



Appen Limited
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Chatswood NSW 2067

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www.appen.com
ACN: 138 878 298

ASX ANNOUNCEMENT

26 August 2021

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 2021.

Authorised for release by the Board of Appen Limited.

For more information, please contact:

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Company details

Name of entity:	Appen Limited
ASX code:	APX
ABN:	60 138 878 298
Reporting period:	For the half-year ended 30 June 2021
Corresponding period:	For the half-year ended 30 June 2020

As advised per the ASX release on 19 May 2021, Appen changed its reporting (presentation) currency from Australian Dollars to United States (US) Dollars. All monetary references in this Appendix 4D and the attached Interim Report for the half-year ended 30 June 2021, are references in US Dollars (\$ or US\$), unless otherwise stated.

All corresponding period financial information, previously reported in Australian Dollars, has been restated to US Dollars.

Results for announcement to the market

Half-year ended 30 June 2021

			US\$000
Revenue and other income from ordinary activities	down	2.0% to	196,562
Profit from ordinary activities after tax attributable to the owners of Appen Limited	down	55.1% to	6,690
Profit for the half-year attributable to the owners of Appen Limited	down	55.1% to	6,690

Dividends

The Directors have determined to pay an interim dividend for the half-year ended 30 June 2021 of AU 4.5 cents per share. This dividend will be 50% franked. The relevant dates associated with entitlement and payment of this dividend are as follows:

Ex-dividend date	31 August 2021
Record date	1 September 2021
Payment date	24 September 2021

There is no current dividend reinvestment plan in place.

The 2020 final dividend (paid on 19 March 2021) was AU 5.5 cents per share and the 2020 interim dividend (paid on 24 September 2020) was AU 4.5 cents per share.

Net tangible assets

	Reporting period US Cents	Corresponding period US Cents
Net tangible assets per ordinary security	79.24	61.32

Additional information supporting the Appendix 4D disclosures can be found in the Interim Report for the half-year ended 30 June 2021, which is attached and has been reviewed by KPMG.

Signed

As authorised by the Board of Directors

Signed 

Date: 26 August 2021

Mark Brayan
Managing Director
Sydney

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Appen Limited

ABN 60 138 878 298

Interim Report - 30 June 2021

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Directors	Christopher Charles Vonwiller – Chairman Mark Ronald Brayan – Managing Director and Chief Executive Officer Stephen John Hasker Vanessa Liu Robin Jane Low Deena Robyn Shiff Richard Freudenstein (from 12 August 2021) William Robert Pulver (to 25 August 2021)
Registered office	Level 6, 9 Help Street Chatswood NSW 2067 +61 2 9468 6300 www.appen.com
Company secretary	Carl Middlehurst
Investor relations	+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)

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 2021 (“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:

- Christopher Charles Vonwiller – Chairman
- Mark Ronald Brayan – Managing Director and Chief Executive Officer
- Stephen John Hasker
- Vanessa Liu
- Robin Jane Low
- Deena Robyn Shiff
- Richard Freudenstein (from 12 August 2021)
- William Robert Pulver (to 25 August 2021)

Principal activities

Appen collects and labels image, text, speech, audio, video and other data used to build and continuously improve the world’s most innovative artificial intelligence systems. Appen’s expertise includes having a global crowd of over 1 million skilled contractors who speak over 235 languages in over 70,000 locations and 170 countries, and the industry’s most advanced AI-assisted data annotation platform. Appen’s training data gives leaders in technology, automotive, financial services, retail, healthcare and government the confidence to deploy world-class AI products.

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

Appen has evolved significantly since 1996 and particularly in the last five years, from being a language data service provider to become a leading AI data annotation provider. The evolution of the business is outlined in the table below.

	From	To
Data type	Language data	AI data
Delivery model	Service led	Product led
Revenue	Project based	Committed
Customer	Major US tech	All industries, geographies
Organisational structure	Functional alignment	Customer alignment
Reporting	Data modality, AU\$	Strategy led, US\$

Change in reporting currency

During the half-year, Appen changed its reporting currency from Australian dollars to United States (US) dollars. The change was driven by the fact that more than 90% of Appen's revenue and assets are in US dollars.

Reporting in US dollars removes the volatility that occurs when US earnings and assets are translated into Australian dollars, which will enable simpler comparison of financial performance over time.

Corporate restructure

During the half-year, Appen announced a corporate restructure. As a result, Appen has four 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; and
- **China:** responsible for capturing share in the high growth market in China.

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

- **Global Services:** represents the services that Appen provides to its five major US technology customers (Global customers) using the customer's data annotation platforms and tools. The majority of projects comprise large, at-scale relevance 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 customers benefit from our high-quality data annotation capabilities originating from our AI-augmented product suite, coupled with the provision of at-scale crowd management with Appen Connect. This enables Appen to deliver high-quality outcomes for customers, and deliver revenue growth, scale and margin expansion.

Operating and financial review (OFR)

Refer to the table below which summarises the Group's financial results for the half-year in comparison to the prior period.

	Half-year ended 30 June 2021 USD \$000	Restated Half-year ended 30 June 2020 USD \$000	Change
Global Services revenue	148,778	163,928	(9.2%)
New Markets revenue	47,763	36,316	31.5%
Other income	21	243	
Total sales revenue and other income from principal activities	196,562	200,487	(2.0%)
Underlying net profit after tax (NPAT)¹	12,511	19,257	(35.0%)
<i>(Less)/add underlying adjustments (net of tax)</i>			
Amortisation of acquisition-related identifiable intangible assets	(4,159)	(4,213)	
Restructure costs ²	(1,569)	-	
Transaction costs	(342)	(262)	
Acquisition-related share-based payments ³	249	(1,103)	
Deemed interest on earn-out liability ⁴	-	(615)	
Figure Eight earn-out adjustment	-	1,844	
Statutory NPAT	6,690	14,908	(55.1%)
Add: tax	1,725	4,413	
Add: net interest expense	701	607	
Add: deemed interest on earn out liability ⁴	-	853	
EBIT⁵	9,116	20,781	(56.1%)
Add: depreciation and amortisation	16,071	12,630	
Statutory EBITDA⁶	25,187	33,411	(24.6%)
<i>Add/(less): underlying adjustments</i>			
Restructure costs ²	2,254	-	
Transaction costs	496	364	
Acquisition-related share-based payments ³	(249)	1,103	
Figure Eight earn-out adjustment	-	(2,559)	
Underlying EBITDA¹	27,688	32,319	(14.3%)
Statutory diluted earnings per share (cents)	5.35	12.16	
Underlying diluted earnings per share (cents)	10.01	15.70	
% Statutory EBITDA/sales revenue	12.8%	16.7%	
% Underlying EBITDA/sales revenue	14.1%	16.1%	

¹ Underlying results are a non-IFRS measure used by management to assess the performance of the business and have been calculated from statutory measures. Non-IFRS measures have not been subject to review or audit. Underlying EBITDA excludes restructure costs, transaction costs, acquisition-related share-based payments expenses, and for the prior period, the earn-out (consideration) adjustment relating to the Figure Eight acquisition. Underlying NPAT for the half-year ended 30 June 2020 has been restated for a change in accounting policy associated with cloud computing implementation costs (see note 2(ii) for further information).

² Includes actual costs incurred in the half-year and provision for future costs associated with the organisational restructure.

³ Includes a true-up adjustment of share-based payments expense in relation to the 2020 Long-Term Incentive Plan, based on management's assessment of achieving hurdles.

⁴ Liability was settled in August 2020.

⁵ EBIT is defined as earnings before interest and tax.

⁶ EBITDA is EBIT before depreciation and amortization.

Operating and financial review (OFR)

Revenue contracted by 2% in the first half of 2021 to \$196,562,000 (30 June 2020: 200,487,000), compared to the previous corresponding period. As expected, this first half growth rate was dampened by the skew in project delivery to the second half of 2021, as Global customers allocated resources to new and non-advertising projects in the first half, and the strong result in the prior corresponding period.

Whilst Global Services revenue decreased 9.2% to \$148,778,000, New Markets revenue increased 31.5% to \$47,763,000.

Global Services revenue for the half-year ended 30 June 2021 has been impacted by a number of factors. Although COVID-19 had a negligible impact on last year's first half performance, the pandemic started to adversely impact the Group in the second half of 2020, mainly due to the impact on online advertising (refer to the section "Impact of the COVID-19 pandemic" for further information). In the first half of 2021, our Global customers focused their spend on new and non-advertising related projects as they accelerate their strategic transition to broaden their revenue base. In addition, our Global customers are developing new approaches to targeted advertising and ad personalisation, to address the evolving privacy landscape and regulations. This has impacted our ad-related project revenue. As our global customers deploy new machine learning techniques to manage privacy issues, we anticipate opportunities to support these programs as solutions are adopted and new training data is required. Ad-related projects are expected to grow in the second half of 2021, but at a lower rate than non-ad related projects.

There has been strong growth in new projects outside of ads, and non-ad related projects comprised 75% of total revenue from Global customers in the first half of 2021. In addition, 97 of the 100 new global projects commencing in the first half, were not advertising related. Some of these projects cover new growth areas, such as AR/VR and geolocation-based services. We expect continued revenue growth from non-ad related projects, aligned with our Global customers' strategy to diversify and develop new products and revenue streams.

Non-ad projects that were deferred in the last quarter of last year have largely come back in the first half of this year. Ad-related projects have returned at a slower pace, however these projects are expected to have higher volumes in the second half of this year.

New Markets revenue increased by 31.5% to \$47,763,000. This was driven by our product-led capabilities and supporting a wide range of use cases, resulting in strong performance in the China and Enterprise business units. Revenue growth from non-global (Enterprise, Government and China) customers was up 50.1% half-on-half (up \$8,500,000 to \$25,456,000).

Revenue in China grew at a compound growth rate of 60% in the last five quarters. This has been driven by engagement with and delivery for the leading Chinese technology companies across a broad range of data modalities including speech, image and autonomous vehicles.

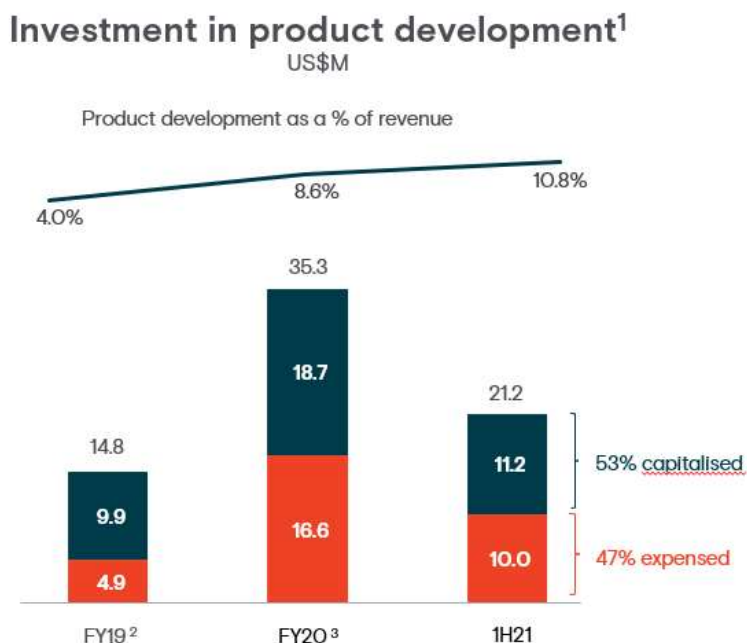
In addition, revenue was supplemented by growth in revenue from our Global customers that use our product and tools to enable their AI investments. Global Product revenue was up 15.2% or \$2,947,000 half-on-half to \$22,307,000 (see note 5 for further information). Their use of our platform was a key driver of committed revenue.

Product innovation was also important to our Government business where we launched a new tiled imagery tool to support geospatial annotation. The early-stage market dynamics in the Government market have, however, resulted in longer sales cycles.

New deployments of machine learning powered automation also resulted in quality and efficiency improvements on live customer projects.

The New Markets division won a total of 136 new customers in the 12 month period to 31 December 2020 and a further 74 customers this half-year (H1 20: 66 new customers), which is consistent with our strategy of diversifying our customer base to drive volume on our product.

The below graph shows our investment in product development over the last two and a half years.



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.
2. FY19 includes amounts capitalised related to the acquisition of Figure Eight
3. FY20 spend includes annualisation of Figure Eight engineering spend (acquisition completed April 2019).

Aligned with our strategic shift from services to product, Appen has increased investment in product development each period, since 2018. In the first half of 2021, product development investment was \$21,200,000, representing 10.8% of revenue. Being product-led will enable Appen to improve our competitive moat and drive margin expansion via automation and scale. In addition, this will increase customer expansion and repeatability, via improved quality and productivity, resulting in growth in annual contract revenue (ACV) over time. ACV increased from US\$103,000,000 at 30 June 2020 to US\$119,600,000 at 30 June 2021, due to the expansion in January 2021 of an enterprise-wide platform agreement with a major customer. Amortisation of product development was \$6,675,000 for the six months ended 30 June 2021 compared to \$3,686,000 in the prior corresponding period, related to the higher level of product development investment.

Cost of sales, which is comprised of payments to our crowd workers, increased as a percentage of revenue (from 59.4% for the comparative period to 61.6% in the current half), due to the mix of customers and projects comprising the revenue, with the decrease in Global Services revenue, and the early stage projects commenced.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 14.3% to \$27,688,000 (30 June 2020: \$32,319,000), which translated to a net margin of 14.1% (30 June 2020: 16.1%). Margins were impacted by lower revenue and gross margin and a higher cost base. Refer to page 5 for a reconciliation of EBITDA to statutory profit.

The Global Services segment reported half-year EBITDA of \$34,408,000 down 18.6% from 30 June 2020 (\$42,294,000). As expected, the first half 2021 growth rate has been dampened by the skew in project delivery to the second half of 2021 due to Global customers' strategic diversification and focus on new projects, and privacy and regulatory related impacts on ad-related projects. This has impacted revenue and had a flow on effect to gross margin.

The EBITDA loss in the New Markets segment reduced 5.8% to (\$7,422,000), due to our growth investment focus. First half 2021 EBITDA performance was impacted by an increase in the cost of sales from the changing mix of customers and projects. The New Markets segment has reported a loss in the current and corresponding period due to its early stage of development, focus on revenue growth and investment in product development.

Operating expenses for the half year ended 30 June 2021 (expenses excluding services purchased, share-based payments, depreciation and amortisation, restructure, transaction and finance costs and for the prior period, Figure Eight related earn-out costs) increased by \$1,708,000 over the prior corresponding period, driven mainly by an increase in employee expenses. This increase reflects the annualised impact of FY20 growth investments and continued investments in New Markets. Other expenses reduced by \$2,191,000 mainly due to lower recruitment job board expenses. Expense control over core expenses (i.e., non-growth investment expenses) continues to be a focus with core expenses as a percentage of revenue reducing consistently since the second half of 2019.

Following an assessment of the probability of achieving (non-market) hurdles for the 2020 Long Term Incentive Plan, a share-based payment true up adjustment was processed in the first half of 2021.

The restructuring charge of \$2,254,000 comprises restructuring costs incurred in the first half of 2021 as well as a provision for costs that will be incurred in the second half, in respect of the re-organisation announced in May 2021. Optimisation benefits of approximately \$15,000,000 are expected in FY22 and will be largely reinvested to drive product development and growth.

Underlying net profit after tax (NPAT) of \$12,511,000 was down 35%, due to the impacts explained above and the increased amortisation in relation to product development investment.

The balance sheet continues to be strong (net assets at 30 June 2021 were \$372,778,000, down slightly by \$553,000 from 31 December 2020). The Group remains debt-free at 30 June 2021 and at the date of this report. The cash balance at 30 June 2021 increased by \$5,478,000 from \$60,488,000 at 31 December 2020 to \$65,966,000, assisted by effective cash collections. Cash on hand at balance date reduced by \$20,718,000 from 30 June 2020 as a result of favourable receipt timing differences in the prior corresponding period and from the debt repayment of \$23,473,000 in respect of the Figure Eight earn out payment. From 31 December 2020 to 30 June 2021, trade receivables and contract assets were down \$12,873,000 to \$69,254,000. Current liabilities reduced by \$7,101,000 to \$52,899,000, mainly as a result of the reduction in accounts payable.

Impact of the COVID-19 pandemic

In 2020, we noted that COVID-19 disrupted and reshaped the priorities and activities of our customers, especially in California, the home of our biggest customers, where pandemic related lockdowns intensified, resulting in the deferral of projects and re-allocation of resources and a decline in face-to-face sales and marketing and levels of customer engagement.

During the half-year, our global operations have remained resilient, and we have continued to deliver high quality outcomes for our customers without interruption, despite lockdowns in many of the regions that we operate.

Our products and tools enable a work-from-anywhere delivery model for our crowd workers and our staff. To provide certainty to our employees, we have extended the option to work from home until 31 December 2021.

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

Dividends

Dividend declared

On 26 August 2021, the Company declared an interim dividend for the half-year ended 30 June 2021 of AU 4.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 1 September 2021 and the payment date will be 24 September 2021. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2021, and will be recognised in the subsequent financial period.

Dividends paid

During the half-year, on 19 March 2021, the Company paid the 2020 final dividend of AU 5.5 cents per share, partially franked.

Board renewal

As part of the Company's Board renewal program, the Company recently announced that Richard Freudenstein joined the Board as a non-executive director and will succeed Chris Vonwiller as Chair, when Mr Vonwiller retires on 28 October 2021. Mr Vonwiller has been Chair of the Company for 12 years and CEO from 1999 to 2010.

Richard Freudenstein is an experienced director and chair of large public companies and brings extensive governance expertise and experience to the Board. In addition, Mr Freudenstein's experience in the fast-moving media industry, makes him ideally placed to lead Appen in its next phase of growth and development.

William Pulver retired on 25 August 2021, after 11 years as a non-executive director and having served as CEO of Appen from 2010 to 2013. He has been succeeded as Chair of the Nomination and Remuneration Committee by the independent non-executive director, Stephen Hasker.

In accordance with good governance, the Board will continue to review and monitor the skills it requires, as it seeks to take advantage of growth opportunities and industry trends.

Acquisition of leading data location provider

Appen has announced that it has acquired Quadrant Global Pte Ltd ("Quadrant"), a global leader in mobile location and Point-of-Interest (POI) data, thereby expanding Appen's 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 for their business.

To acquire 100% of the share capital of Quadrant, Appen will make an upfront cash payment of US\$25 million and a potential additional payment of up to US\$20 million in Appen shares to be issued upon achieving revenue milestones in 2022 and 2023. The upfront cash payment will be funded from existing cash reserves and the transaction is expected to close in September 2021.

Significant changes in the state of affairs

During the half-year, the Group announced a new organisational structure, aligned to its product led and customer centric strategies, designed to focus on growing our products and delivering data for our customers at scale and lower cost, together with the announcement of a change in reporting currency from Australian Dollars to United States Dollars.

Both of these changes and the basis for them have been outlined in this report.

Matters subsequent to the end of the half-year

The impact of the COVID-19 pandemic is ongoing and there remains significant uncertainty regarding exactly when the global economy will recover.

Apart from the dividend declared, Board renewal initiatives and acquisition of Quadrant as discussed above, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the Directors



Christopher Vonwiller
Chairman

26 August 2021
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 2021 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
26 August 2021

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Appen Limited
 Consolidated statement of profit or loss and other comprehensive income
 For the half-year ended 30 June 2021



		Group	
	Note	30 June 2021 US\$000	Restated 30 June 2020 US\$000
Revenue	5	196,541	200,244
Other income		19	36
Interest income calculated using the effective interest method		2	207
Net foreign exchange (loss)/gain		(507)	2,380
Expenses			
Services purchased - data collection		(121,002)	(118,984)
Employee expenses		(37,942)	(32,894)
Share-based payments	6	1,458	(5,596)
Depreciation and amortisation	6	(16,071)	(12,630)
Professional fees		(3,407)	(3,964)
Rent and occupancy expenses		(581)	(696)
Restructure costs		(2,254)	-
Communications and travel expenses		(502)	(979)
Transaction costs		(496)	(364)
Other expenses		(6,140)	(8,331)
Finance costs	6	(703)	(814)
Figure Eight earn-out adjustment		-	2,559
Deemed interest on earn-out liability		-	(853)
Profit before income tax expense		8,415	19,321
Income tax expense		(1,725)	(4,413)
Profit after income tax expense for the half-year attributable to the owners of Appen Limited		6,690	14,908
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(543)	(3,604)
Other comprehensive income for the half-year, net of tax		(543)	(3,604)
Total comprehensive income for the half-year attributable to the owners of Appen Limited		6,147	11,304
		Cents	Cents
Basic earnings per share	14	5.45	12.41
Diluted earnings per share	14	5.35	12.16

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

Note	30 June 21 US\$000	31 Dec 20 US\$000 (Restated)
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Assets

Current assets

Cash and cash equivalents		65,966	60,488
Trade and other receivables	7	41,077	50,611
Contract assets	8	28,177	31,516
Derivative financial instruments		16	1,479
Income tax refund due		11,113	8,289
Prepayments		4,970	2,423
Total current assets		<u>151,319</u>	<u>154,806</u>

Non-current assets

Property, plant and equipment		3,482	3,973
Right-of-use assets	9	15,778	17,993
Intangibles	10	275,251	275,796
Deferred tax		2,165	8,240
Sundry receivables		715	801
Total non-current assets		<u>297,391</u>	<u>306,803</u>

Total assets

	<u>448,710</u>	<u>461,609</u>
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Liabilities

Current liabilities

Trade and other payables		35,300	44,168
Contract liabilities		8,666	7,458
Lease liabilities	11	5,241	5,036
Employee benefits		3,617	3,261
Other liabilities		75	77
Total current liabilities		<u>52,899</u>	<u>60,000</u>

Non-current liabilities

Borrowings		-	-
Lease liabilities	11	12,111	14,432
Deferred tax		10,502	13,410
Employee benefits		420	436
Total non-current liabilities		<u>23,033</u>	<u>28,278</u>

Total liabilities

	<u>75,932</u>	<u>88,278</u>
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Net assets

	<u>372,778</u>	<u>373,331</u>
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Issued capital	12	262,917	262,917
Reserves		113,878	114,431
Accumulated losses		(4,017)	(4,017)

Total equity

	<u>372,778</u>	<u>373,331</u>
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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 2021



Group	Issued capital US\$000	Reserves US\$000	Accumulated losses US\$000	Total equity US\$000
Balance at 1 January 2021	262,917	114,431	(4,017)	373,331
Profit after income tax expense for the half-year	-	-	6,690	6,690
Other comprehensive income for the half-year, net of tax	-	(543)	-	(543)
Total comprehensive income for the half-year	-	(543)	6,690	6,147
<i>Transactions with owners in their capacity as owners:</i>				
Transfer between reserves	-	6,690	(6,690)	-
Share-based payments	-	(1,458)	-	(1,458)
Dividends paid (note 13)	-	(5,242)	-	(5,242)
Balance at 30 June 2021	<u>262,917</u>	<u>113,878</u>	<u>(4,017)</u>	<u>372,778</u>

Group	Issued capital US\$000	Reserves US\$000	Accumulated losses US\$000	Total equity US\$000
Balance at 1 January 2020 (Restated)	262,917	77,411	(4,017)	336,311
Profit after income tax expense for the half-year	-	-	14,908	14,908
Other comprehensive income for the half-year, net of tax	-	(3,604)	-	(3,604)
Total comprehensive income for the half-year	-	(3,604)	14,908	11,304
<i>Transactions with owners in their capacity as owners:</i>				
Transfer between reserves	-	14,908	(14,908)	-
Share-based payments	-	5,460	-	5,460
Dividends paid (note 13)	-	(3,560)	-	(3,560)
Balance at 30 June 2020 (Restated)	<u>262,917</u>	<u>90,615</u>	<u>(4,017)</u>	<u>349,515</u>

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

	Note	Group 30 June 2021 US\$000	Restated 30 June 2020 US\$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		210,407	219,279
Payments to suppliers and employees (inclusive of GST)		(182,512)	(169,833)
		27,895	49,446
Interest received		2	207
Interest paid		(308)	(497)
Income taxes paid		(1,495)	(2,229)
Net cash from operating activities		<u>26,094</u>	<u>46,927</u>
Cash flows from investing activities			
Payments for intangibles		(11,961)	(6,328)
Payments for property, plant and equipment		(399)	(880)
Payment for purchase of subsidiary, net of cash acquired		-	(25,602)
Transaction costs paid for acquisition		-	(364)
Net cash used in investing activities		<u>(12,360)</u>	<u>(33,174)</u>
Cash flows from financing activities			
Dividends paid	13	(5,242)	(3,560)
Repayment of lease liabilities		(2,235)	(1,877)
Proceeds from borrowings		-	25,602
Net cash from financing activities		<u>(7,477)</u>	<u>20,165</u>
Net increase in cash and cash equivalents		6,257	33,918
Cash and cash equivalents at the beginning of the financial half-year		60,488	52,799
Effects of exchange rate changes on cash and cash equivalents		(779)	(33)
Cash and cash equivalents at the end of the financial half-year		<u><u>65,966</u></u>	<u><u>86,684</u></u>

Note 1. General information

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

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

Level 6
9 Help Street
Chatswood NSW 2067

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 '*Interim Financial Reporting*' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting*'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the 2020 annual report and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the following:

(i) Change in reporting currency

The Directors have elected to change the Group's presentation currency from Australian dollars to US dollars effective from 1 January 2021. The change in presentation currency is a voluntary change which is accounted for retrospectively. The financial report has been presented or restated in US dollars, using the procedures outlined below. The financial information presented in this report, including comparative financial information, are reported in US dollars, using the following methodology:

- The consolidated statement of profit or loss and consolidated statement of cash flows have been translated into US dollars using average foreign currency rates for the period.
- Assets and liabilities in the consolidated statement of financial position have been translated into US dollars at the closing foreign currency rates on the relevant balance sheet dates, being an AUS/USD exchange rate of 0.7709 as at 31 December 2020.
- The equity section of the consolidated statement of financial position has been translated into US dollars using historical rates at transaction date.
- Earnings per share (EPS) and dividend disclosures have also been restated to US dollars to reflect the change in presentation currency.

Note 2. Significant accounting policies (continued)

(ii) Change in accounting treatment associated with configuration costs incurred in 2017 associated with the implementation of Appen's primary cloud-based ERP system

During the reporting period, IFRIC (International Financial Reporting Interpretations Committee) issued a final agenda decision titled *Configuration or customisation costs in a cloud computing arrangement (IAS 38 Intangible Assets)*¹, which, in most cases, requires customers to expense implementation costs (including configuration, data conversion, migration, testing and training costs) associated with the configuration and customisation of cloud-based systems, when the services are received, so long as those services are distinct from the SaaS itself.

The Group's accounting policy has historically been to capitalise all costs relating to SaaS arrangements as an intangible asset, and to amortise these costs over the period of their expected benefit, being their finite life of seven years.

The Group has applied the IFRIC decision for the half-year and changed its accounting policy, such that configuration costs incurred by the Group, associated with cloud-based SaaS arrangements, will be treated as an operating expense. In these financial statements, previously amortised expenses, in the current and comparative period, associated with the ERP implementation, will be reversed and the associated written down value as at 1 January 2020 (the start of the comparative period) will be expensed, as incurred, as shown below:

Impact of changes in accounting policy

	As previously reported (US\$000)	Impact of change (US\$000)	As restated (US\$000)
Reserves balance as at 1 January 2020	79,030	(1,619) (i)	77,411
Depreciation and amortisation expense for the half-year ended 30 June 2020	(12,810)	180 (ii)	(12,630)
Intangibles balance as at 30 June 2020	276,357	(1,439)	274,918
Depreciation and amortisation expense for the period 1 July 2020 to 31 December 2020	(28,098)	180 (ii)	(27,918)
Intangibles balance as at 31 December 2020 (see note 10)	277,055	(1,259)	275,796

(i) \$1,619,000 was the unamortised balance of the ERP system as at 1 January 2020, which was retrospectively expensed at the commencement of the prior period.

(ii) \$360,000 was the amortisation expense attributed to the ERP system for the year ended 31 December 2020 that was reversed. This reversal has been applied evenly over the year.

¹ This agenda decision followed the previous agenda decision titled *Customer's right to receive access to the supplier's software hosted on the Cloud* (issued in March 2019) – which considered whether a customer receives a software asset at the contract commencement date or a service over the contract term.

Note 2. Significant accounting policies (continued)

New or amended Accounting Standards and Interpretations adopted

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

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

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, that management believes to be reasonable under the circumstances.

The judgements, estimates and assumptions that may cause an adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

COVID-19 pandemic

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the impact that the pandemic has had on our global customer base and crowd workforce and the numerous geographic regions in which the Group operates. The impact of the COVID-19 pandemic is addressed in the Directors' report.

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 review the number of performance rights that are expected to vest, based on the likelihood of fulfilling the performance-based vesting conditions.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The operating segments, and hence cash generating units, changed during the reporting period. As a result, the recoverable amounts of cash-generating units were recalculated based on value-in-use calculations. These calculations required the use of assumptions, including assumptions relating to future revenue growth. Other estimates include estimated discount rates based on the current cost of capital and growth rates of estimated future cash flows (see note 10 for further 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 3. Critical accounting judgements, estimates and assumptions (continued)

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

During the half-year, Appen undertook a restructure of its business units to provide its customers with an enhanced product led and customer centric offering, thus aligning our business to market opportunities and customer needs. The new operating segments, in place for the first time for the half-year ended 30 June 2021 are:

- The Global Services segment: which represents the services the Group provides to our five major US technology customers using their data annotation platforms and tools.
- The New Markets segment: which represents our product led businesses, including the work we do for our Global customers using Appen's annotation products, and our Enterprise, Government 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.

As a result of the change in operating segments, the Group has restated the previously reported segment information for the corresponding period of half-year ended 30 June 2020 (and 31 December 2020) as appropriate.

Major customers

During the half-year ended 30 June 2021, approximately 87.1% (30 June 2020: 90.2%) of the Group's external revenue was derived from sales to five major customers.

Segment information

The following tables show revenue and EBITDA for the new reportable segments for the half-year ended 30 June 2021 and 30 June 2020.

Note 4. Operating segments (continued)

30 June 2021

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

30 June 2020 (restated)

	Global Services US\$000	New Markets US\$000	Corporate (Unallocated) US\$000	Total US\$000
Revenue	163,928	36,316	-	200,244
Interest	-	1	206	207
Other income	(12)	(2)	50	36
Total revenue & other income	163,916	36,315	256	200,487
Segment EBITDA	42,294	(7,880) ¹	18	34,432
Share-based payment – employees				(4,493)
Foreign exchange gain				2,380
Group underlying EBITDA				32,319
Transaction costs				(364)
Depreciation and amortisation				(12,630)
Figure Eight earn out adjustment				2,559
Acquisition-related share-based payments				(1,103)
Deemed interest on earn-out liability				(853)
Net interest expense				(607)
Profit before income tax				19,321
Income tax expense				(4,413)
Profit after income tax expense				14,908

¹ The New Markets segment has reported a loss in the current and corresponding period due to its early stage of development, focus on revenue growth and heavy investment in product development.

Note 4. Operating segments (continued)

Geographical information

	Sales income		Geographical non-current assets	
	30 June 2021 US\$000	Restated 30 June 2020 US\$000	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Australia	1,641	3,205	1,252	1,394
US	185,199	194,807	283,090	285,979
Other countries	9,701	2,232	10,169	10,565
	<u>196,541</u>	<u>200,244</u>	<u>294,511</u>	<u>297,938</u>

Note 5. Revenue

	30 June 2021 US\$000	Restated 30 June 2020 US\$000
Services revenue	<u>196,541</u>	<u>200,244</u>

Disaggregation of services revenue

Services revenue is disaggregated by type of service utilised as follows:

30 June 2021

	Global customers US\$000	New Markets customers US\$000	Corporate (Unallocated) US\$000	Total US\$000
Revenue – Global Services segment	148,778	-	-	148,778
Revenue – New Markets segment	22,307	25,456	-	47,763
Total revenue	<u>171,085</u>	<u>25,456</u>	<u>-</u>	<u>196,541</u>

30 June 2020 (Restated)

	Global customers US\$000	New Markets customers US\$000	Corporate (Unallocated) US\$000	Total US\$000
Revenue – Global Services segment	163,928	-	-	163,928
Revenue – New Markets segment	19,360	16,956	-	36,316
Total revenue	<u>183,288</u>	<u>16,956</u>	<u>-</u>	<u>200,244</u>

Note 6. Expenses

	30 June 2021 US\$000	Restated 30 June 2020 US\$000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	376	296
Fixtures and fittings	82	50
Computer equipment	540	547
Audio equipment	14	11
Land and buildings - right-of-use assets	2,561	2,150
Total depreciation	3,573	3,054
<i>Amortisation</i>		
Systems implementation	10 ¹	5 ¹
Product development	6,675	3,686
Other intangibles	12	12
Amortisation - sub-total	6,697	3,703
<i>Amortisation - acquisition related</i>		
Product development	3,565	3,564
Customer relationships	2,135	2,134
Brand	75	150
Customer contracts	26	25
Amortisation - acquisition related sub-total	5,801	5,873
Total depreciation and amortisation	16,071	12,630

¹ System implementation configuration costs associated with the implementation of the ERP system are no longer capitalised and have been expensed, as a result of a change in accounting policy caused by the IFRIC decision (refer to note 2(ii) for further information). Any associated amortisation expense has been reversed.

Note 6. Expenses (continued)

	30 June 2021 US\$000	Restated 30 June 2020 US\$000
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	307	387
Interest and finance charges paid/payable on lease liabilities	396	427
Finance costs expensed	<u>703</u>	<u>814</u>
<i>Share-based payments expense</i>		
Share-based payment in respect of Appen performance rights	(1,209) ²	4,493
Share-based payment in respect of Figure Eight acquisition	(249) ²	555
Share-based payment in respect of Leapforce acquisition	-	548
Total share-based payments (reversal) /expense	<u>(1,458)</u>	<u>5,596</u>

² Includes a true-up adjustment of share-based payments expense in relation to the 2020 Long-Term Incentive Plan, based on management's assessment of achieving hurdles.

Note 7. Current assets - trade and other receivables

	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Trade receivables	39,876	49,390
Less: Allowance for expected credit losses	(289)	(622)
	<u>39,587</u>	<u>48,768</u>
Other receivables	1,428	1,503
GST receivable	62	340
	<u><u>41,077</u></u>	<u><u>50,611</u></u>

Note 8. Contract assets

	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Opening balance – 1 January	31,516	5,531
Subsequently invoiced and transferred to receivables	(31,516)	(5,531)
Accrued revenue recognised – January to May	10,345	9,564
Subsequently invoiced and transferred to receivables	(10,345)	(9,564)
Accrued revenue recognised – origination 30 June ¹	28,177	21,125
Balance at 30 June	<u>28,177</u>	<u>21,125</u>
Subsequently invoiced and transferred to receivables		(21,125)
Additions during the period July to November		14,236
Subsequently invoiced and transferred to receivables		(14,236)
Accrued revenue recognised – origination 31 December		<u>31,516</u>
Closing balance	<u>28,177</u>	<u>31,516</u>

¹Relates 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. All contract assets were subsequently invoiced and the majority paid after 30 June 2021.

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

	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Land and buildings – right-of-use	25,652	25,426
Less: Accumulated depreciation	<u>(9,874)</u>	<u>(7,433)</u>
	<u>15,778</u>	<u>17,993</u>

Note 10. Non-current assets - intangibles

	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Goodwill - at cost	202,613	202,595
Systems implementation - at cost	1,471	1,320
Less: Accumulated amortisation	(1,263)	(1,253)
	<u>208</u>	<u>67</u>
Product development - at cost	91,516	80,299
Less: Accumulated amortisation	(37,473)	(27,224)
	<u>54,043</u>	<u>53,075</u>
Customer relationships - at cost	31,500	31,500
Less: Accumulated amortisation	(14,265)	(12,130)
	<u>17,235</u>	<u>19,370</u>
Brand - at cost	600	600
Less: Accumulated amortisation	(600)	(525)
	<u>-</u>	<u>75</u>
Customer contracts - at cost	2,372	2,372
Less: Accumulated amortisation	(2,345)	(2,319)
	<u>27</u>	<u>53</u>
Other intangibles - at cost	1,503	910
Less: Accumulated amortisation	(378)	(349)
	<u>1,125</u>	<u>561</u>
	<u><u>275,251</u></u>	<u><u>275,796</u></u>

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

Reconciliations

Reconciliations of the written down values for the year ending 31 December 2020 and the half-year ending 30 June 2021 are set out below:

Group	Goodwill \$'000	Systems imple- nt- 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 (Restated)	202,549	43	51,038	23,638	375	102	204	277,949
Additions	-	37	18,712	-	-	-	381	19,130
Exchange differences	46	-	(19)	-	-	-	7	34
Amortisation expense	-	(13)	(16,656)	(4,268)	(300)	(49)	(31)	(21,317)
Balance at 31 December 2020 (Restated)	202,595	67	53,075	19,370	75	53	561	275,796
Additions	-	151	11,217	-	-	-	593	11,961
Exchange differences	18	-	(9)	-	-	-	(17)	(8)
Amortisation expense	-	(10)	(10,240)	(2,135)	(75)	(26)	(12)	(12,498)
Balance at 30 June 2021	202,613	208	54,043	17,235	-	27	1,125	275,251

Prior year numbers for systems implementation have been adjusted for the change in accounting policy associated with configuration costs incurred with respect to the implementation of our primary ERP system (see note 2(ii) for further information).

The additions for product development during the reporting period relate to continued investment by Appen, in development and enhancement of its products and tools, to drive efficiency, scale and repeat revenue.

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

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 3 to 7 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.

Impairment of assets and allocation of goodwill to cash-generating units (CGUs)

Goodwill associated with each strategic acquisition made by the Group has been allocated for impairment testing purposes to CGUs. The CGUs have been determined based on the expected synergies that each acquisition provides the Group, by making an assessment of those parts of the business that are expected to benefit and identifying the independent cash flows associated with each part of the business.

Following the corporate restructure and the associated changes to operating segments, that were announced during the period (as outlined in the Directors' report), there has been a change in how performance and growth of the business is measured and monitored. This has resulted in a change in the Group's CGUs, and hence a change in the manner in which impairment testing of Goodwill associated with each acquisition has been performed, with the recoverable amount based on separately identifiable cash inflows based on these new CGUs.

Goodwill associated with the acquisitions of Figure Eight Technologies Inc ("Figure Eight") and Mendip Media Group Limited ("Mendip") have been allocated to the New Markets (ex-China) CGU.

Goodwill associated with the acquisitions of Butler Hill, Leapforce Inc and RaterLabs Inc ("Leapforce") has been allocated to the Global Services CGU.

Figure Eight and Mendip

Goodwill associated with the acquisition of Figure Eight and Mendip have been allocated for impairment testing against the New Markets (ex-China) CGU, based on the Goodwill calculated at time of acquisition. Value in use was determined by discounting the future cash flows to be generated by the New Markets (ex-China) CGU and is based on the following key assumptions:

- Cash flows were projected based on forecast operating results over the five and a half year period to 31 December 2026;
- Average annual revenue growth rate of 20% per annum from the current year to 2026. This includes an attribution value of revenue conversion from the Global Services CGU to the New Markets CGU, as projects transition to the use of our platform and tools. Growth rates were referenced against our view of the growth rate for each business unit that comprises the New Markets CGU (ex China), being Global Product, Enterprise and Government, and the long-term growth rate of the AI industry. We have considered the impact of the COVID-19 pandemic in determining these projected revenue growth rates. All future years of the model use a constant growth rate of 3%; and
- A pre-tax discount of 13.8% based on the weighted average cost of capital.

The Goodwill carrying value of \$149,455,000 (2020: restated \$149,442,000) has been allocated to the New Markets (ex-China) CGU. At 30 June 2021, the recoverable amount, being the net amount of discounted future cash flows, exceeds the carrying value of assets in the New Markets (ex-China) CGU.

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

Butler Hill, Leapforce and RaterLabs

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. Value in use was determined by discounting the future cash flows to be generated by the Global Services CGU and is based on the following key assumptions:

- Cash flows were projected based on forecast operating results over the five and a half year period to 31 December 2026;
- Average annual net revenue growth rate of 8.2% (after allowing for conversion of revenue from Global Services CGU to New Markets CGU) from the current year to 2026. We have considered the impact of the COVID-19 pandemic in determining this projected revenue growth rate. All future years of the model use a constant revenue growth rate of 3%; and
- A pre-tax discount of 13.8% based on the weighted average cost of capital.

The Goodwill carrying value of \$53,158,000 (2020: restated \$53,153,000) has been allocated to the Global Services CGU. At 30 June 2021, the recoverable amount, being the net amount of discounted future cash flows, exceeds the carrying value of assets in the Global Services CGU.

Note 11. Lease liabilities

	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Current liabilities		
Lease liability	5,241	5,036
Non-current liabilities		
Lease liability	12,111	14,432

Note 12 – Equity – issued capital

	30 June 2021 Shares	31 Dec 2020 Shares	30 June 2021 US\$000	Restated 31 Dec 2020 US\$000
Ordinary shares – fully paid	<u>123,074,916</u>	<u>122,345,605</u>	<u>262,917</u>	<u>262,917</u>
<i>Movements in ordinary share capital</i>				
Details	Date	Shares	US\$000	
Balance	1 January 2021	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	<u>7,034</u>	<u>-</u>	
Balance	30 June 2021		<u>123,074,916</u>	<u>262,917</u>

Note 13. Equity – dividends

Dividends paid during the half-year were as follows:

	30 June 2021 US\$000	Restated 30 June 2020 US\$000
2020 final dividend of AU 5.5 cents per share (2020: 2019 final dividend of AU 5.0 cents per share)	<u>5,242</u>	<u>3,560</u>

Dividend declared

On 26 August 2021, the Company declared an interim dividend for the half-year ended 30 June 2021 of AU 4.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 1 September 2021 and the payment date will be 24 September 2021. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 30 June 2021 and will be recognised in the subsequent financial period.

Note 14. Earnings per share

	Group 30 June 2021 US\$000	Restated 30 June 2020 US\$000
Profit after income tax attributable to the owners of Appen Limited	<u>6,690</u>	<u>14,908</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	122,836,644	120,154,639
Adjustments for calculation of diluted earnings per share:		
Performance rights	<u>2,167,371</u>	<u>2,493,867</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>125,004,015</u>	<u>122,648,506</u>
	US Cents	US Cents
Basic earnings per share	5.45	12.41
Diluted earnings per share	5.35	12.16

Note 15. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing, and there remains uncertainty as to when the global economy will recover. The Group did not access any government COVID-19 related grants in the period or to the date of signing of this report.

Apart from the dividend declared, Board renewal initiatives and acquisition of Quadrant as disclosed in the Directors' report, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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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 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Christopher Vonwiller
Director

26 August 2021
Sydney

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Independent Auditor's Review Report

To the shareholders of Appen Limited

Report on the Interim Financial Report

Conclusion

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

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

- Giving a true and fair view of the **Group's** financial position as at 30 June 2021 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 2021;
- 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 a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

The Interim Period is the six months ended on 30 June 2021.

Basis for Conclusion

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

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 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 Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



KPMG



Cameron Slapp
Partner

Sydney
26 August 2021