Appen

ASX Announcement

30 August 2024

Appendix 4D and Interim Financial Report

In accordance with ASX Listing Rule 4.2A, Appen Limited (Appen) (ASX:APX) provides the attached Appendix 4D and Interim Financial Report for the half-year ended 30 June 2024.

Authorised for release by the Board of Appen Limited.

For further information, please contact:

Ryan Kolln CEO	Justin Miles CFO

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About Appen

Appen is a global market leader in data for the AI Lifecycle. With over 28 years of experience in data sourcing, data annotation, and model evaluation by humans, we enable organisations to launch the world's most innovative artificial intelligence systems.

Our expertise includes a global crowd of more than 1 million skilled contractors who speak over 500 languages[1], in over 200 countries[2], as well as our AI data platform. Our products and services give leaders in technology, automotive, financial services, retail, healthcare, and governments the confidence to launch world-class AI products.

Founded in 1996, Appen has customers and offices globally.

[1] Self-reported.
[2] Self-reported, includes territories.

Appen Limited
Appendix 4D
Results for announcement to the market

Company details

Name of entity:	Appen Limited
ASX code:	APX
ABN:	60 138 878 298
Reporting period:	**For the half-year ended 30 June 2024**
Corresponding period:	For the half-year ended 30 June 2023

All monetary references in this Appendix 4D and the attached Interim Report for the half-year ended 30 June 2024, are references in US Dollars ($ or US$), unless otherwise stated.

Results for announcement to the market

Half-year ended 30 June 2024

				$000
Revenue and other income from ordinary activities	down	18.5%	to	113,671
Loss from ordinary activities after tax attributable to the Group	down	59.0%	to	(17,753)
Loss for the period attributable to the owners of the Group	down	59.0%	to	(17,753)

Dividends

Given the half-year performance and to ensure appropriate allocation of capital, the Directors have determined not to pay an interim dividend for the half-year ended 30 June 2024.

There is no current dividend reinvestment plan in place.

There was no dividend paid in the FY23 year.

Net tangible assets

	Reporting period Cents	**Corresponding period Cents**
Net tangible assets per ordinary security	19.47	25.71

Additional information supporting the Appendix 4D disclosures can be found in the Interim Report for the half-year ended 30 June 2024 attached, which has been reviewed by KPMG.

Appen Limited

ABN 60 138 878 298

Interim Report – 30 June 2024

Appen Limited
Interim Report for the half-year ended 30 June 2024
Contents

Directors	Richard Freudenstein - Chairman Ryan Kolln – Chief Executive Officer (CEO) and Managing Director (appointed 5 February 2024) Stuart Davis Stephen Hasker Vanessa Liu Robin Low Lynn Mickleburgh Mini Peiris Armughan Ahmad – Chief Executive Officer (CEO), President and Managing Director (all appointments ceased 5 February 2024)
Registered office	Level 6, 9 Help Street Chatswood NSW 2067 +61 2 9468 6300 www.appen.com
Company secretary	Carl Middlehurst
Investor relations	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**)

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the "Group" or "Appen") consisting of Appen Limited (referred to hereafter as the "Company" or "parent entity") and the entities it controlled at the end of, or during, the half-year ended 30 June 2024 ("half-year" or "period").

Directors

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

Richard Freudenstein - Chairman
Ryan Kolln – Chief Executive Officer (CEO) and Managing Director (appointed 5 February 2024)
Stuart Davis
Stephen Hasker
Vanessa Liu
Robin Low
Lynn Mickleburgh
Mini Peiris
Armughan Ahmad – Chief Executive Officer (CEO), President and Managing Director (all appointments ceased 5 February 2024)

Change in Chief Financial Officer

Justin Miles was appointed Chief Financial Officer on 27 February 2024. Prior to the appointment he acted as Interim Chief Financial Officer from 1 August 2023.

Principal activities

Appen is a global market leader in data for the AI Lifecycle. With over 28 years of experience in data sourcing, data annotation, and model evaluation by humans, we enable organisations to launch the world's most innovative artificial intelligence systems.

Our expertise includes a global crowd of more than 1 million skilled contractors who speak over 500 languages[1], in over 200 countries[2], as well as our AI data platform. Our products and services give leaders in technology, automotive, financial services, retail, healthcare, and governments the confidence to launch world-class AI products.

Founded in 1996, Appen has customers and offices globally.

Appen currently has four customer-facing business units as follows:

- **Global:** Responsible for delivery of high-quality deep learning and generative AI data services and products for large global technology customers;
- **Enterprise:** Responsible for leveraging our product suite and AI-driven automation to grow revenue outside of Global customers to serve new customers as they invest in AI. Quadrant was fully integrated into the Enterprise business unit from 1 January 2024;
- **Government:** Responsible for serving the emerging AI needs of Government; and
- **China:** Responsible for capturing share in the China market.

[1] Self-reported.
[2] Self-reported, includes territories.

Appen has the following two operating and reporting segments.

- **Global Services:** represents the services that Appen provides to our major US technology customers (Global customers) using the customers' data annotation platforms and tools. The majority of projects comprise large, at scale deep learning (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, product-led and data services 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 customers benefit from our high-quality data collection, annotation and evaluation products, coupled with the provision of at-scale crowd management and Appen's considerable expertise and knowhow built up over the last 28 years. This enables Appen to deliver a full set of AI data services for deep-learning and generative AI for enterprise customers.

Operating and financial review (OFR)
The following table summarises the Group's financial results for the current and prior period and provides a reconciliation between statutory and underlying results.

	Half-year ended 30 June 2024 $000	Half-year ended 30 June 2023 $000	Change %
Global Services revenue	**63,595**	100,088	(36.5%)
New Markets revenue	**49,832**	38,851	28.3%
Other income	**244**	562	(56.6%)
Total sales revenue and other income from principal activities	**113,671**	139,501	(18.5%)
Underlying net loss after tax (NPAT)[1]	**(11,815)**	(34,209)	nm%
Less underlying adjustments (net of tax)			
Amortisation of acquisition-related identifiable intangible assets	**(3,072)**	(3,067)	
Restructure costs	**(1,991)**	(4,525)	
Transaction costs	**(137)**	(273)	
Deemed interest on earn-out liability[2]	**-**	(222)	
Acquisition-related and one-time[3] share-based payments	**(738)**	(1,015)	
Statutory NPAT	**(17,753)**	(43,311)	nm%
Add: tax expense	**15**	59	
Add: net interest expense	**228**	423	
Add: deemed interest on earn-out liability[2]	**-**	317	
EBIT[4]	**(17,510)**	(42,512)	nm%
Add: depreciation and amortisation	**11,293**	16,761	
Statutory EBITDA[5]	**(6,217)**	(25,751)	nm%
Add: underlying adjustments			
Restructure costs	**2,673**	6,276	
Transaction costs	**193**	388	
Acquisition-related and one-time[3] share-based payments	**738**	1,015	
Underlying EBITDA[1]	**(2,613)**	(18,072)	nm%
Statutory diluted earnings per share (cents)	**(8.06)**	(33.63)	
Underlying diluted earnings per share (cents)	**(5.37)**	(26.57)	
% Statutory EBITDA/sales revenue	**(5.5%)**	(18.5%)	
% Underlying EBITDA/sales revenue	**(2.3%)**	(13.0%)	

[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 restructure costs, transaction costs, and acquisition-related and one-time share-based payments expense.
[2] Contingent liability with respect to the Quadrant acquisition. Settled in January 2024.
[3] Former CEO one-off sign-on bonus, in receipt of bonuses forgone and was intended to replace a portion of the bonus payments that the former CEO would have received from his previous employer had he not ceased employment.
[4] EBIT is defined as earnings before interest and tax.
[5] EBITDA is EBIT before depreciation and amortisation.

Overview
Appen's H1 2024 financial results were impacted by the termination of the Google contract which ended on 19 March 2024. Following the loss of the contract, a $13.5 million incremental cost out program was announced and was fully executed by the end of H1 2024.

Excluding Google revenue, there was a continuation of stabilisation of revenue seen in the second half of 2023 into Q1 2024, with generative AI related growth starting to develop into significant opportunities in Q2 2024.

Management is focused on returning to profitability and is targeting reaching cash EBITDA positive on a run-rate basis in H2 2024.

Financial performance highlight
- **Group revenue and other income** decreased 18.5% to $113.7 million (H1 2023: $139.5 million). Excluding Google, decreased 1.8% to $100.3 million (H1 2023: $102.2 million).
- **Global services revenue** decreased 36.5% to $63.6 million (H1 2023: $100.1 million). Excluding Google, decreased 20.1% to $50.8 million (H1 2023: $63.6 million).
- **New Markets revenue** increased 28.3% to $49.8 million (H1 2023: $38.9 million).
- **Underlying EBITDA** (before the impact of foreign exchange losses) improved by $13.4 million to $2.3 million loss (H1 2023: loss of $15.7 million).
- **Underlying EBITDA** (including the impact of foreign exchange losses) improved by $15.5 million to $2.6 million loss (H1 2023: loss of $18.1 million).
- **Underlying net loss after tax** improved by $22.4 million to $11.8 million (H1 2023: loss of $34.2 million).
- **Statutory net loss after tax** improved by $25.5 million to $17.8 million (H1 2023: loss of $43.3 million).
- **Cash balance** as at 30 June 2024 was $34.7 million and the Group has no debt.
- **Nil dividend** to ensure appropriate allocation of capital.

Group revenue and customer diversification
Group operating revenue decreased 18.4% to $113.4 million (H1 2023: $138.9 million), mainly due to the termination of the Google contract in Q1 2024. Excluding Google, revenue decreased by a modest 1.5% to $100.0 million (H1 2023: $101.6 million).

Revenue from New Markets (excluding Global product) represented 34.3% of total revenue, up from 23.6% in H1 2023. During the half, approximately 68.5% (H1 2023: 77.1%) of the Group's revenue was derived from the top five customers.

Excluding Google, generative AI related revenue represented 14.7% of total revenue, up from 1.6% in H1 2023 and 6.0% in H2 2023.

Revenue by operating divisions
Global Services revenue decreased 36.5% to $63.6 million (H1 2023: $100.1 million) and was impacted by the termination of the Google contract in Q1 2024. Excluding Google, revenue decreased 20.1% to $50.8 million (H1 2023: $63.6 million).

Global Services won 30 new projects during the period (H1 2023: 45), including early stage LLM projects.

New Markets revenue increased 28.3% to $49.8 million (H1 2023: $38.9 million). The increase was driven by strong growth in China and Global Product revenue.

Within **New Markets**

- Global Product revenue increased 79.4% to $10.9 million, primarily due to new generative AI projects for one of the Global customers delivered on Appen's technology.
- China revenue increased 66.0% to $25.4 million, with momentum continuing from a strong Q4 2023. Growth drivers include capturing generative AI opportunities across multiple customers and projects. China remained focused on growth and maintaining its position as a leading AI data company.
- Enterprise and Government revenue decreased 22.4% to $13.6 million, driven by lower volumes within existing large projects and uncertain timing around new generative AI related spend in Enterprise. We continue to have conviction in the potential of our Enterprise and Government divisions.
- New Markets secured 58 new customers, including 37 across China, Japan, Korea and 21 for Enterprise. The average deal size for Enterprise increased to $185,000 (H1 2023: $106,000).

Product development

Technology continues to play 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 H1 2024 (excluding amortisation) decreased 49.8% to $10.3 million and represented 9.1% of revenue (H1 2023: $20.5 million, 14.7% of revenue).

Product development was subject to the cost reduction program executed throughout 2023, with savings primarily achieved by establishing a product and engineering hub in Hyderabad.

While the quantum of product development spend was lower in H1 2024, Appen remains committed to the development of industry-leading products and tools to deliver high quality data for our customers, including supporting generative AI.

Underlying financial performance

Underlying earnings before interest, tax, depreciation, and amortisation (EBITDA) improved by $15.5 million to ($2.6 million) (H1 2023: ($18.1 million)).

Before the impact of foreign exchange losses, underlying EBITDA improved by $13.4 million to ($2.3 million) (H1 2023 ($15.7 million)).

The improvement in underlying EBITDA reflects the cost out programs executed during 2023 and H1 2024.

Cost of sales, which is predominantly crowd expenses was down as a percentage of revenue at 62.3% compared to 62.7% for H1 2023. This was primarily driven by the customer and project mix.

Operating expenses (excluding share-based payments, transaction costs, restructuring costs, depreciation and amortisation) for H1 2024 decreased 33.3% or $21.9 million compared to H1 2023. The decrease predominately reflects the cost out programs executed during 2023 and H1 2024.

The Global Services segment reported EBITDA of $6.7 million down 23.5% from $8.7 million in H1 2023. Decrease due to revenue and gross margin impact of the Google contract termination in Q1 2024, and the reduction in spend from Global customers experienced during 2023, not fully reflected in the early part of H1 2023. The reduction in revenue and gross margin was partially offset by cost reduction programs executed during 2023 and H1 2024.

Global Services EBITDA margin improved 1.5% to 10.5% due to customer and project mix as well cost out programs noted above.

The New Markets segment EBITDA improved by $13.9 million to ($7.9 million) (H1 2023: ($21.8 million)).
The improvement reflects revenue and gross margin growth and the cost reduction program executed during 2023 and H1 2024.

Underlying net loss after tax was ($11.8 million) compared to ($34.2 million) in H1 2023. The $22.4m improvement is predominately due to the factors noted above.

Statutory net loss after tax of ($17.8 million) includes one-off $2.0 million restructure cost associated with the cost out program executed during H1 2024, and $0.6 million in relation to the exit of the former CEO.

Cost reduction program
$13.5 million cost out program previously announced was executed during H1 2024. 80% of the cost out was achieved in March 2024, with the remainder executed by the end of June 2024.

Appen continues to focus on managing costs in line with the revenue opportunity.

Balance sheet
Cash balance increased by $2.6 million to $34.7 million at 30 June 2024 (31 December 2023: $32.1 million).

Trade and other receivables were $40.2 million at 30 June 2024 (31 December 2023: $49.9 million), the decrease reflecting lower revenue volumes.

Current liabilities were $50.3 million at 30 June 2024 (31 December 2023: $47.7 million), the increase primarily due to timing of trade creditor payments.

Net assets decreased to $79.5 million (31 December 2023: $92.8 million).

Strategy and focus
Appen's strategy aligns to both deep learning and generative AI opportunities. Appen is focused on the following five strategic pillars to support its customers and deliver profitable growth.

1. Building a next generation crowd and project management platform that improve how we deliver projects, create a better experience for our crowd, and reduce our related product and engineering costs.
2. Utilise more AI in our projects to scale the creation of datasets for our customers.
3. Configure our highly-flexible ADAP platform to support companies that are customising off-the-shelf generative AI models for their internal use cases.
4. Modernise our sales and marketing with a stronger focus on existing customer account management technical thought leadership.
5. Tightly manage our costs to adjust costs more proactively to revenue.

Dividends
Given the half-year performance and to ensure appropriate allocation of capital, the Directors have determined not to pay an interim dividend for the half-year ended 30 June 2024.

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

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

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

On behalf of the Directors

Richard Freudenstein
Chairman

30 August 2024
Sydney

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

To the Directors of Appen Limited,

I declare that, to the best of my knowledge and belief, in relation to the review of Appen Limited for the half-year ended 30 June 2024 there have been:

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

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

KPMG

KPMG

Cameron Slapp

Partner

Sydney

30 August 2024

Appen Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2024

	Note	30 Jun 24 $000	30 Jun 23 $000
Revenue			
Revenue from contract with customers	5	113,427	138,939
Other income		68	431
Interest income		176	131
Expenses			
Crowd service costs		(65,412)	(82,961)
Employee expenses		(33,442)	(50,095)
Recruitment costs		(1,011)	(2,307)
Professional fees		(3,062)	(4,747)
Information technology costs		(6,554)	(6,600)
Communication and travel expenses		(966)	(1,596)
Other expenses		(4,297)	(5,198)
Depreciation and amortisation	6	(11,293)	(16,761)
Share-based payments expense	6	(1,746)	(2,628)
Net foreign exchange loss		(356)	(2,325)
Transaction costs	6	(193)	(388)
Restructure costs		(2,673)	(6,276)
Finance costs	6	(404)	(554)
Deemed interest on earn-out liability		-	(317)
Loss before income tax		**(17,738)**	**(43,252)**
Income tax expense		(15)	(59)
Loss after income tax for the period attributable to the owners of the Group		**(17,753)**	**(43,311)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(1,030)	965
Other comprehensive income / (expense) for the period, net of tax		(1,030)	965
Total comprehensive loss for the period attributable to the owners of the Group		**(18,783)**	**(42,346)**

		Cents	Cents
Basic earnings per share	14	(8.06)	(33.63)
Diluted earnings per share	14	(8.06)	(33.63)

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

Appen Limited
Consolidated statement of financial position
As at 30 June 2024

	Note	30 Jun 24 $000	31 Dec 23 $000
Assets			
Current assets			
Cash and cash equivalents		34,672	32,152
Trade and other receivables	7	40,199	49,933
Contract assets	8	14,360	15,536
Inventory		601	1,069
Prepayments and other assets		6,583	5,813
Income tax receivables		1,753	2,144
Derivative financial instruments		-	104
Total current assets		**98,168**	**106,751**
Non-current assets			
Prepayments and other assets		844	30
Investments	11	1,429	1,446
Intangible assets	9	36,101	39,870
Property, plant and equipment		1,136	1,475
Right of use assets	10	2,877	3,095
Deferred tax assets		1,907	2,491
Total non-current assets		**44,294**	**48,407**
Total assets		**142,462**	**155,158**
Liabilities			
Current liabilities			
Trade and other payables		32,799	27,232
Provisions		2,295	2,407
Contract liabilities		11,598	11,142
Lease liabilities	10	3,605	3,125
Earn-out liability	12	-	3,750
Total current liabilities		**50,297**	**47,656**
Non-current liabilities			
Provisions		315	306
Lease liabilities	10	7,648	9,309
Deferred tax liabilities		4,692	5,090
Total non-current liabilities		**12,655**	**14,705**
Total liabilities		**62,952**	**62,261**
Net assets		**79,510**	**92,797**
Equity			
Issued capital	13	324,185	320,435
Reserves		134,242	133,526
Accumulated losses		(378,917)	(361,164)
Total equity		**79,510**	**92,797**

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

Appen Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2024

	Issued capital $000	Reserves $000	Accumulated losses $000	Total equity $000
Balance at 1 January 2024	**320,435**	**133,526**	**(361,164)**	**92,797**
Loss after income tax expense for the period	-	-	(17,753)	(17,753)
Other comprehensive expense, net of tax	-	(1,030)	-	(1,030)
Total comprehensive loss for the period	-	(1,030)	(17,753)	(18,783)
Transactions with owners in their capacity as owners:				
Issue of ordinary shares, net of transaction costs (note 13)	3,750	-	-	3,750
Share-based payments (note 6)	-	1,746	-	1,746
Balance at 30 June 2024	**324,185**	**134,242**	**(378,917)**	**79,510**

	Issued capital $000	Reserves $000	Accumulated losses $000	Total equity $000
Balance at 1 January 2023	**262,917**	**128,154**	**(243,085)**	**147,986**
Loss after income tax expense for the period	-	-	(43,311)	(43,311)
Other comprehensive income, net of tax	-	965	-	965
Total comprehensive income for the period	-	965	(43,311)	(42,346)
Transactions with owners in their capacity as owners:				
Issue of ordinary shares, net of transaction costs	38,423	-	-	38,423
Share-based payments (note 6)	-	2,628	-	2,628
Balance at 30 June 2023	**301,340**	**131,747**	**(286,396)**	**146,691**

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

Appen Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2024

	30 Jun 24 $ 000	30 Jun 23 $ 000
Cash flows from operating activities		
Receipts from customers (GST inclusive)	123,343	175,123
Payments to suppliers and employees (GST inclusive)	(112,669)	(166,150)
Interest received	176	131
Interest and other finance costs paid	(11)	(2)
Income tax received	601	614
Net cash from operating activities	**11,440**	**9,716**
Cash flows from investing activities		
Payments for property, plant and equipment	(655)	(582)
Payments for intangibles	(5,687)	(10,959)
Payments for investments	-	(500)
Transaction costs	(193)	(318)
Net cash used in investing activities	**(6,535)**	**(12,359)**
Cash flows from financing activities		
Lease payments	(2,129)	(1,956)
Net proceeds from issuance of shares	-	38,232
Net cash (used in) / from financing activities	**(2,129)**	**36,276**
Net increase in cash and cash equivalents	2,776	33,633
Cash and cash equivalents at the beginning of the year	32,152	23,429
Effect of foreign exchange rate changes	(256)	(1,905)
Cash and cash equivalents at the end of the financial half-year	**34,672**	**55,157**

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

Note 1. General information

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

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

Level 6
9 Help Street
Chatswood NSW 2067

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 August 2024.

Note 2. Material accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2024 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and outlook of the Group as the full-year annual report. It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2023 and considered together with any public announcements made by the Group during the half-year to 30 June 2024, in accordance with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*. The accounting policies are consistent with those of the previous financial year and corresponding interim financial period, unless stated otherwise.

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Group incurred a loss after tax for the half-year ended 30 June 2024 of $17,753,000 (year to 31 December 2023: $118,079,000). The Group has net assets of $79,510,000 (31 December 2023 $92,797,000) and net current assets of $47,871,000 (31 December 2023 $59,095,000).

Cash and cash equivalents at 30 June 2024 were $34,672,000 (31 December 2023 $32,152,000). Operating cash inflow for the half-year was $11,440,000 (year to 31 December 2023 outflow $22,939,000).

Investing cash outflow (including product development costs) for the half-year was $6,535,000 (year to 31 December 2023 $20,895,000). Financing cash outflow for the half-year was $2,129,000 (year to 31 December 2023 inflow $52,674,000).

Following the expiry of the $A10,000,000 debt facility on 3 January 2024, there are no debt facilities in place.

On 20 January 2024 Appen received notice from a material customer, Google LLC, that as part of a strategic review process it will be terminating its global inbound services contract with Appen, resulting in the cessation of all projects with Appen by March 2024. Revenue recognised for the half-year ended 30 June 2024 relating to Google LLC was $13,400,000 at 27% gross margin. Gross margin refers to revenue less crowd expenses.

In response, Appen implemented measures to achieve $13.5 million in annualised cost savings. The cost saving initiatives represent direct and indirect costs associated with the delivery of Google LLC projects. Appen executed 80% of the cost saving initiatives in March 2024 with the remainder executed by the end of June 2024. Management have prepared 18-month cashflow forecasts underpinning the basis of preparation as a going concern. The forecasts are based on current available information and subject to certain risks and uncertainties which may cause results to differ from those expected, including the following:

- Achieving revenue forecasts. A large proportion of the Group's revenue has historically been delivered from the top five customers, being large global technology companies. During the half-year ended 30 June 2024, approximately 68.5% (2023 full year: 74.8%) of the Group's revenue was derived from sales to the top five customers.

  Customers can reprioritise spend away from areas of innovation at short notice or reduce/increase spend based on specific short term business goals and strategies. In addition, a substantial part of existing revenue is generated from individual case by case projects rather than long-term contracts, albeit some large projects have been running over multiple years.

The going concern basis presumes that the Group will continue to fulfil all obligations as and when they fall due for the foreseeable future and that the realisation of assets and settlement of liabilities will occur in the normal course of business.

The risks to the Board reviewed cashflow forecasts noted above and the cyclical cash demands of the business at certain points through the 18-month cashflow forecast period represents a material uncertainty as to whether the Group would continue as a going concern.

The directors of Appen consider that the Group will continue to fulfil all obligations as and when they fall due for the foreseeable future and accordingly consider that the Group's financial statements should be prepared on a going concern basis. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Note 3. Critical accounting judgements, estimates and assumptions

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, that management believes to be reasonable under the circumstances. The judgements, estimates and assumptions that may cause an adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are as follows:

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. At each reporting date, management reviews the number of performance rights that are expected to vest, based on the likelihood of fulfilling the vesting conditions.

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

Note 4. Operating segments

Identification of operating and reportable operating segments
Appen'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 major US technology customers using their data annotation platforms and tools.

- **The New Markets segment:** which represents our product-led businesses, using Appen's products and tools conducting work for our Global customers, as well as Enterprise, Government and China businesses.

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

Major customers
During the half-year ended 30 June 2024, approximately 68.5% (30 June 2023: 77.1%) of the Group's revenue was derived from sales to the largest five customers.

Segment information
The following tables show revenue and EBITDA for the reportable segments for the half-year ended 30 June 2024 and 30 June 2023.

Note 4. Operating segments - continued

30 June 2024	Global Services $000	New Markets $000	Corporate unallocated $000	Total $000
Revenue	63,595	49,832	-	113,427
Other income	-	56	12	68
Interest	-	-	176	176
Total revenue and other income	**63,595**	**49,888**	**188**	**113,671**
Segment EBITDA	6,663	(7,912)	-	(1,249)
Share-based payment – employees (see note 6)				(1,008)
Foreign exchange losses				(356)
Group underlying EBITDA				**(2,613)**
Depreciation and amortisation				(11,293)
Net interest expense				(228)
Restructure costs				(2,673)
Acquisition-related and one-time share- based payments (see note 6)				(738)
Transaction costs				(193)
Loss before income tax				**(17,738)**
Income tax expense				(15)
Loss after income tax expense				**(17,753)**

30 June 2023	Global Services $000	New Markets $000	Corporate unallocated $000	Total $000
Revenue	100,088	38,851	-	138,939
Other income	-	-	431	431
Interest	-	-	131	131
Total revenue & other income	**100,088**	**38,851**	**562**	**139,501**
Segment EBITDA	8,711	(21,771)	-	(13,060)
Share-based payment – employees (see note 6)				(1,613)
Transformation investment				(1,074)
Foreign exchange losses				(2,325)
Group underlying EBITDA				**(18,072)**
Depreciation and amortisation				(16,761)
Net interest expense				(423)
Restructure costs				(6,276)
Acquisition-related and one-time share-based payments (see note 6)				(1,015)
Deemed interest on earn-out liability				(317)
Transaction costs				(388)
Loss before income tax				**(43,252)**
Income tax expense				(59)
Loss after income tax expense				**(43,311)**

Note 4. Operating segments – continued

Geographical information	Revenue		Non-current assets	
	30 Jun 24 $000	30 Jun 23 $000	30 Jun 24 $000	31 Dec 23 $000
Australia	5,472	3,771	8,104	9,767
United States of America	77,656	115,800	25,777	28,678
Other countries	30,299	19,368	10,413	9,962
Total	**113,427**	**138,939**	**44,294**	**48,407**

Non-current assets' geographical information is represented based on the location of the legal entities who possess the ownership of the assets. The prior period information has been reclassified to conform with this representation and enable comparability.

Note 5. Revenue

	30 Jun 24 $000	30 Jun 23 $000
Revenue from contract with customers	113,427	138,939

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

30 June 2024	Global Services $000	New Markets $000	Corporate unallocated $000	Total $000
Global customers	63,595	10,877	-	**74,472**
New Markets customers	-	38,955	-	**38,955**
Total revenue	**63,595**	**49,832**	**-**	**113,427**

30 June 2023	Global Services $000	New Markets $000	Corporate unallocated $000	Total $000
Global customers	100,088	6,064	-	106,152
New Markets customers	-	32,787	-	32,787
Total revenue	**100,088**	**38,851**	**-**	**138,939**

Note 6. Expenses

	30 Jun 24 $000	30 Jun 23 $000
Depreciation and amortisation:		
Depreciation		
Plant and equipment	918	1,037
Right of use assets	862	1,888
Depreciation sub-total	**1,780**	**2,925**
Amortisation		
Systems and software	106	24
Capitalised product development	5,022	9,302
Other intangibles	100	206
Amortisation sub-total	**5,228**	**9,532**
Amortisation – acquisition-related		
Capitalised product development	4,235	4,253
Brand	50	51
Amortisation – acquisition-related sub-total	**4,285**	**4,304**
Total depreciation and amortisation	**11,293**	**16,761**
Finance costs		
Interest and finance charges paid/payable on borrowings	11	276
Interest and finance charges paid/payable on lease liabilities	393	278
Interest and finance charges subtotal	**404**	**554**
Deemed interest on earn-out liability	-	317
Finance costs expensed	**404**	**871**
Share-based payments		
Share-based payment in respect of Appen performance rights	1,008	1,613
Share-based payment in respect of the Quadrant acquisition and one-time sign-on[1] arrangement	738	1,015
Total share-based payments expense	**1,746**	**2,628**
Transaction costs		
Non-capitalised equity raising fees and charges	-	327
Other transaction costs	193	61
Total transaction costs	**193**	**388**

[1] Includes former CEO one-off sign-on bonus, in receipt of bonuses forgone and was intended to replace a portion of the bonus payments that the former CEO would have received from his previous employer had he not ceased employment.

Note 7. Current assets - Trade and other receivables

	30 Jun 24 $000	31 Dec 23 $000
Trade receivables	38,724	47,869
Provision for expected credit loss	(189)	(152)
Net trade receivables	38,535	47,717
Other receivables	812	1,580
GST/VAT receivable	852	636
Total trade and other receivables	**40,199**	**49,933**

Note 8. Current assets - contract assets

	30 Jun 24 $000	31 Dec 23 $000
Contract assets	**14,360**	**15,536**
Movement during the period:		
Balance at 1 January	**15,536**	**30,448**
Opening balance subsequent release to billing and receivables	(15,536)	(30,448)
Contract asset recognised	35,011	32,651
Subsequent release to billing and receivables for the half-year	(20,340)	(21,583)
Foreign currency translation	(311)	(229)
Balance at 30 June	**14,360**	**10,839**
Opening balance subsequent release to billing and receivables		(10,839)
Contract asset recognised		31,810
Subsequent release to billing and receivables for the half-year		(16,441)
Foreign currency translation		167
Balance at 31 December		**15,536**

Revenue is recognised at the amount to which the Group has the right to invoice based on the contract price and completed performance obligations. Where revenue recognised is in advance of billings (due to timing differences in the Group reporting period and customer billing cycle), a contract asset is recognised; and where cash received or billing issued are in advance of revenue recognition, a contract liability is recognised.

Note 9. Intangible assets

	Goodwill $000	Systems & software $000	Product development $000	Brand $000	Other intangibles $000	Total $000
Balance at 1 Jan 2023						
Cost	242,051	2,689	133,301	1,089	2,181	381,311
Accumulated amortisation and impairment	(188,937)	(1,695)	(79,785)	(720)	(614)	(271,751)
Net carrying value	**53,114**	**994**	**53,516**	**369**	**1,567**	**109,560**
Additions	-	173	17,825		159	18,157
Disposals	-	(6)	-	-	-	(6)
Impairment	(53,114)	(399)	(5,264)	-	(74)	(58,851)
Transfers / reclassification	-	43	(43)	-	-	-
Amortisation	-	(163)	(28,292)	(105)	(324)	(28,884)
Foreign exchange translation	-	(63)	(43)	-	-	(106)
Balance at 31 Dec 2023						
Cost	242,051	2,856	151,068	1,089	2,340	399,404
Accumulated amortisation and impairment	(242,051)	(2,277)	(113,369)	(825)	(1,012)	(359,534)
Net carrying value	**-**	**579**	**37,699**	**264**	**1,328**	**39,870**
Additions	-	-	5,953	-	-	5,953
Amortisation	-	(106)	(9,257)	(50)	(100)	(9,513)
Foreign exchange translation	-	1	(187)	(6)	(17)	(209)
Balance at 30 Jun 2024						
Cost	242,051	2,780	156,721	1,078	2,272	404,902
Accumulated amortisation and impairment	(242,051)	(2,306)	(122,513)	(870)	(1,061)	(368,801)
Net carrying value	**-**	**474**	**34,208**	**208**	**1,211**	**36,101**

Note 10. Right of use assets and lease liabilities

Right of use assets	30 Jun 24 $000	31 Dec 23 $000
Cost	33,513	33,525
Accumulated amortisation and impairment	(30,636)	(30,430)
Right of use assets - net carrying value	**2,877**	**3,095**

Lease liabilities	30 Jun 24 $000	31 Dec 23 $000
Current lease liabilities	3,605	3,125
Non-current lease liabilities	7,648	9,309
Total lease liabilities	**11,253**	**12,434**

Note 11. Non-current assets – investments

At 30 June 2024, the Group's investments in Mindtech and Reka are carried at fair value as follows:

Investment	Country of incorporation	Fair value	
		30 Jun 24 $000	31 Dec 23 $000
Mindtech	UK	929	946
Reka	USA	500	500
Total fair value		**1,429**	**1,446**

The balance movement during the period was driven by foreign currency translation.

Note 12. Earn-out liability

	30 Jun 24 $000	31 Dec 23 $000
Current liability	-	3,750
Total earn-out liability	**-**	**3,750**

The earn-out liability relates to the acquisition of Quadrant in September 2021. The liability was settled in January 2024 via the issue of 7,774,816 fully paid ordinary shares.

Note 13. Equity – issued capital

	# of shares		$ 000	
	30 Jun 24	31 Dec 23	30 Jun 24	31 Dec 23
Ordinary shares - fully paid	**223,001,643**	**211,467,054**	**324,185**	**320,435**

Movements in ordinary share capital

Details	Date	# of shares	$000
Balance as at	**31 December 2023**	**211,467,054**	**320,435**
Issue of shares on Quadrant earn-out settlement	17 March 2024	7,774,816	3,750
Issue of shares on exercise of performance rights	20 March 2024	2,094,641	-
Issue of shares on exercise of performance rights	2 May 2024	376,742	-
Issue of shares on exercise of performance rights	12 May 2024	666,925	-
Issue of shares on exercise of performance rights	12 June 2024	46,173	-
Issue of shares on exercise of performance rights	25 June 2024	46,173	-
Issue of shares on exercise of performance rights	29 June 2024	529,119	-
Balance as at	**30 June 2024**	**223,001,643**	**324,185**

Note 14. Earnings per share

	30 Jun 24 $000	30 Jun 23 $000
Loss after income tax attributable to the owners of the Group	**(17,753)**	**(43,311)**

	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	220,140,255	128,767,772
Adjustments for calculation of diluted earnings per share:		
Rights over ordinary shares	-[1]	-[1]
Weighted average number of ordinary shares used in calculating diluted earnings per share	220,140,255	128,767,772

	Cents	Cents
Basic earnings per share	(8.06)	(33.63)
Diluted earnings per share	(8.06)	(33.63)

[1] While there are unvested performance rights at 30 June 2024 and 30 June 2023, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share. The calculation of diluted earnings per share does not assume exercise of the performance rights, or issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

Note 15. Events after the reporting period

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

In the Directors' opinion:

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

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2024 and of its performance for the financial half-year ended on that date; and

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

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

On behalf of the Directors

Richard Freudenstein
Director

30 August 2024
Sydney

Independent Auditor's Review Report

To the shareholders of Appen Limited

Conclusion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2024 and of its performance for the Interim Period ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated statement of financial position as at 30 June 2024;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date;
- Notes 1 to 15 comprising material accounting policies and other explanatory information; and
- The Directors' Declaration.

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

The Interim Period is the six months ended on 30 June 2024.

Basis for Conclusion

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

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

Material uncertainty related to going concern

We draw attention to Note 2, "Going Concern" in the Interim Financial Report. The events or conditions disclosed in Note 2, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 30 June 2024 and its performance for the Interim period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Cameron Slapp

Partner

Sydney

30 August 2024