 50% weighted to growth in group revenue and 50% weighted to growth in underlying basic EPS (UBEPS).

For rights to vest for Australian Executive KMP, the requirements are:

- 50% vest on achievement of compound annual growth in revenue (FY24 v FY21) of 15%;
- 100% vest on achievement of compound annual growth in revenue (FY24 v FY21) of 20%;
- 50% vest on achievement of compound annual growth in UBEPS (FY24 v FY21) of 7.5%;
- 100% vest on achievement of compound annual growth in UBEPS (FY24 v FY21) of 10.0%; and
- continuation of employment until the beginning of the calendar year in which performance rights are subject to vesting (for the performance rights granted in FY22, this means executives must be employed to 1 January 2025).

Please see the target achievement table for further information.

	Weighting	Threshold		Maximum	
Target		Target	Vesting	Target	Vesting
Group Revenue (CAGR)	50%	15% (FY24 vs FY21)	50%	20% (FY24 vs FY21)	100%
Underlying Basic EPS (CAGR)	50%	7.5% (FY24 vs FY21)	50%	10% (FY24 vs FY21)	100%

Vesting levels for the achievement of targets are set out in table below:

Achievement Criteria	% performance rights allocated
100% of more of Maximum	100%
Between Threshold and Maximum	50-100% (linear)
Below Threshold	Nil

Performance rights lapse on cessation of employment before vesting. This means that no performance rights will be granted, if the executive resigns, despite meeting the relevant performance hurdles.

For US-based executives and other employees, performance rights may vest annually, which is typical for US remuneration practices, subject to the achievement of the continuous employment hurdles.

The fair value of the performance rights has been measured based on the share price at the date of the grant less the present value of the future dividend stream. An overview of the FY22 performance rights granted and conditions is place for each of these grants made to all employees including executives is disclosed in the following table.

Note 37. Share-based payments (continued)

Overview of FY22 performance rights granted and their conditions:

Plan	Grant date	Expiry date[1]	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date	Value per right at grant date ($A)
2022	1-Jan-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$11.06
2022	1-Jan-22	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$10.96
2022	25-Feb-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$6.48
2022	22-Mar-22	N/A	N/A	1	Rev/UBEPS	Refer table on page 156	2022-2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	22-Mar-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$6.81
2022	22-Mar-22	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$6.73
2022	22-Mar-22	N/A	N/A	3	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	22-Mar-22	N/A	N/A	4	Rev/UBEPS	Refer table on page 156	2022-2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	22-Mar-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$6.81
2022	22-Mar-22	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$6.73
2022	22-Mar-22	N/A	N/A	3	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	22-Mar-22	N/A	N/A	4	Rev/UBEPS	Refer table on page 156	2022-2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	22-Mar-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	22-Mar-22	N/A	N/A	2	Rev/UBEPS	Refer table on page 156	2022-2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.65
2022	Jan to Mar 2022	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$6.85
2022	Jan to Mar 2022	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$6.77
2022	Jan to Mar 2022	N/A	N/A	3	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.69
2022	Jan to Mar 2022	N/A	N/A	4	N/A	Refer table on page 156	2022-2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$6.69

Note 37. Share-based payments (continued)

Plan	Grant date	Expiry date [1]	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date	Value per right at grant date ($A)
2022	19-Apr-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$6.85
2022	19-Apr-22	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$6.77
2022	Apr to Jun 2022	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$5.56
2022	Apr to Jun 2022	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$5.48
2022	Apr to Jun 2022	N/A	N/A	3	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$5.40
2022	Apr to Jun 2022	N/A	N/A	4	N/A	Refer table on page 156	2022–2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$5.40
2022	Jul to Sep 2022	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$3.11
2022	Jul to Sep 2022	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$3.10
2022	Jul to Sep 2022	N/A	N/A	3	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$2.96
2022	Jul to Sep 2022	N/A	N/A	4	N/A	Refer table on page 156	2022–2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$2.96
2022	1-Oct-22	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 30 Jun 2023	Release of 2022 results	$3.11
2022	1-Oct-22	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 20 Feb 2024	Release of 2023 results	$3.10
2022	Oct to Dec 2022	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	Release of 2022 results	$2.96
2022	Oct to Dec 2022	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2024	Release of 2023 results	$2.95
2022	Oct to Dec 2022	N/A	N/A	3	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2025	Release of 2024 results	$2.82
2022	Oct to Dec 2022	N/A	N/A	4	N/A	Refer table on page 156	2022–2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	$2.82

1 Rights are convertible to shares on the vesting dates, assuming all the performance conditions of the plan and/or employment condition are met. If rights are not converted, they expire after eight years from the grant date.

Note 37. Share-based payments (continued)

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

31 Dec 2022 Plan	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2019	**518,733**	**–**	**(185,081)**	**(212,193)**	**121,459**
2020	**720,824**	**–**	**(96,841)**	**(396,535)**	**227,448**
2021	**787,775**	**–**	**(84,589)**	**(119,545)**	**583,641**
2022	**–**	**5,044,566**	**–**	**(1,214,230)**	**3,830,336**
	2,027,332	**5,044,566**	**(366,511)**	**(1,942,503)**	**4,762,884**

31 Dec 2021 Plan	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2018	128,881	-	(126,118)	(2,763)	-
2018 Special	257,034	-	(257,034)	-	-
2019	892,927	-	(230,581)	(143,613)	518,733
2020	1,040,894	-	(80,864)	(239,206)	720,824
2021	-	928,053	-	(140,278)	787,775
	2,319,736	928,053	(694,597)	(525,860)	2,027,332

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.33 years (2021: 1.02 years).

Accounting policy

The grant date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related services and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and accrual outcomes.

Note 38. Events after the reporting period

Other than the commencement of the new Chief Executive Officer, 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.

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35 to the financial statements.

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

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

On behalf of the directors

Richard Freudenstein
Director

27 February 2023
Sydney

Independent auditor's report

to the shareholders of Appen Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Appen Limited (the Company).

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

- Giving a true and fair view of the ***Group's*** financial position as at 31 December 2022 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 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 year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

We are independent of the Group in accordance with the *Corporations Act 2001* and the 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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

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

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

Valuation of Goodwill ($53,114,000)

Refer to Note 16 to the Financial Report

The key audit matter

The Group's annual testing of goodwill for impairment is a key audit matter, due to the size of the balance relative to total assets (20%) and the increased judgement applied by us when evaluating the forward-looking assumptions including:

- Forecast cash flows, revenue growth rates and terminal value growth rates of the Group, specifically the New Markets (ex-China) CGU which has experienced a history of operating losses. This impacted the Group through a reduction in the demand for services, loss in revenue and margin pressure; and
- Discount rates which are complicated in nature and vary according to the conditions and environment the specific cash generating unit (CGU) is subject to.

In addition to the judgements described above, the Group's models are highly sensitive to small changes in these assumptions, reducing available headroom, or in the case of the New Markets (ex-China) CGU increasing impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy.

The Group uses complex models to perform their annual testing of goodwill for impairment. The models use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions increase the possibility of goodwill being impaired, which necessitates additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards.
- We assessed the integrity of the value in use model used, and the accuracy of the underlying calculations.
- We checked the forecast cash flows in the Group's value in use model to the Board approved FY23 budget;
- We assessed the accuracy of the Group's previous forecasts to inform our evaluation of forecasts incorporated in the model. We applied increased scepticism to assumptions in areas where previous forecasts were not achieved;
- We challenged the Group's forecast cash flows, revenue growth rates and terminal value growth rates assumptions. We compared growth rates to published studies of industry trends and expectations and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry understanding;
- We independently developed a discount rate range using publicly available data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;
- We considered the sensitivity of the models by varying key assumptions, such as revenue growth rates, terminal value growth rates and discount rates within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group consider to be reasonably possible. We then identified those assumptions at a higher risk of bias which may give rise to impairment to focus our further procedures; and
- We assessed the Group's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Independent auditor's report

to the shareholders of Appen Limited

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf
This description forms part of our Auditor's Report.

Independent auditor's report

to the shareholders of Appen Limited

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Appen Limited for the year ended 31 December 2022, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 70 to 93 of the Directors' report for the year ended 31 December 2022.

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

KPMG

Cameron Slapp
Partner

Sydney
27 February 2023

Additional information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 01 February 2023.

Distribution of shareholders

The distribution of issued capital is as follows:

Size of holding	Number of shareholders	Ordinary shares	% of issued capital
100,001 and over	45	68,443,353	55.44
10,001 to 100,000	735	17,282,411	14.00
5,001 to 10,000	1,170	8,588,346	6.96
1,001 to 5,000	8,510	19,318,369	15.65
1 to 1,000	32,461	9,813,877	7.94
Total	**42,921**	**123,446,356**	**100.00**

Distribution of performance rights holders

The distribution of unquoted performance rights on issue is as follows:

Size of holding	Number of performance rights holders	Unlisted performance rights	% of total performance rights
100,001 and over	8	2,016,989	42.35
10,001 to 100,000	72	1,839,774	38.63
5,001 to 10,000	66	492,924	10.35
1,001 to 5,000	130	360,404	7.57
1 to 1,000	95	52,793	1.11
Total	**371**	**4,762,884**	**100.00**

The performance rights on issue are unquoted and have been issued under our employee incentive scheme.

Less than marketable parcels of ordinary shares

There are 15,775 shareholders with unmarketable parcels, holding 1,306,266 shares.

Additional information

Twenty largest shareholders

The names of the twenty largest shareholders of quoted equity securities are as follows:

		Ordinary shares	
		Number held	% of issued capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,409,123	13.29
2	CITICORP NOMINEES PTY LIMITED	16,084,838	13.03
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,110,495	7.38
4	C & J VONWILLER PTY LTD <VONWILLER FAMILY A/C>	9,060,286	7.34
5	BNP PARIBAS NOMS PTY LTD <DRP>	4,496,818	3.64
6	MATTHEW WONG INVESTMENTS (AUS) PTY LTD <MATTHEW WONG INV (AUS) F A/C>	1,445,084	1.17
7	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	1,400,494	1.13
8	NATIONAL NOMINEES LIMITED	1,011,712	0.82
9	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	901,616	0.73
10	PACIFIC CUSTODIANS PTY LIMITED APX PLANS CTRL A/C	819,278	0.66
11	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	623,016	0.50
12	MNA INVESTMENTS PTY LTD <BRAYAN FAMILY A/C>	422,587	0.34
13	WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	412,465	0.33
14	ETOR PTY LTD	335,000	0.27
15	NEW GREENWICH PTY LTD <NEW GREENWICH S/F A/C>	332,384	0.27
16	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	312,676	0.25
17	CRANPORT PTY LTD <NO 8 A/C>	307,000	0.25
18	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	302,565	0.25
19	SUPERHERO SECURITIES LIMITED <CLIENT A/C>	289,216	0.23
20	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	281,822	0.23
		64,358,475	**52.13**
Remaining quoted equity securities		**59,087,881**	**47.87**
Total number of ordinary shares on issue		**123,446,356**	**100.00**

Unquoted equity securities

The Company had the following unquoted securities on issue as at 01 February 2023:

	Number on issue	Number of holders
Performance rights	4,762,884	371

Additional information

Substantial shareholders

The names of the Substantial Shareholders as disclosed in notices submitted to the ASX as at 01 February 2023 are:

	Ordinary shares	
	Number held	% of issued capital
C & J Vonwiller Pty Limited	9,060,083	7.34%

Restricted securities

The Company had no restricted securities on issue as at 01 February 2023.

Voting rights

In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll.

Holders of performance rights have no voting rights.

On-market buy-backs

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

Materiality assessment

This year, our materiality assessment was a three-step process.

Identify	We **identify** our most material issues by considering Appen's economic, environmental, and social impacts and the risks associated with these. In determining what issues are most material to our business we consider the following: • existing and emerging ESG issues • relevant ESG frameworks, assessments and standards • topics in the media impacting our industry • changes to our key and emerging risks • feedback captured from internal and external stakeholders
Evaluate	We **evaluate** each material issue based on its importance to Appen's business and to our stakeholders. We typically engage with each stakeholder group during the year through many forums such as face-to-face and virtual meetings, surveys and by responding to queries and concerns. Through this process we have identified **26** material issues on which we report. We have also identified and reported on other important issues and risks that are of interest to our stakeholders.
Review and report	Our Risk, Trust and Safety team and senior management, and the Board **review** our materials issues. Our material issues provide a basis of what we **report** and how we measure our success by the outcomes we deliver through our six value drivers. We also corroborate the material issues raised with our risk reporting and ensure they are incorporated into the appropriate risk registers.

Value driver	2022 material issues	Principle risks	Page reference
Technology, processes and systems	• Data security and governance • Cyber security • Technology innovation • Protection of intellectual property • Managing technology disruptions and business continuity • Platform availability	→ Investment in technology innovation and transformation → Compliance with security, privacy and other data regulations	16–19
Global crowd	• Fair pay, treatment and wellbeing • Crowd diversity and inclusion • Crowd integrity	→ Crowd conditions → Crowd supply meets customer demand	20–23
Our people	• Culture and engagement • Diversity, equity and inclusion • Talent attraction and retention • Wellbeing and safety • Workplace training and development	→ Talent strategy and employee value proposition	24–27
Customer and brand	• Customer experience and satisfaction • Innovative customer solutions • Customer concentration	→ Changing customer strategy and needs → Ability to execute on operational requirements	28–33
Financial	• Sustainable earnings • Ongoing customer demand for data	→ Strategic direction of business → Financial sustainability	34–39
Social and environment	• Responsible AI • Environmental impact and climate change • Corporate Governance • Corporate citizenship and reputation • Human rights and modern slavery • Supply chain management • Code of conduct compliance	→ Compliance with legal, statutory and ethical obligations → Environmental, social and governance (ESG) risks and performance	40–47

Prioritised United Nations Sustainable Development Goals

Sustainable Development Goals (SGDs)	Playing our part
9 Industry innovation and infrastructure	Our services support technology development, research and innovation across the globe, many of which are used to increase access to technology in developing countries.
8 Decent work and economic growth	Our work from anywhere model provides income generating opportunities for individuals whose personal circumstances make it difficult for them to access traditional employment. For many communities, the ability to access digital work through our platform has unlocked a new world of possibilities for economic development, skills training, and the ability to participate in the digital economy
10 Reduced inequalities	We believe in digital equality through responsible AI practices. By ensuring training data is representative of the real world this reduces the potential for technology to introduce further bias and discrimination to underrepresented and marginalised communities. Our diverse global crowd is fundamental to ensuring this and we continue to invest in research to ensure that our crowd reflects the real world.
5 Gender equality	We believe in opportunities for all and embed this in our day-to-day practices as guided by our Diversity Policy. We have a 50% gender balance across our board and have seen an increase in female representation in our senior management team in the last year.
13 Climate action	We believe we can help drive the global net zero agenda by playing our part and have committed to the following: • Net zero across our operations and supply chain by 2030 • Becoming a signatory to the SBTi

Non-financial data metrics

People

Employee Engagement[1]

	2020	2021	2022
Score (%)	82%	76%	78%

1 Measures the likelihood of full time permanent employees (including those in PEOS) referring a friend or colleague to Appen based on their employee experience. The scale is a 5 point Likert resulting in 1-2 Detractor, 3 Passive and 4-5 Promoter. NPS is calculated by subtracting the % of total detractors from the % of total promoters. Survey results are provided by Workday Peakon.

Training hours[1]

	2020	2021	2022
Total training hours	29,380	32,527	41,665

1 Data from Appen University.

Mandatory training completion rates[1]

	2020[2]	2021	2022
Code of conduct	–	91%	91%

1 Data from Appen University, excluding China and Quadrant employees.
2 Appen University is setup in 2019 and not consistently tracked till 2021.

Employee demographics – gender[1]

	2020	2021	2022
Female			
Overall workforce (%)	58	58	57
Board director (%)	43	50	50
Executive Team/SVP (%)	13	30	30
Vice President (%)	25	28	32
Senior Director (%)	50	53	63
Director (%)	60	41	45
Manager (%)	61	60	57
Male			
Overall workforce (%)	42	42	43
Board director (%)	57	50	50
Executive Team/SVP (% mgmt.)	87	70	70
Vice President (%)	75	72	68
Senior Director	50	47	37
Director	40	59	55
Manager	39	40	43

1 HR report for all permanent employees generated from Workday. Refer to link https://appen.com/company-about-us/#Leadership for percentage on Board director.

Non-financial data metrics

Employee demographics – ethnicity[1]

US Only

	2021		2022	
Breakdown	Share of total workforce (%)	Share in all mgmt. positions (%)	Share of total workforce (%)	Share in all mgmt. positions (%)
Asian	25.6	26.7	21.5	22.0
Black or African American	4.2	0	6.5	2.0
Hispanic or Latino	6.7	3.3	4.3	2.0
White	55.2	65.6	54.8	64.0
Indigenous or Native	0.3	1.1	0.0	0.0
Other	4.5	1.1	12.9	10.0
Not disclosed	3.5	2.2	0.0	0.0

1 HR report for all permanent employees generated from Workday.

All regions

	2021		2022	
Breakdown	Share of total workforce (%)	Share in all mgmt. positions (%)	Share of total workforce (%)	Share in all mgmt. positions (%)
Asian	47.0	34.9	40.9	32.5
Black or African American	1.1	0	1.5	0.6
Hispanic or Latino	1.8	1.1	1.0	0.6
White	18.5	25.7	16.9	21.4
Indigenous or Native	0.1	0.4	0.0	0.0
Other	1.8	0.8	3.6	3.3
Not disclosed	29.7	37.1	36.1	41.6

Crowd

Crowd NPS[1]

	2020	2021	2022
Score (%)	47	40	31

1 Measures the likelihood of crowd contractors to recommend Appen to a friend or colleague, according to a scale of 1–10 where 10 means extremely likely (0–6 Detractor, 7–8 Passive, 9–10 Promoter). NPS is calculated by subtracting the % of total detractors from the % of total promoters. Scores can range from -100 to +100. Source: Cascade Insights.

Customer

Customer NPS[1]

	2020	2021	2022
Score (%)	Not disclosed	Not disclosed	22

1 Measures the likelihood of Customer to recommend Appen to a friend or colleague, according to a scale of 1–10 where 10 means extremely likely (0–6 Detractor, 7–8 Passive, 9–10 Promoter). NPS is calculated by subtracting the % of total detractors from the % of total promoters. Scores can range from -100 to +100. Source: ChurnZero.

Non-financial data metrics

Environment

Geographic distribution of emissions (Scope 1 and 2)[1,2]

	Gas (MWh)	Electricity (MWh)	Electricity -renewable (MWh)	Scope 1 tCO_2e	Scope 2 tCO_2e	Scope 2 (location based) tCO_2e
Australia	–	53.9	–	–	39.4	39.4
US	709.2	923.3	23.6[3]	128.5	323.7	323.4
China and Japan	684.6	398.2	–	124.1	338.8	338.8
UK	59.1	–	44.8	10.7	–	9.5
Philippines	–	1,209.4	–	–	764.4	764.4
Total	1,452.9	2,584.8	68.4	263.3	1,466.3	1,475.5

1 Greenhouse Gas (GHG) emissions for scope 1 and 2 are calculated based on the GHG Protocol.
2 Electricity and Gas consumptions are based on utility bills (if available) or estimation by leased floor area.
3 Based on Cleanpower SF mix – 2021 (33.6% renewables).

Scope 3[1]

Category	Description	Emissions
Category 1 – Purchased goods and services[2]	Suppliers and Crowd contractors	9,546
Category 5 – Waste generated in operations[3]	Disposal and treatment of waste generated in the company's operations	217
Category 6 – Business travel[4]	Business flights and accommodation	370
Category 7 – Employee commuting[5]	Employees commuting between their homes and their worksites and employees working from home	709
Category 11 – Use of sold products[6]	End use of goods and services sold	162

1 Scope 3 categories and GHG emissions are calculated based on GHG Protocol Scope 3 value chain reporting.
2 Estimated emissions based on supplier spend data and crowd contractors' work hours in 2022.
3 Estimated waste generation based on employee attendance in 2022.
4 Based on business travel information retrieved from travel agency Egencia, and credit card bookings. Estimated emissions are calculated using web-based calculators for flight (provided by International Civil Aviation Organisation (ICAO)) and hotel (provided by Greenview).
5 Based on employee attendance in 2022.
6 Base on carbon footprint report from Amazon Web Service, our third party cloud service provider.

Technology

	2020	2021	2022
Data privacy breaches (number)[1]	1	0	0
System availability[2] (%)	99.98%	99.9%	99.9%

1 Based on report from IT services platform, Solarwinds.
2 Based on report from third-party website monitoring company, StatusCake.

Governance

	2020 $	2021 $	2022 $
Political donations[1]	0	0	0

1 Based on financial data from Workday.

Social

Philanthropic donations[1]

	2020 $	2021 $	2022 $
Contributions	Not Disclosed	Not Disclosed	25,953
Campaigns	Not Disclosed	Not Disclosed	18,628

1 Based on CSR financial report from Workday.

Corporate directory

Registered office

Level 6, 9 Help Street
Chatswood NSW 2067
+61 2 9468 6300
www.appen.com

Company secretary

Carl Middlehurst

Investor relations

Rosalie Duff
+61 2 9468 6300
investorrelations@appen.com
www.appen.com/investors

Shareholder enquiries

Link Market Services
Locked Bag A14
Sydney South NSW 1235
+61 1300 554 474
registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

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)

Corporate Governance Statement

www.appen.com/corporate-governance

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