



Powering the

# AI life cycle

2021 Annual Report

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## About this report

This Annual Report combines our financial and non-financial performance, linking environmental, social and governance matters to our strategy and business performance.

In preparing our Annual Report, we have used the International Integrated Reporting Council (IIRC) Framework and the Sustainability Accounting Standards Board (SASB) to guide our disclosures on how Appen creates value for shareholders and which topics are most material to our business.

Underlying results are alternative measures to those recommended under International Financial Reporting Standards (IFRS) and are used by management to assess the underlying performance of the business. Underlying results have been derived from statutory measures contained in the financial statements but have not been subject to audit. A reconciliation between statutory and underlying results is detailed on [page 29](#) of this report.

This 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. Unless otherwise stated, all amounts are in United States (US) dollars.

During the year, Appen also announced a corporate restructure. Details of our five business units, our two operating and reporting segments can be found on [page 51](#) in the Directors' report.

### Forward-looking statements

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

### Material issues

A matter is considered material if senior management and the board believe

it could significantly impact the value created and delivered in the short, medium and long term. We identify and capture material matters through stakeholder engagement and our annual risk and materiality assessment.

### Operating and Financial Review

The sections of this report from [pages 8 to 45](#) titled the Chairman's message, CEO's message, How we create value, Identifying and managing risk and Our approach to governance comprise our Operating and financial review (OFR) and form part of the Directors' report.

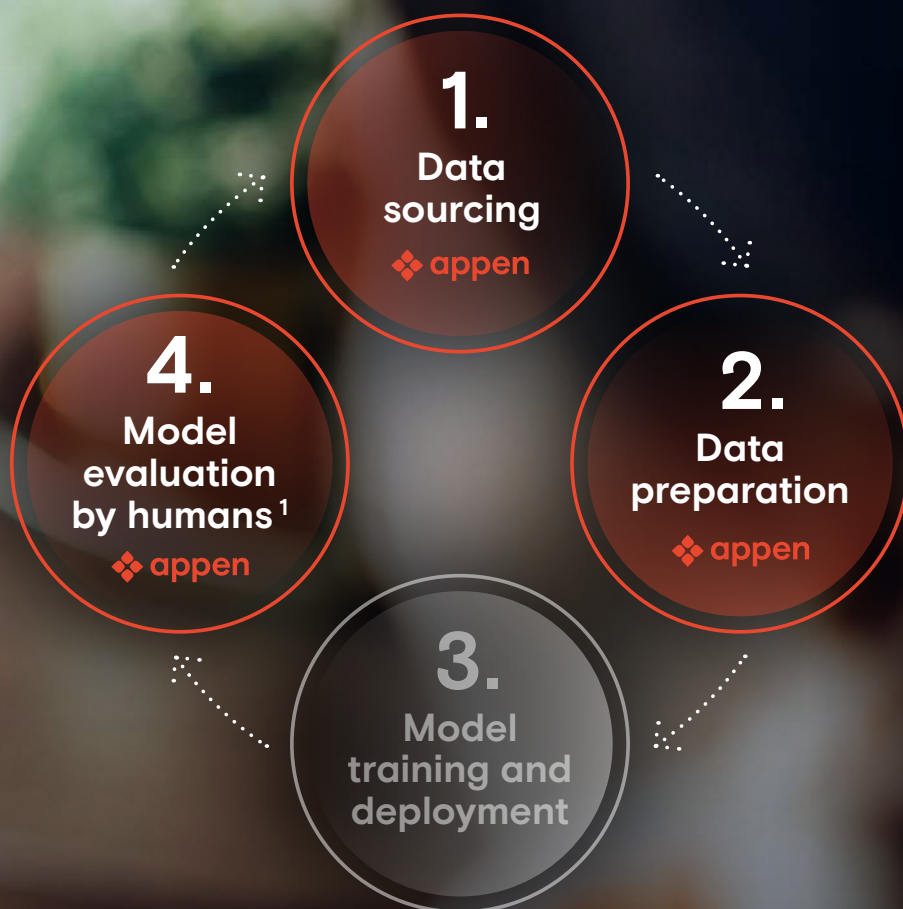
### Verification and assurance

The Directors' report, including information about How we create value, Identifying and managing risk and Our approach to governance is prepared by management in consultation with the board. The content in the Directors' report is guided by regulatory requirements and our interactions with investors and other stakeholders throughout the year.

The information in the Directors' report is derived from Appen's internal records and has been through our internal verification process. An independent audit of our consolidated financial accounts has been conducted by KPMG.



# Appen provides data for the AI lifecycle



We are the leading provider in three out of the four essential steps of the AI lifecycle, including:

- 1. Data sourcing, 2. Data preparation, and
- 4. Real-world model evaluation

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

<sup>1</sup> Includes relevance.

# Mission, vision and values

At Appen, we collect and label images, text, speech, audio, video, and other data used to build and continuously improve the world's most innovative artificial intelligence systems.

Our training data gives leaders in technology, automotive, financial services, retail, healthcare, and government the confidence to deploy world-class AI products.

## Our mission

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

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## Our vision

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

At Appen, our team seeks to live our values in everything we do.

## Our values

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

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

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

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



# Our strategy

## Objective

Leading global provider of data for the AI lifecycle

Delivering financial outcomes in FY26

More than  
**1/3**  
of revenue from  
non-global  
customers

At least double  
**2021**  
revenue

EBITDA  
margin target  
**20%**

## Enablers

- New customer-aligned organisation structure
- Increased investment in Product and Engineering (up to 10% of revenue)
- Dedicated team of data scientists to build and deploy Machine Learning models to pre-label training data
- Quadrant acquisition unlocks broader Point of Interest market
- ~\$5m annual investment for transformation team starting in FY22

## Four strategic pillars



### 1. Grow revenue and diversify

Drive growth in target customer segments



### 2. Automate crowd and labelling processes

Leverage AI and ML in our labelling operations to improve the productivity of our crowd



### 3. Expand our product offering

Expand our TAM by adding new products and capabilities – e.g. Quadrant and synthetic data



### 4. Evolve how we do business

Improve the scalability and productivity of our GTM and project delivery

# Global reach ...

Appen is a truly global business

 Appen offices



25

years world-class  
expertise

24/7

support  
available

AI

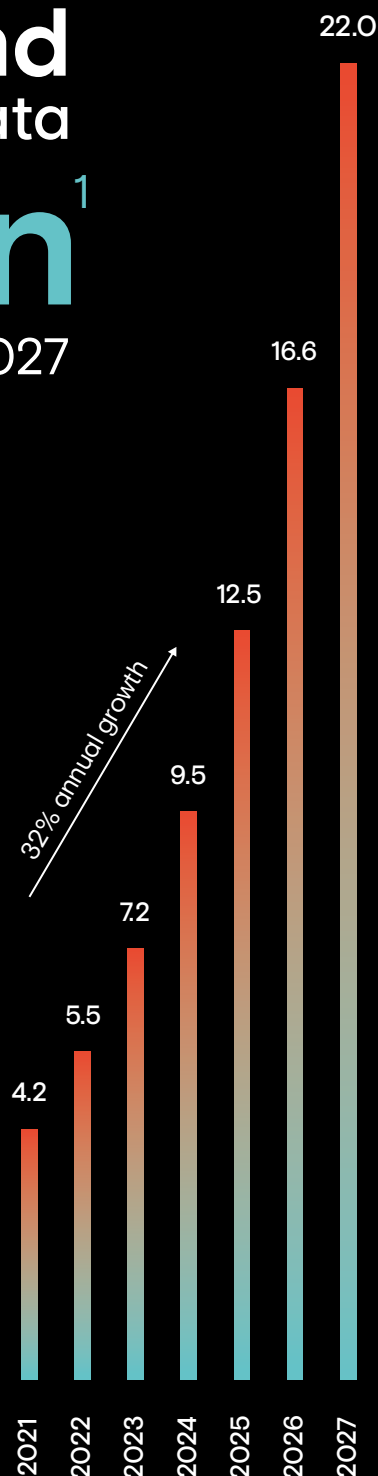
enabled  
platform



# Global demand for training data

# \$22bn<sup>1</sup>

by 2027



## 1m+

crowd  
contractors

Our crowd has  
expertise in

## 235

languages

Living in

## 170+

countries

<sup>1</sup> Cognilytica Research Snapshot: Data Labelling Markets (December 2021).

# 2021 highlights

## Customers

► See page 22–23.

**25**  
**years**

working with leading  
technology companies

**11**

of the leading autonomous  
vehicle companies are  
our customers

Our customers include:



**SIEMENS**



**Bloomberg**

## Financial

► See page 24–29.

**Revenue**  
US million

**\$447.3m**

↑ 8%

**Dividend per share**  
(A¢)

**10.0¢**

full year

**EBITDA**  
US million

**\$72.9m**

statutory ↓ 2%

**Net profit after tax**  
US million

**\$28.5m**

statutory ↓ 20%

**\$77.7m**

underlying ↑ 3%

**\$40.6m**

underlying ↓ 10%

## Crowd

► See page 16–17.

### Crowd Code of Ethics



Fair pay



Inclusion



Crowd voice



Privacy and  
confidentiality



Communication



Wellbeing

Financials as at 31 December 2021, all comparisons are to the year ended 31 December 2020. Underlying net profit after tax (NPAT) and earnings before interest, tax, depreciation, and amortisation (EBITDA) exclude the impact of items relating to business acquisitions, including amortisation of acquired assets, share-based payments, restructure costs, transaction costs and fair-value adjustments. Underlying NPAT also excludes deemed interest on acquisition-related earn-out payments.





## Employees

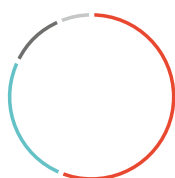
► [See page 18–21.](#)

# 38%

Female representation  
amongst senior leadership  
↑ from 30% in 2020

# 50%

Female representation  
amongst our board  
↑ from 43% in 2020



### Employee distribution

■ USA	330	■ Asia Pacific	711
■ UK/Europe	80	■ Australia	144

## Social and environment

► [See page 30–33.](#)

### Impact sourcing

Creating opportunities for  
people in developing countries

# 17%

were long-term unemployed  
(>1 year) before joining Appen

# 16%

were living under the global  
poverty line before joining Appen

# 63%

use their Appen earnings to support  
their household or to pay for education

### Net zero emissions

by 2030

### Scope 1 and 2

GHG emissions  
inventory completed

# 100%

renewable Cloud  
supplier partner

## Technology

Major technology  
customers use our  
**industry  
leading**  
data annotation  
platform

► [See page 14.](#)

### Acquisition of Quadrant

delivers high accuracy  
location data

► [See page 14 and 52.](#)

### Mobile App

improves the user  
experience for  
our crowd

► [See page 14.](#)

ISO certified

# 5 secure facilities

► [See page 15.](#)

# Delivering long-term value



**In 2021 Appen celebrated 25 years of operations. The company's transition from a language data provider to become a leading AI data annotation provider is remarkable. As we continue our journey and prepare for our next growth phase, we are committed to supporting our customers, looking after our employees and crowd, and delivering long-term value for shareholders.**

## **Financial performance**

Appen maintained its track record of profitable growth in 2021. The result featured a record second half revenue performance, breakout growth in China and an increased contribution from New Markets.

Group revenue increased by 8% over last year to \$447.3 million and underlying EBITDA, also increased. Our performance is underpinned by the strength of our customer relationships, crowd model and ability to deliver high quality data.

The full year dividend of 10 cents per share was in line with FY20. Both the interim dividend of 4.5 cents per share and the final dividend of 5.5 cents are 50% franked.

## **Strategy and future growth**

Appen's mission is to help our customers build better AI by creating large volumes of high-quality training data faster. In delivering on our mission, the Board is firmly focused on capturing growth opportunities. During the year, we completed a strategic review that confirmed the substantial opportunities ahead of us and our privileged leadership position and laid out recommendations to maximise our ability to grow and deliver value for shareholders. The Board has an active interest in the strategy implementation and has created an internal advisory board committee to advise management throughout the next phase.



## Board renewal

I was very pleased to be invited to join the Board of Appen, commencing in August 2020 and thank Chris Vonwiller for his warm welcome and smooth handover before his retirement in October last year. Chris, along with his wife Julie, have created and grown an Australian success story and I am honoured to chair the company through its next phase. Chris has left Appen in a strong position and we wish Chris and Julie a long and happy retirement.

Bill Pulver also retired from the Board in 2021. Bill was CEO from 2010 to 2013 and then a non-executive director for eight years. I also thank Bill for his valuable contribution to the company and wish him well in the future.

Steve Hasker, an independent director since April 2015, was appointed as chair of the People and Culture Committee upon Bill's retirement. The committee has been renamed and its remit broadened to reflect the importance of people and culture to Appen's success. Steve is the President and CEO of Thomson Reuters and provides us with extensive experience in global talent and remuneration management.

With the retirements of Chris and Bill, we are actively recruiting for two new independent non-executive directors to join the Board. This will ensure we have the right mix of skills, experience and Board tenure to govern and guide the company.

## Remuneration practices

The Board has listened to shareholders' feedback in response to the first strike on the 2020 Remuneration Report. We have also taken feedback from proxy advisors and engaged remuneration experts to revise our short and long-term incentive programs.

The new incentive schemes, outlined in this year's remuneration report, are designed to attract, motivate and retain employees, and better align their interests with those of our shareholders. Our 2022 programs seek to balance shareholder expectations against remuneration practices in the US and Australia, and enable Appen to compete for talent in these highly competitive labour markets.

*AI requires diverse datasets representative of the real world to perform ethically and correctly, and we are obliged to ensure that our crowd is suitably diverse to deliver on this promise. We are actively involved in Impact Sourcing partnerships that support diversity and opportunity, and our Crowd Code of Ethics includes a commitment to offering work opportunities to individuals of all abilities and backgrounds."*

## Caring for our stakeholders

We remain committed to the ethical treatment of our crowd and have set out our standards in our Global Ethical Sourcing and Modern Slavery Policy. We issued our first modern slavery statement in 2021 that summarises our ongoing commitments and efforts to address human rights and labour risks associated with our business.

As a company entrusted with the data of our customers, crowd, employees and shareholders, we have implemented rigorous security systems and processes based on international standards. This is a dynamic and important area, and our in-house experts are at the forefront of it to ensure we protect stakeholder data and privacy.

This year, we also partnered with the World Economic Forum to create responsible AI standards.

## Promoting diversity and inclusion

The Board has a strong interest in diversity and inclusion. AI requires diverse datasets representative of the real world to perform ethically and correctly, and we are obliged to ensure that our crowd is suitably diverse to deliver on this promise. We are actively involved in Impact Sourcing partnerships that support diversity and opportunity, and our Crowd Code of Ethics includes a commitment to offering work opportunities to individuals of all abilities and backgrounds.

We are also focused on gender and ethnic diversity amongst our full-time workforce. Appen has maintained 58%

female representation amongst employees in 2020 and 2021 and increased female representation to 50% and 30% amongst our Board and Executive team respectively. Our employee-led Diversity and Inclusion committee maintains an active agenda of events and communications that celebrate diversity and promote awareness across the company.

## Committed to climate action

This year, we completed our first GHG emissions inventory for Scope 1 and 2. While Appen's business has a relatively small environmental footprint, we are committed to supporting international initiatives to transition to net zero emissions. As part of our commitment this year we will focus on determining our Scope 3 emissions and setting our pathway to achieve net zero by 2030.

## Outlook

Appen is a global leader in a dynamic and high-growth market. The Board has every confidence that Appen's strong foundations and reshaped strategy will deliver long-term value for shareholders.

I thank my fellow board members for their welcome, congratulate management and their teams for their tireless efforts and resilience through the pandemic.

On behalf of the Board, I sincerely thank shareholders for your ongoing support and commitment to our company. Appen is a truly global company, and I am excited about its future.

**Richard Freudenstein**  
Non-executive Chairman

# Driving growth



## I am very pleased to share our results for 2021 and provide an update on the year and our growth strategy.

This year, we reported a record full year revenue performance that was underpinned by a strong second half year revenue and EBITDA performance.

Revenue in the second half of \$250.7 million was an all-time high for the company. It included the expected second half skew to our Global customers, and breakout growth in China:

On a full year basis:

- Group revenue was up 8% on 2020 to \$447.3 million.
- Underlying EBITDA, before the impact of foreign exchange (FX) of \$78.9 million, was 11.6% higher than last year. Including FX, EBITDA grew 3% to \$77.7 million.
- China revenue was up 422% on 2020 to \$24.7 million.

The result benefitted from a 32% increase in Global Services revenue from first half to the second half of FY21. Global Services revenue is derived from

projects done on the platforms of the world's largest technology companies. It included a higher proportion of revenue from non-ad-related projects in the second half, reinforcing our customers' shift to new product developments and future sources of revenue for them, such as ecommerce, maps and the metaverse.

We had a breakout year in China. China continues to grow at a rapid pace with quarterly compound revenue growth of 56% (1Q20-4Q21). We count China's technology and internet giants amongst our customers, along with leading mobile phone and autonomous vehicle companies. AI models for autonomous vehicles require vast volumes of data and we're establishing ourselves as a key provider in that market in China.

Our Enterprise team, who serve commercial businesses outside of the Global technology companies, had a good year but has yet to achieve its potential. We've rebuilt the team under Jen Cole, who brings more than twenty years of experience in high growth ad-tech, ecommerce and marketing solutions. We're pleased to have Jen and her team on board and have strong confidence in them.

The market for training data and AI in the government markets is steadily evolving. We continue to deliver into existing programs while adding new pilot projects that will bear fruit in time.

## Managing COVID

During the year, we experienced negligible COVID-related impacts, and continued to deliver quality outcomes for our customers, with our seamless, flexible remote crowd delivery capability.

## Our 2026 Strategy

Ours is a dynamic and fast-paced market. We completed a strategic review with external experts in 2021 to ensure that we remain at the forefront of technology and market trends.

The review confirmed that AI will continue to grow at a rapid rate and that high volumes of high-quality training data are essential to develop AI products that work in the real world. It found that our expertise and track record in three of the four essential stages of the AI lifecycle: data sourcing, data preparation and real-world model evaluation, along with our range of data types and scale, make us the clear market leader.

The market is evolving. New data types are emerging, such as spatial and geo-locational data, and technology is playing a bigger role in the creation and preparation of training data.

There are four pillars to Appen's strategy: Grow revenue and diversify our customers, automate our crowd and labelling processes, expand our



***Our expertise and track record in three of the four essential stages of the AI lifecycle: data sourcing, data preparation and real-world model evaluation, along with our range of data types and scale, make us the clear market leader."***

product offerings and evolve how we do business. Growth is a key strategic priority. Our focused business units: Global, Enterprise, China, Government and Quadrant, are targeted primarily on revenue growth and customer acquisition to diversify and grow our customer base. Our non-global customers represented 14% of our revenue this year, up from 9% in 2020.

We will increase our investment in product and engineering to streamline and automate crowd and labelling processes. Sujatha Sagiraju joins us as Chief Product Officer, from Microsoft, and brings many years of product and engineering experience in search technologies and machine learning. She will work alongside our CTO, Wilson Pang, to create and evolve market leading products.

We've also expanded our data science team and they are adding to our suite of machine learning models. We're using the models to pre-label training data to high levels of accuracy before they are checked and completed by our experts and crowd. This data is created far cheaper and quicker than fully human-labelled data and with higher quality, improving the value we provide to customers as well as our scalability, productivity and margins.

The acquisition of Quadrant supports our strategy to expand our addressable market and product offerings with new data types and capabilities. Quadrant's Geolancer product efficiently collects real world location data 'in the field' that supports the creation and update of geo-locational applications used in maps, ecommerce and marketing. We welcome Quadrant's founder Mike Davie and his team to Appen and we are already seeing interest and uptake of Geolancer across our customer base.

Our high growth rate of recent years has seen some of our internal systems lag customer demands. We've invested in a transformation office so that we can continue to evolve the way we do business. Eric de Cavaignac joined Appen in November 2021 and will lead internal processes to digitise our business to improve productivity and scale, and to make the work of our expert staff more meaningful and fulfilling.

### **Culture and leadership**

The success of our strategy depends on its implementation and that relies on the expertise and engagement of our team.

We are investing in culture and leadership development to bind and support our global team, help us navigate the challenges of virtual work and improve employee engagement and productivity. We're pleased to welcome Andrea Clayton who joins Appen in late February as our new Chief People Officer. She will support these and other initiatives to make Appen a great place to work.

### **Outlook**

Our strategy positions us to maximise long-term growth and shareholder returns. Our plans include a set of targets for 2026 that include revenue, customer mix and profitability.

Our strong second half result, the new members of our leadership team and our growth strategy give us great confidence in our future.

On behalf of my team, I would like to thank everyone in Appen and the members of our global crowd for everything they do for our customers and for each other.







Thank you for your ongoing support. We are looking forward to a successful and rewarding 2022.

**Mark Brayan**  
Managing Director  
& Chief Executive Officer



# How we create value

Our mission is to enable our customers to build better AI by creating large volumes of high-quality training data faster. We measure our success by the outcomes we deliver through our six value drivers.

Value driver	Material issue	How we deliver value
 <p>Technology, processes systems</p>	Maintaining investment in technology, processes and systems so that we can provide essential components of AI – including data sourcing and data preparation.	<ul style="list-style-type: none"> <li>Through our technology and innovative solutions, we can deliver large volumes of high-quality data to our customers.</li> <li>Our Engineers, privacy, and cyber security teams work to ensure that data availability targets are met, and data is protected and secure.</li> </ul>
 <p>Global Crowd</p>	Attracting and retaining diverse set of skilled contractors. We need the right crowd to meet the needs of our customers.	<ul style="list-style-type: none"> <li>We are committed to treating our crowd fairly in accordance with our Crowd Code of Ethics.</li> <li>Our Impact Sourcing strategy also provides jobs to people who have limited prospects for employment.</li> </ul>
 <p>Our People</p>	Attracting, developing and retaining talent. We require people with the right skills to deliver value for customers and our Crowd.	<ul style="list-style-type: none"> <li>We invest in our people, creating an environment that is conducive to professional and personal development.</li> <li>Diversity principles are also embedded in our business via our Diversity and Inclusion policy.</li> <li>We recognise the importance of diversity to achieving fair AI and creating responsible AI standards.</li> </ul>
 <p>Customer and brand</p>	Delivering innovative solutions and responding to customer needs.	<ul style="list-style-type: none"> <li>We monitor relevant market and customer trends. Our product-led strategy helps to meet the evolving needs of customers.</li> </ul>
 <p>Financial</p>	Delivering shareholder returns. Maintaining a sound balance sheet to support investment in future growth.	<ul style="list-style-type: none"> <li>We continue to grow the business and to deliver increased revenue and earnings to support returns for shareholders.</li> </ul>
 <p>Social and environment</p>	Reducing our impact on the environment. Creating social value and meeting the increasing expectations of stakeholders more broadly.	<ul style="list-style-type: none"> <li>We take steps to comply with modern slavery requirements across the jurisdictions in which we operate and participate in programs to remove traditional barriers to work.</li> </ul>



To deliver on our mission we draw on our industry leading technology, scale and flexibility of our Crowd and deep expertise. We offer our customers highly flexible offerings – from fully tailored solutions to pre-labelled datasets and self-service options. We have a strong track record of AI deployment across many data types and a proven ability to meet production needs that achieve high benchmarks for data quality.

The outcomes delivered for each value driver determines our ability to create value for our stakeholders – including Our Crowd, Our customers, Our people, shareholders, and the community more broadly. By its very nature – AI is experimental. Even though we conduct our work with an innovative mindset and embrace new ways of doing things, our decisions are always supported by a disciplined approach to governance and risk management.

We support the United Nations' Sustainable Development Goals (SDGs) which is a framework of 17 Goals and 169 targets to tackle the world's most pressing social, economic, and environmental challenges in the lead-up to 2030. By doing our part to contribute to the success of the SDGs we contribute to not only a more sustainable future but additional potential business value. We have identified the following six SDGs as core priority SDGs where we believe we are able to best contribute within the value we create.

## Creating and measuring value

- We launched our product-led strategy, with a focus on continuing to build scalable and repeatable products and services. We appointed a new Chief Product Officer and a new Chief Transformation Officer to support our product-led focus.
- We also added to our technology with the acquisition of Quadrant and invested \$30 million in technology and systems, including new functionality to our Appen Data Annotation Platform.
- No material privacy breaches in FY21.

## SDGs



Pages 14–15

- We provide flexible, work-from-home opportunities to our global crowd of 1 million+ contractors.
- We help make AI ethical and fair through our Crowd Code of Ethics.
- in response to crowd NPS we are embarking on several projects to improve their experience on our platform.



Pages 16–17

- To address employee satisfaction rates, we completed a culture survey and developed a five-point plan to build a more constructive and empowering culture.
- By targeting 30% female representation of women in senior management positions and on the board, we demonstrate our ongoing commitment to diversity and to increase female participation across our business.



Pages 18–21

- By providing high-quality training data at scale, we help our customers to create and launch innovative products and services. We aim to improve customer experience and satisfaction.
- We demonstrate leadership in making AI ethical and fair through our Crowd Code of Ethics which also helps to enhance our brand.
- This year, we moved to a new organisational structure that is aligned to our product-led and customer-centric strategy.



Pages 22–23

- We have set a series of revenue targets, profitability, and business mix metrics to be delivered by FY26.



Pages 24–29

- Completed our Scope 1 and 2 GHG emissions inventory.
- Published our first modern slavery statement.
- Piloted a Tech-for-Food initiative as part of the World Food program.
- Expanded our impact sourcing activities to bring digital work to underprivileged communities.
- Conducted research programs to understand representation across the Crowd and address gaps.
- Partnered with the World Economic Forum to create responsible AI standards.



Pages 30–33

# Technology processes, systems

Our technology, processes and systems, combined with our expertise and crowd, enable us to provide data sourcing, data preparation and model evaluation which are essential components of the AI lifecycle.

## Annotation platform

Appen's Annotation Platform is the platform that both customers and internal teams use to design, run and manage data annotation tasks. Our annotation platform supports a broad range of use cases, from content relevance to computer vision and speech and language.

AI-assisted annotation (Appen Intelligence) is an important feature of the platform, where we use AI models to greatly improve crowd productivity and quality.

In 2021 we launched In-Platform Audit, a feature that enables customers to review and audit annotations on their data.

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

## Product-led strategy

In 2021, we launched our product-led strategy, with a focus on continuing to build scalable and repeatable products and services.

The product is what we deliver to the customer using our expertise, technology and crowd.

Being product-led is about how we combine our expertise, technology and crowd in a repeatable and scalable fashion to drive great customer experience and efficient delivery.

To further drive our product strategy and roadmap, Sujatha Sagiraju joined Appen as Chief Product Officer.

She is supported by Eric de Cavaignac, our new Chief Transformation Officer, who is responsible for managing our transformation program against our strategy.

## Appen Connect

We manage large scale, complex annotation and data collection programs for our customers. This typically involves tens of thousands of crowd contractors. Our crowd management platform, Appen Connect, enables us to recruit, onboard and pay our crowd. It is also used by our internal recruiters and project managers to match the right contractors to the right jobs, and to track quality. We utilise AI-driven predictive matching functionality that connects crowd workers to tasks according to their skills and expertise.

## Appen Mobile

Appen Mobile enables crowd contractors to sign up, search for projects, and work on data collection tasks anytime, anywhere.

It allows tasks such as video data collection to be completed on a contractor's smartphone and uploaded seamlessly.

The app greatly improves the user experience for our crowd and means that we can attract more people in markets where the use of personal computers is not common. In addition, we can provide more opportunities for contractors to increase their income.

## Quadrant

We added to our technology in 2021 with the acquisition of Quadrant. Quadrant has three core platforms that are used to deliver high accuracy location data for our customers including, Geolancer, Hydra and QCMP.

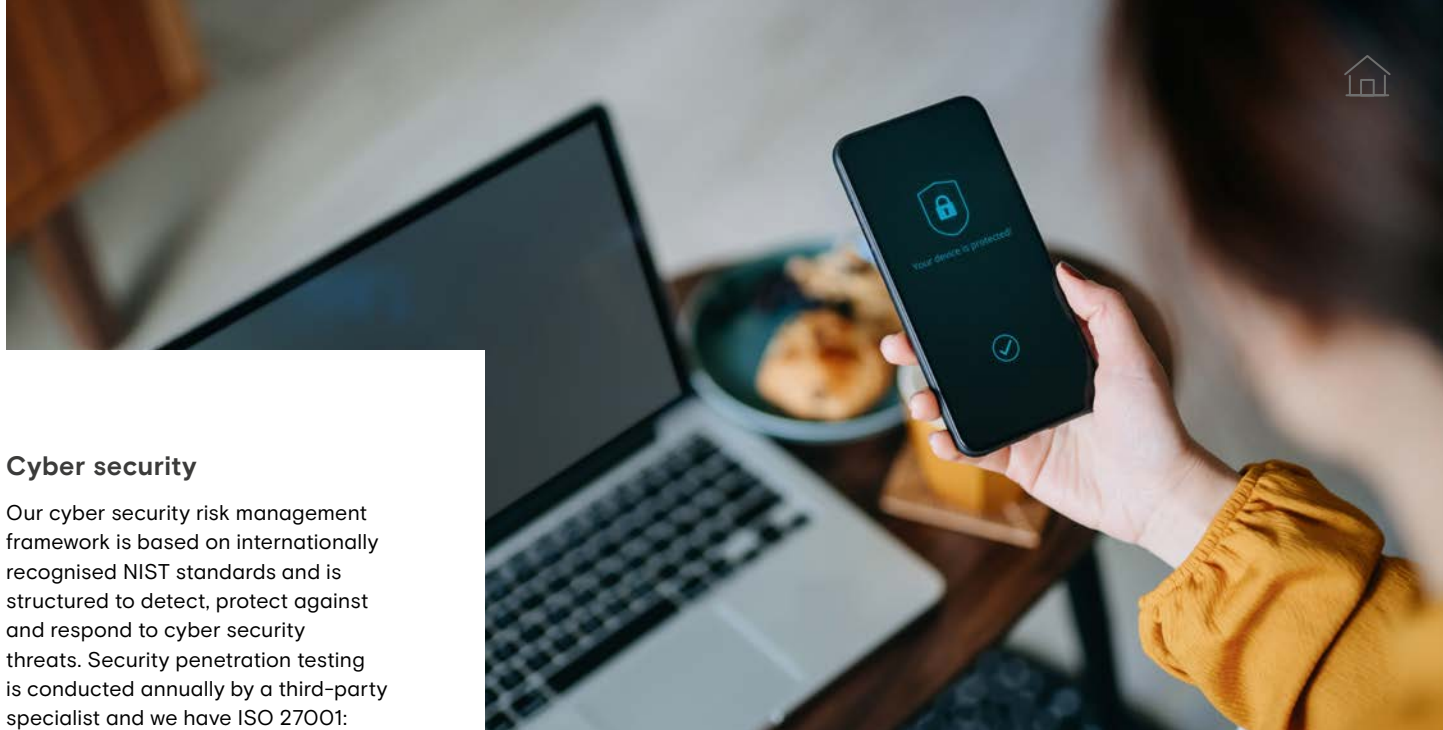
Geolancer is a point of interest (POI) data collection mobile app. Crowd workers are notified of POI opportunities in their local areas that are completed in the app. This data is compiled into ready to use datasets for last-mile delivery, real-estate, retail search and mapping.

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

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

## Priority SDG





## Cyber security

Our cyber security risk management framework is based on internationally recognised NIST standards and is structured to detect, protect against and respond to cyber security threats. Security penetration testing is conducted annually by a third-party specialist and we have ISO 27001:2013 certified facilities and SOC 2 attested data annotation platform. Additionally, our UK facility is ISO 9001 and Cyber Essential Plus certified.

Our IT Security policies and standards are adhering to ISO 27001 requirements and the incident response procedure is based on the NIST CSF (Cyber Security Framework). We conduct an incident response tabletop exercise annually.

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

We also have top tier network, perimeter and end point security tools protecting the assets and monitoring inbound and outbound network traffic. Privilege access and vendor security reviews are conducted as per our standards.

## Reliability

Our engineering teams also focus on system reliability and resilience. This includes working to strict system availability targets and ensuring that our systems can safely scale in response to growing demand.

## Data privacy

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

There were no reported material breaches in 2021.

## System and data security

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

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

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

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

## Outlook

In 2022, we will increase our investment in product, engineering and machine learning to enable our product-led strategy. We are also investing in a transformation team to design and implement new processes across our business that maximise the benefit of our new technology. In addition we will continue to focus on our system and data security, cyber security and data privacy systems and processes.

# Global crowd

**Our skilled and diverse crowd of over 1 million+ contractors live in more than 170 countries and speak 235 languages. Sourcing and retention of an engaged and productive crowd is key to our ability to serve our customers.**

## Attracting a skilled crowd

Our flexible work-from-home model attracts a wide range of people who value the benefits of being able to work independently and choose when, where and as much as they choose. Given the ongoing impacts of COVID-19 we continued to receive high numbers of new contractor applications as people sought to earn an income from home. The diversity of our crowd continues to expand, supporting the evolving requirements from our customers for unbiased and representative AI training data.

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

## Engagement and productivity

Our crowd NPS declined during the year with responders identifying project availability as their key concern. To address this we are embarking on several projects to improve the user experience on our platform, including refining our registration process to be more intuitive and ensure users are matched and on-boarded to available projects with minimal friction.

### Crowd NPS<sup>1</sup>



## Crowd care

The fair and ethical treatment of our contractors, and our ongoing commitment to their wellbeing is an important strategic differentiator for our business. As a company, we recognise that is the right thing to do and our customers also expect that their partners uphold responsible and sustainable labour and supply chain practices.

Our Crowd Code of Ethics is central to how we care for our contractors. It includes our goal of fair pay and having our hourly rates exceed the minimum wage in markets where our managed services are used by customers.



## Crowd diversity and inclusion

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

Our customers also value this diversity and consider it critical to the quality and real-world applicability of the training data we provide.

## Priority SDGs



<sup>1</sup> Measures the likelihood of crowd contractors to recommend Appen to a friend or colleague, according to a scale of 1-10 where 10 means extremely likely (0-6 Detractor, 7-8 Passive, 9-10 Promoter). NPS is calculated by subtracting the % of total detractors from the % of total promoters. Scores can range from -100 to +100. Source: Cascade Insights, November 2020.



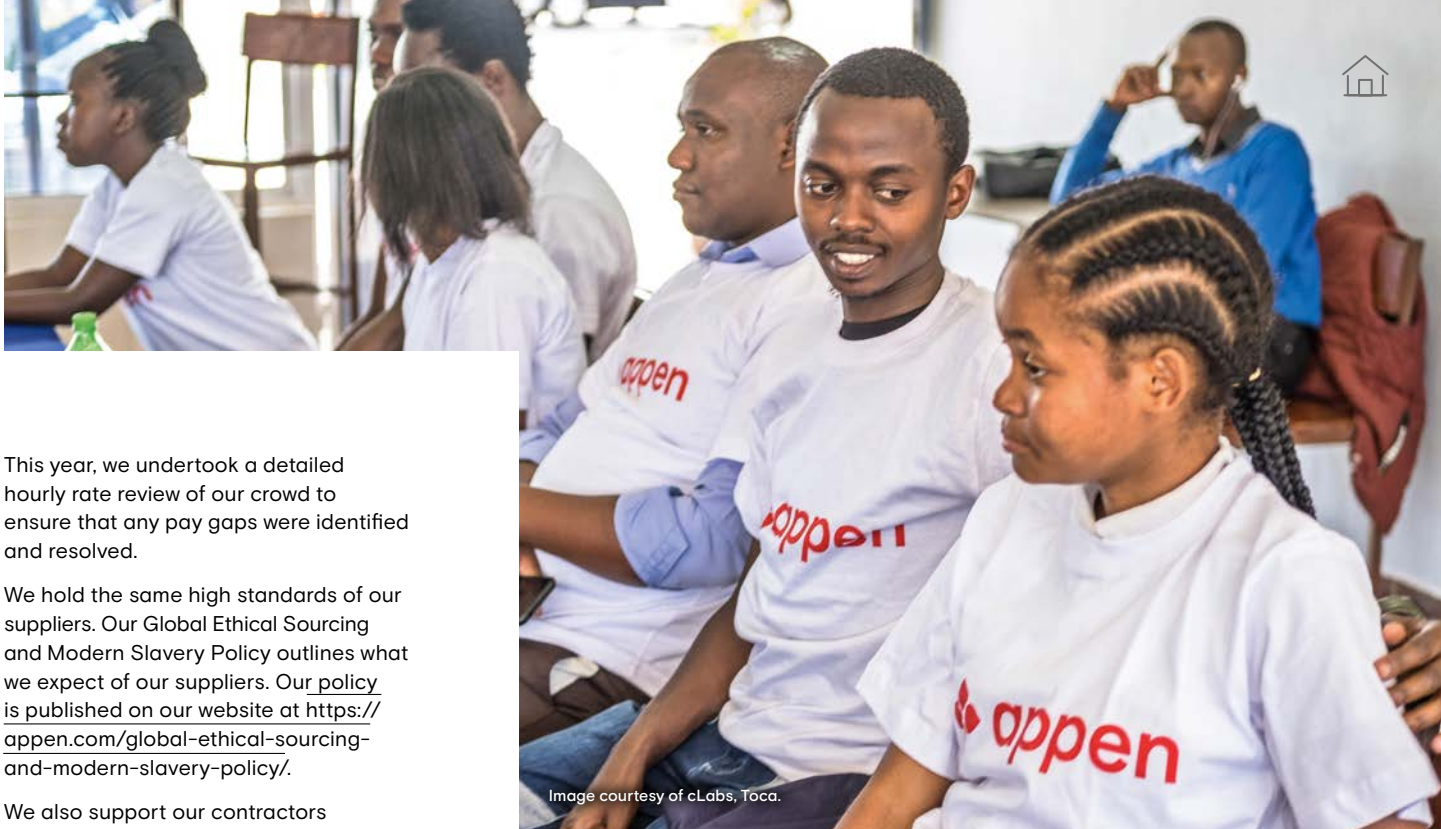


Image courtesy of cLabs, Toca.

This year, we undertook a detailed hourly rate review of our crowd to ensure that any pay gaps were identified and resolved.

We hold the same high standards of our suppliers. Our Global Ethical Sourcing and Modern Slavery Policy outlines what we expect of our suppliers. Our [policy](https://appen.com/global-ethical-sourcing-and-modern-slavery-policy/) is published on our website at <https://appen.com/global-ethical-sourcing-and-modern-slavery-policy/>.

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

In 2021 we implemented new processes and systems to enable more efficient and timely communication with our crowd. This includes a ticketing system to better support the crowd experience.

### Protecting privacy and confidentiality

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

### Outlook

In 2022, we will remain focused on our commitments in our Crowd Code of Ethics. We will also continue to invest in technology that makes our processes better for both new applicants and existing contractors.

## Creating opportunities

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

## Our Crowd Code of Ethics

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

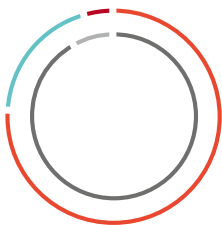


### Crowd Code of Ethics Statement

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

# Our people

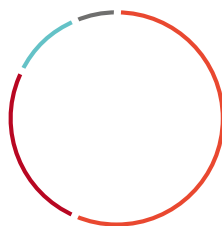
## Global and diverse work force



### 1,265 employees

Permanent	966	Part time	95
Fixed term	244	Full time	1,170
Casual	55		

## 2021 Employee Distribution



USA	330	Asia Pacific	711
UK/Europe	80	Australia	144

## Priority SDGs



We recognise that our people are critical to our success. Their expertise and commitment to our customers and crowd is a key differentiator of our business.

### Expertise

Our people have deep industry expertise, particularly in the areas of project delivery, crowd management and engineering. Through our 25 years of operating, we have developed specialised industry capabilities which we embed into our products and processes. We also rely on deep domain expertise in the areas of linguistics, knowledge graphs, computational aptitude, machine learning and computer science.

### Customer aligned organisation

In 2021 we moved to a new organisational structure that is aligned to our product-led and customer-centric strategy.

The changes reflect our evolution from providing AI data annotation services to the provision of a broad range of AI data annotation products – including proprietary technology and software – that unlock growth in new markets.

The organisational restructure announced in May is complete and all our teams are now aligned to our customer centric and product-led strategy.

### New executive leadership

In 2021 our executive team was strengthened by the addition of four new members.

- **Sujatha Sagiraju** joined Appen in September 2021 as Chief Product Officer and is responsible for product and go to market strategy.

- **Jen Cole** joined Appen in November 2021 as SVP and GM of Enterprise. She is responsible for growing our Enterprise division.
- **Eric de Cavaignac** joined Appen in November 2021 as Chief Transformation Officer. He is responsible for delivering our product-led roadmap.
- **Mike Davie** joined as SVP and GM Quadrant. He is the founder of Quadrant, and will continue to lead the Quadrant team and grow the business.

### Values and culture

As we transition to a product-led and customer-centric strategy, this requires us to change the way we operate, and realign our values and culture. This year we engaged external experts to work with our teams to conduct a study to identify the ideal cultural pillars that will provide the foundation of our product-led and customer-centric strategy.

The survey found that our people want a constructive and empowering culture. Our people seek a clear vision and want to understand how they can contribute to our objectives, so they can focus on outcomes and work as a team to make decisions and move forward.



Our people also seek a sense of achievement and success. They value communication and want to know how we're going against our objectives and what's going on in the business. Having a clearer understanding of our objectives will help our people celebrate when we achieve them.

### Making Appen a great place to work

We remain committed to our goal of making Appen a great place to work. The past year has been challenging for our employees with the continued COVID-19 disruption combined with uncertainty as we navigated through our organisation restructure.

Consequently, we experienced a decrease in our employee engagement. Our engagement score was 76%<sup>1</sup>, a decrease of 6 percentage points on 2020. In response we have developed a five-point action plan to build a more constructive and empowering culture.

#### Employee engagement

2021	76%
2020	82%
2019	76%
2018	78%

### Our five-point plan builds a more constructive and empowering culture:

- ▶ **Clear Embraced Vision and Direction** – We will roll out a thorough, cascading and interactive communication plan on our vision, direction and objectives.
- ▶ **High Levels of Achievement** – We will define clear targets and objectives aligned with the vision, and workshop how we all contribute to set individual and team goals. We will celebrate success at every turn.
- ▶ **Strong Accountability and Empowerment** – Workshops will ensure understanding and acceptance of our accountabilities. We will be empowered to deliver them, and we will applaud things that demonstrate a constructive culture.
- ▶ **Sense of Belonging, Collaboration and Support** – We will encourage teamwork, within and beyond our teams, for collaboration and inclusion across the company, and support each other to do our best.
- ▶ **Growth and Development** – We will continue our investments in training and development, aligned with our vision and future needs of the business, and provide opportunities for all of us to grow.

1 Appen Employee Engagement Survey December 2021.



## Value drivers

### Diversity and inclusion

At Appen, we employ a diverse group of people across our global operations. Our inclusive practices are guided by our Diversity Policy which focuses on increasing gender diversity and under-represented minorities amongst employees, in senior management and on the Board.

The work undertaken by the Diversity and Inclusion Committee looks at ways to promote an inclusive work culture and practices for the benefit of under-represented groups and the workforce overall. This year, we started our journey to understand our employees' perception of diversity and inclusion in the workplace. Our overall score was 83% and we will continue to monitor this score to measure the performance of our ongoing diversity and inclusion initiatives.

The Board has set a target of 30% female representation at all senior leadership levels. This year we exceeded our target as female representation at senior levels increased to 38%, up from 30% in 2020.

Management continues to implement initiatives to achieve this goal including adding a new Senior Director level to the career ladder to create opportunities for the development of executive-level skills.

	% female	
	2021	2020
Total workforce	58	58
Board Director	50	43
Executive Team/SVP	30	13
Vice President	28	25
Senior Director	53	50
Director	41	60
Manager	60	61

The work undertaken by the Diversity and Inclusion Committee looks at ways to promote an inclusive work culture and practices for the benefit of under-represented groups and the workforce overall.

### Training and development

We provide our employees with extensive training and opportunities for career development, including through our internal training portal, Appen University. We provide job specific training for specialty roles and have a High Potential Leadership Program. This is in addition to our annual training requirements in critical areas such as data privacy, security awareness and sexual harassment. We also have annual refresher training for our Code of Conduct which sets out employees' obligations to act honestly and ethically.

### Our Values

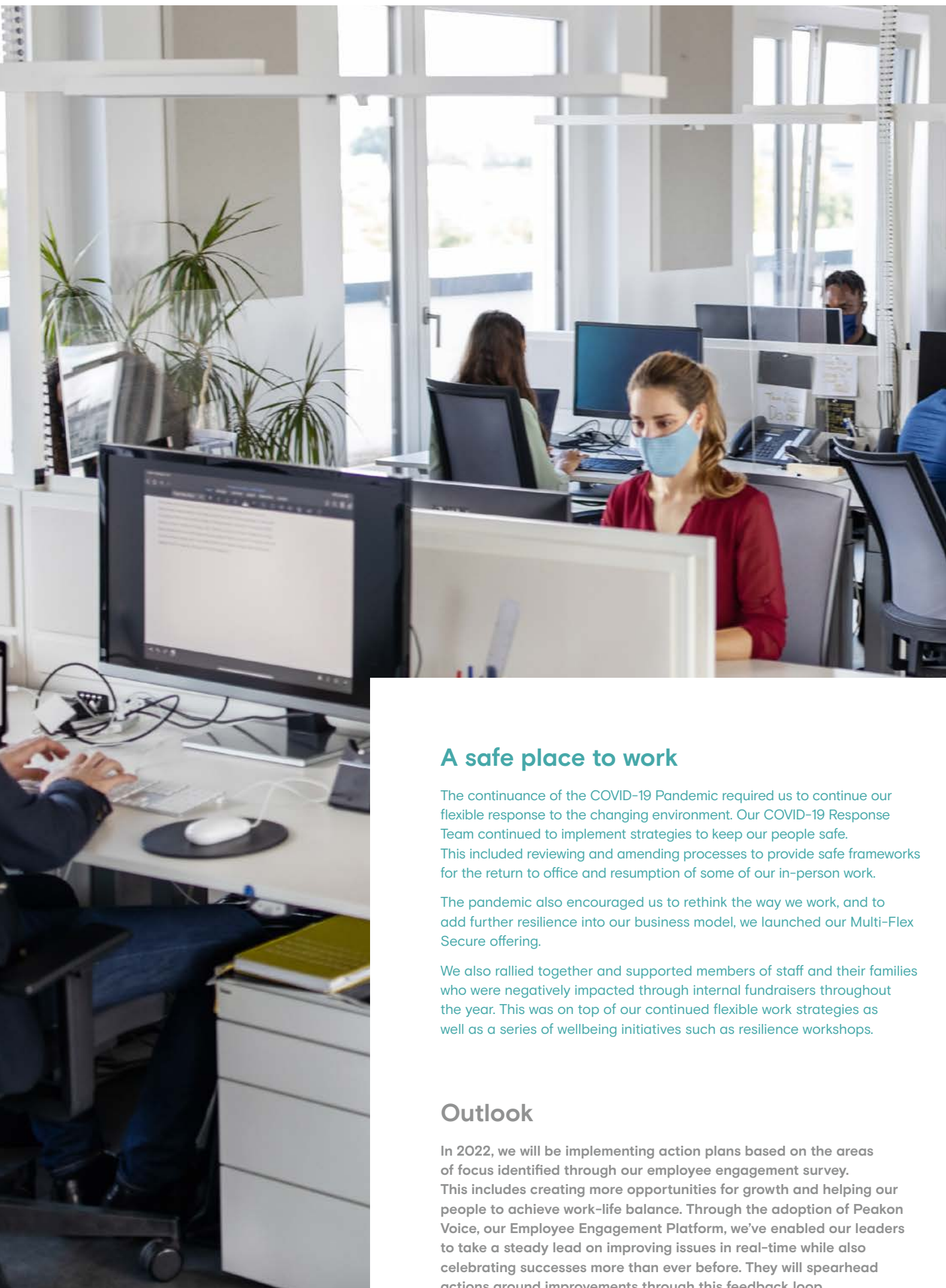
**Performance** is having the focus and agility to achieve quality outcomes and exceed expectations. We never stop learning, and push and challenge ourselves every day.

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

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

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





## A safe place to work

The continuance of the COVID-19 Pandemic required us to continue our flexible response to the changing environment. Our COVID-19 Response Team continued to implement strategies to keep our people safe. This included reviewing and amending processes to provide safe frameworks for the return to office and resumption of some of our in-person work.

The pandemic also encouraged us to rethink the way we work, and to add further resilience into our business model, we launched our Multi-Flex Secure offering.

We also rallied together and supported members of staff and their families who were negatively impacted through internal fundraisers throughout the year. This was on top of our continued flexible work strategies as well as a series of wellbeing initiatives such as resilience workshops.

## Outlook

In 2022, we will be implementing action plans based on the areas of focus identified through our employee engagement survey. This includes creating more opportunities for growth and helping our people to achieve work-life balance. Through the adoption of Peakon Voice, our Employee Engagement Platform, we've enabled our leaders to take a steady lead on improving issues in real-time while also celebrating successes more than ever before. They will spearhead actions around improvements through this feedback loop.



# Customer and brand

Over 25 years, we have built trusted relationships with our customers and a reputation for service. These relationships are founded on trust, quality, usability, scale, speed and expertise.

## Customer relationships

We have long-standing and deep working relationships with our customers. Many of our customers seek collaboration with us to develop solutions for their most complex and innovate products.

## Value for our customers

We are the leading data provider for the AI lifecycle, providing training data to support the creation of AI products. Our customers value the product we provide along six dimensions.

- **Trust:** Data privacy compliant, with option for secure, onsite data labelling.
- **Quality:** Unbiased, high-quality and globally representative data.
- **Usability:** Easy to use, with simple UX and API integrations.
- **Scale:** Breadth and depth of tools to enrich all data types and use cases.
- **Speed:** In-built automation that minimises latency of results.
- **Expertise:** Our people bring critical expertise across a wide variety of domains.

## Priority SDGs



## Growing our customer base

Our customers are at the forefront of AI and include some of the world's leading technology companies.

Outside of this base, an increasing number of organisations are investing in AI. Some are integrating AI as a core component of their business while others are running pilots or working to scale their initial programs. To meet the needs of these customers we are developing products, services and our commercial presence to support different levels of AI awareness, adoption and maturity.

Through our China and Government business units we have established bespoke capabilities and are building our customer relationships in these high-potential markets. We also have dedicated sales teams in US, UK and in mainland Europe, that serve many of our commercial and enterprise customers. We are also in the process of hiring new sales representatives in Japan and Korea.

In 2021, we worked with 136 new organisations from industries including financial services, automotive, ecommerce, healthcare, logistics, shipping, food and retail.



## Brand and reputation

The Appen brand is synonymous with high quality training data for our customers, and a reliable source of income and flexible work from home model for our crowd workers.

In 2021 we acquired Quadrant, a leading location data collection company based in Singapore. We are retaining the Quadrant brand for the immediate term.



### Helping to grow the market

We are the leader in a fast-moving market and are at the forefront of how to deliver high-quality AI training data. We support new customers in their AI lifecycle by sharing best practices and the specialist knowledge we have built over decades of experience.

In addition to supporting customers directly, we provide information and resources that address the practical challenges of building a successful AI program. In 2021, we held a 'A Practical Guide for Responsible Machine Learning' virtual series, featuring our internal subject matter experts.

By the year end, the virtual series had become a part of the AI Curriculum at the University of Arkansas Walton school.

### Customer focused organisation alignment

In 2021 we completed a restructure that is more aligned to our customer base. This will enable greater focus on the specific needs to four of our major segments: Global, Enterprise, China and Government.

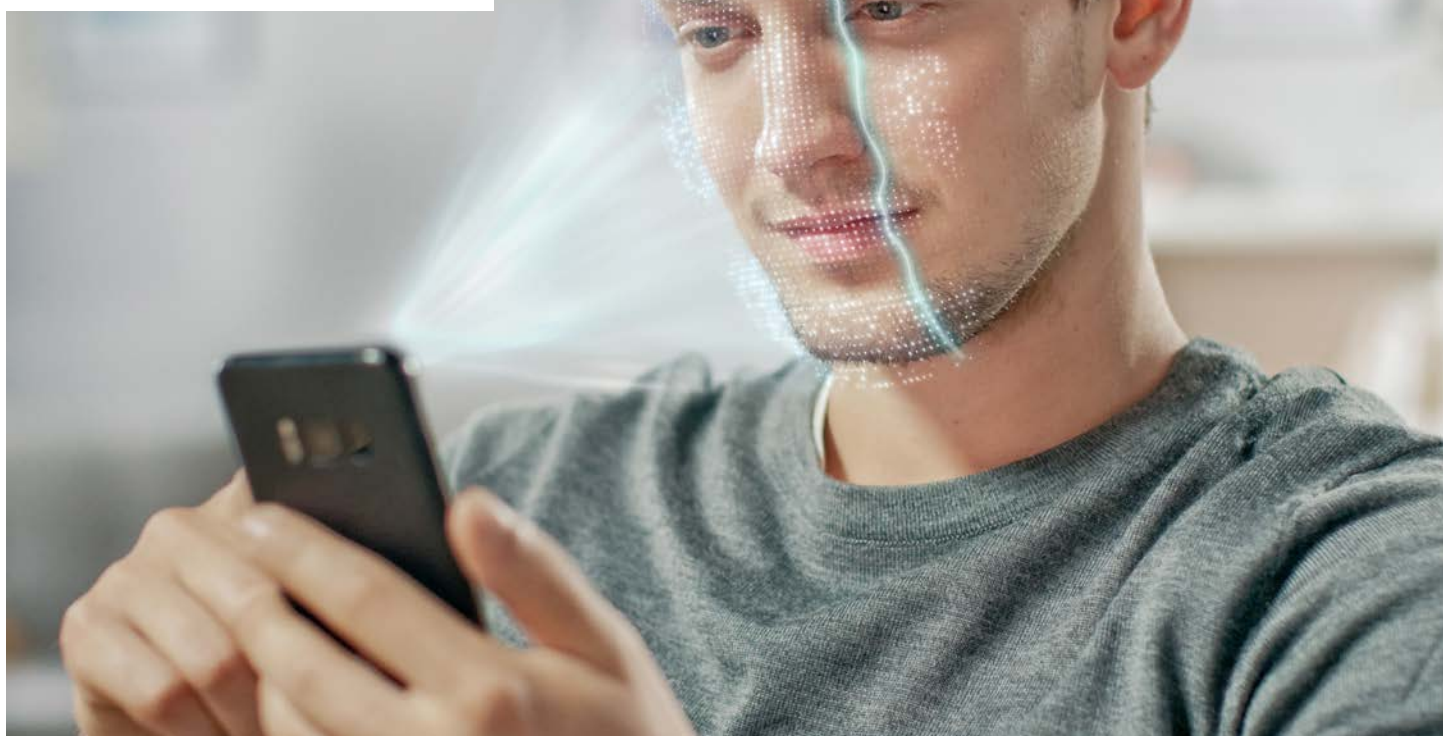
## Appen helps Realeyes label large volumes of data

Realeyes uses front-facing cameras and the latest in computer vision and machine learning technologies, to measure attention and emotion of opt-in participants as they watch video content online. This empowers brands, publishers and technology platforms to inform and optimise their content as well as target the right videos to the right audiences. Realeyes' technology applies facial coding to predictive, big-data analytics, driving bottom-line business outcomes for brands and publishers.

One of the biggest challenges that Realeyes encountered was their ability to annotate and label data quickly to deliver their product to their customers. With Appen, Realeyes enhanced their ability to scale by collecting, analysing, and labeling more data efficiently, without losing quality. What previously took three months to complete in-house, took just two weeks using Appen tools and contributors.

## Outlook

We will continue to leverage our position and value proposition in the AI lifecycle to strengthen our relationships with existing customers as they continue to invest in AI and expand their AI-enabled products, and to grow our presence in new industries and markets.

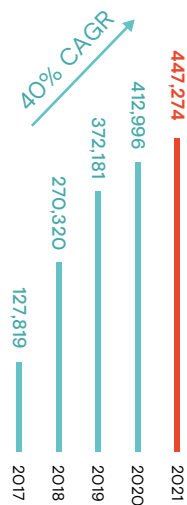


# Financial

Revenue

**\$447.3m**

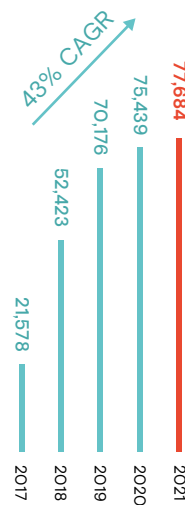
(US\$'000)



Underlying EBITDA<sup>1</sup>

**\$77.7m**

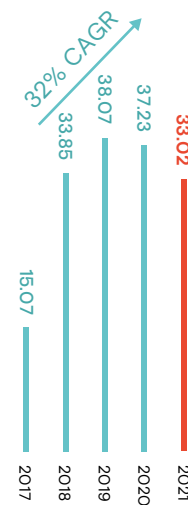
(US\$'000)



Underlying basic EPS<sup>1</sup>

**33.0¢**

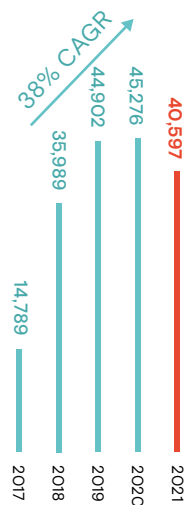
(US¢ per share)



Underlying NPAT<sup>1</sup>

**\$40.6m**

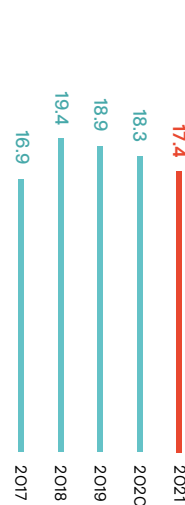
(US\$'000)



Underlying EBITDA margin<sup>1</sup>

**17.4%**

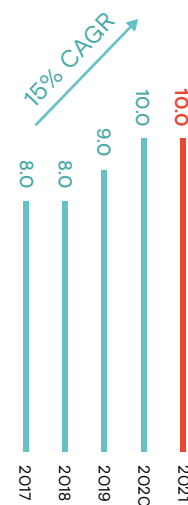
(%)



Dividend (full year)

**10.0¢**

(A¢ per share)



CAGR % represents five-year Compound Annual Growth Rate from FY17 to FY21 with FY16 as the base year.

Priority  
SDG



<sup>1</sup> Underlying NPAT, EBITDA and EPS exclude the impact of items relating to business acquisitions, including amortisation of acquired assets, share-based payments, restructure costs, transaction costs and fair-value adjustments. Underlying NPAT and EPS also exclude deemed interest on acquisition related earn-out payments.



Our financial results reflect a record full year revenue performance due to a strong second half performance for Global Services and a higher contribution from New Markets. This reflects the strength of our customer relationships, crowd model and ability to deliver high quality data. The company's balance sheet remains resilient with a significant cash balance and no debt. We have also reshaped our strategy to maximise our ability to capture growth and deliver value for shareholders.

### Financial performance highlights<sup>1</sup>

Revenue and other income increased 8% to \$447.3 million (FY20: \$412.9 million). This reflects a strong second half performance for Global Services and breakout growth in China. The record FY21 revenue performance reinforces the strength and market position of the business, which has delivered a compound annual revenue growth rate (CAGR) of 40%, over the last five years. It also highlights the value that our customers place in our ability to deliver high quality data, at scale, across all data modalities.

**Revenue diversification** improved with New Market revenue contributing 23% of revenue in FY21, up from 20% in FY20.

Revenue by operating division:

**Global Services** revenue (which represents the provision of data annotation services to our global customers) grew 5% to \$344.7 million (FY20: \$328.1 million). This reflects a significant turnaround from the first half revenue reduction of 9%, with 19% growth in the second half compared to the prior corresponding period and second half revenue growth of 32% on the first half of FY21. The record second half year revenue performance was driven by an increase in non-ads as well as ad-related projects, as forecast.

Second half non-ad related project revenue grew 28% to \$165.3 million on the first half, as we continue to support new products and applications. Ad-related project revenue rebounded 28% in the second half to \$49.9 million. Second half ad-related project revenue grew 18% on the first half and was in line with the prior corresponding period.

Our Global customers require high volumes of quality data to grow their revenue base outside of digital advertising and we continued to support this growth. This has driven horizontal demand for data into areas such as AR/VR, e-commerce, image and mobile video collection, maps and geo-location-based services and services to improve translation and voice assistants.

New projects (projects that commenced in the first and second halves of the year) also made a strong contribution, as growth in the second half was similar to the annual contribution in the first half.

FY21 global revenue of \$386.3 million comprised of \$299.7 million revenue from existing projects (originating prior to FY21), while projects commencing in the first and second half added \$44.4 million and \$42.2 million respectively.

This demonstrates that our global customers continue to value our ability to deliver quality data for existing core programs and for new programs.

Global ad-related revenue represented 24% of FY21 global revenue (global services plus global product), while global non-ad revenue increased to represent 76% of FY21 global revenue, up from 71% in FY20.

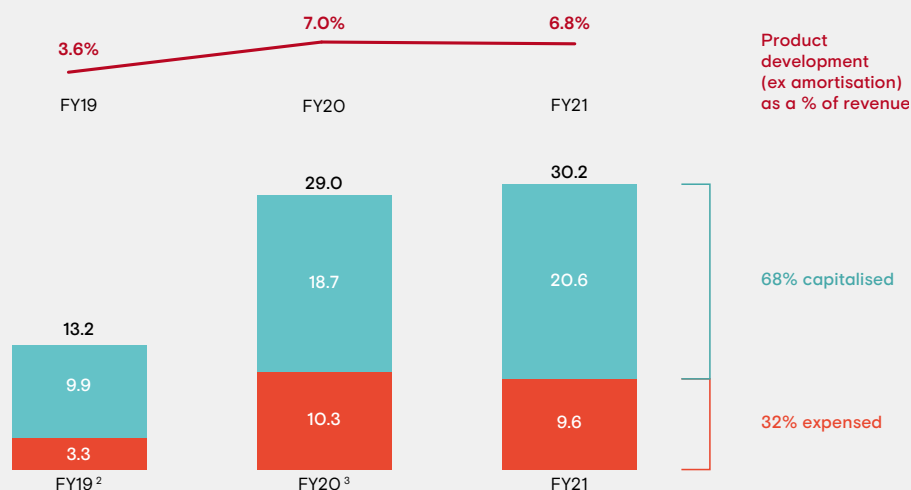
**New Markets** revenue grew 21% to \$102.5 million (FY20: \$84.5 million) and was driven by growth in China and Enterprise divisions. Revenue from Enterprise, China, Government and Quadrant grew 55% to \$60.8 million. Global product revenue declined 8% to \$41.7 million due to the ending of a large project.

The product-led growth of the New Markets division together with its expanding customer base, continues to drive revenue diversification. New Markets revenue accounted for 23% of total revenue in FY21, up from 20% in FY20. FY21 revenue from non-global customers comprised 14% of total revenue, up from 9% in FY20.

<sup>1</sup> Unless otherwise stated all amounts are in US dollars.

## Value drivers

### Investment in product development<sup>1</sup> US\$M



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

<sup>2</sup> FY19 includes amounts capitalised related to the acquisition of Figure Eight.

<sup>3</sup> FY20 spend includes annualisation of Figure Eight engineering spend (acquisition completed April 2019).

The New Markets division won a total of 133 new customers in the 12-month period to 31 December 2021 (FY20: 136 new customers). Appen has a diverse customer base, across multiple industries and geographies, which provides a strong foundation for future growth.

We are focused on improving the company's revenue diversification by investing in New Markets. Towards the end of FY21, we completed the process of hiring a leader and senior management team for the Enterprise division, to focus on accelerating growth.

New Markets will continue to leverage off the strong foundation implemented in FY21, and Appen's customer base will continue to diversify beyond the leading technology customers in the world. This will be underpinned by deploying key resources into sales and marketing and investing in – and showcasing our innovative products and tools to support customer's AI data for life-cycle needs, in a diverse range of industries

across a variety of data modalities and use cases.

China continues to grow at a rapid pace with quarterly compound revenue growth of 56% (1Q20–4Q21).

FY21 revenue grew 422% to \$24.8 million on FY20.

In China, second half revenue was up 4.9x on the prior corresponding period and up 2.3x on the first half of FY21. This was driven by engagement with and delivery of project data for leading Chinese technology companies as well as new logo wins.

Revenue growth in China has been underpinned by our ability to increase market share with new project wins and growing customer share. China also achieved horizontal expansion across data modalities, particularly autonomous vehicles (AV), with 11 of the leading auto AV companies as customers. Capturing further market and customer share remains a key focus, in conjunction with

increasing gross margins, which continue to improve.

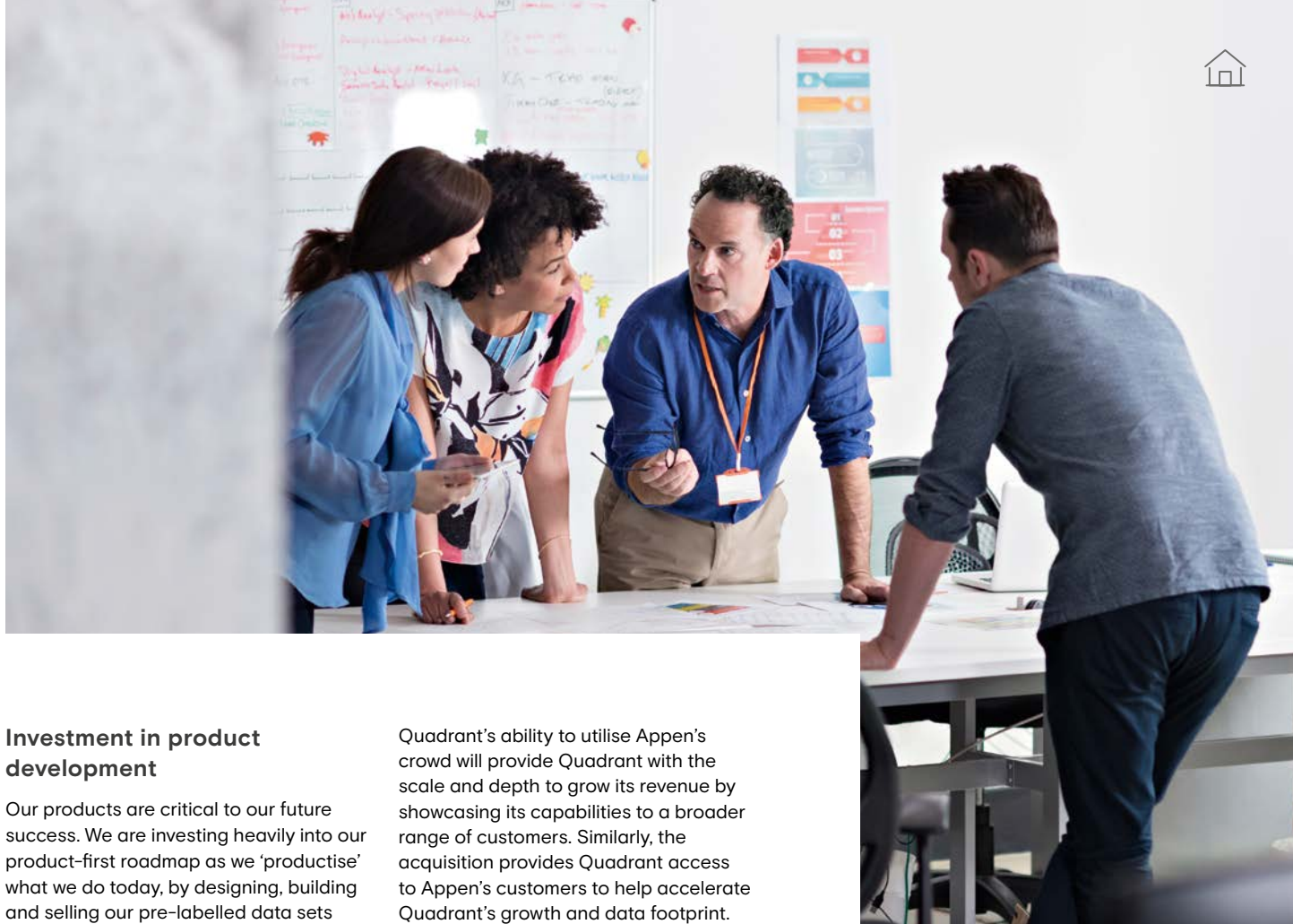
Government remains an important growth opportunity for Appen in the future. However, in FY21 we saw revenue decline 17% to \$4.2 million due to the non-renewal of a large contract.

New partnerships with leading government contractors and integrators as well as new engagements with government research labs, position this division for future growth.

We were recently selected in a partnership for the Joint Artificial Intelligence Center (JAIC) blanket purchase agreement (BPA) to support the acceleration of technology capabilities. The BPA of up to \$249 million is to be allocated across multiple vendors over multiple years.

However, we do continue to experience longer sales and budget cycles, impacted by early-stage market dynamics and immaturity.





## Investment in product development

Our products are critical to our future success. We are investing heavily into our product-first roadmap as we ‘productise’ what we do today, by designing, building and selling our pre-labelled data sets and data labelling products that can be applied to a broad range of AI applications’ data types and use cases.

Data-centric AI also requires large volumes of data and our investment in product development will deliver higher quality data faster and more cost effectively to support the growing needs of our customers. We are using our products to digitise, automate and improve the productivity of our crowd operations and we are developing more products to add more value to our customers, which will drive broad adoption of existing and new use cases.

In FY21, product development investment (excluding amortisation) represented 6.8% of revenue or \$30.2 million. Continued product investment is strategically important to leverage AI and machine learning in our labelling operations to improve the productivity of our crowd and to add new products and capabilities.

## Quadrant

During 2021, we acquired Quadrant, a global leader in mobile location and Point-of-Interest data (POI), further expanding our addressable market and related product offering to include POI/geolocation data.

Quadrant’s highly-scalable approach to data capture and processing aligns closely to Appen’s product-led strategy.

Quadrant’s ability to utilise Appen’s crowd will provide Quadrant with the scale and depth to grow its revenue by showcasing its capabilities to a broader range of customers. Similarly, the acquisition provides Quadrant access to Appen’s customers to help accelerate Quadrant’s growth and data footprint. Early discussions with our global and enterprise customers are ongoing.

**Underlying EBITDA** increased 3% to \$77.7 million, which represents a net margin of 17.4% (2020: 18.3%). Margins were impacted by higher cost of sales.

Cost of sales, which primarily comprised of payments to our crowd workers for labelling services, increased as a percentage of revenue from 57% in FY20 to 60% in FY21. This reflected a change in the mix of customers and projects within each operating division, as well the overall mix at the group level, with China contributing a higher proportion of the group revenue and at lower margins, in line with the strategy to prioritise market share.

The Global Services division reported EBITDA of \$91.2 million, up 3% from the prior year. Second half volumes translated into a healthy EBITDA performance with a 23% increase over the prior corresponding period and reversed a 19% decline in the first half over the prior corresponding period.

The EBITDA loss in the New Markets segment was \$11.5 million. This increased 54% over the prior year, driven by continued investment to drive future growth. However, the second half performance improved with the EBITDA loss down 48% on the first half loss.

## Highlights

↑8%

Group revenue

↑3%

Underlying EBITDA

↓10%

Underlying NPAT

## Value drivers

**Operating expenses**<sup>1</sup> for FY21 increased 4% or \$3.5 million over the prior year, driven mainly by an increase in IT and insurance expenses.

The restructuring charge of \$2.3 million comprised of restructuring costs incurred in respect of the re-organisation announced in May 2021.

Restructuring benefits of approximately \$15.0 million are expected in FY22 and will be largely reinvested to drive product development and growth. The purpose of the restructure was to ensure that spend is directed in a strategic, prioritised manner to support future growth. We are investing the cost savings in those areas of the business that will deliver growth – product development, efficient use of our tooling and growth in our non-global customer base.

Following an assessment of the probability of achieving specific (non-market) hurdles for the 2020

and 2021 Long-term incentive plans, a share-based payment true up adjustment was processed in FY21.

**Underlying NPAT** declined 10% to \$40.6 million primarily due to increased amortisation relating to our investment in product development, which commenced in FY19.

A reconciliation between our statutory and underlying results are detailed on page 29.

The **balance sheet** continues to be resilient with no debt and net assets at year end increasing by \$18.2 million to \$391.9 million relative to the prior year. Our year end cash balance reduced by \$12.6 million to \$47.9 million relative to the prior year, as we used cash reserves to pay the upfront consideration of \$25.3 million to acquire Quadrant.

The trade receivables balance increased by \$38.6 million to \$89.2 million due to the increase in trading

volumes approaching year end. Contract assets decreased due to time-based billing milestones being satisfied as at 31 December 2021.

Intangibles increased to \$314.8 million mainly due to \$45.4 million being recognised as Goodwill relating to the Quadrant acquisition. Total liabilities increased by \$19.1 million to \$107.0 million mainly due to the earn-out liability of \$18.4 million associated with the Quadrant acquisition.

**The full year dividend is AU 10 cents, in line with FY20.** Both the interim dividend of AU 4.5 cents per share and the final dividend of AU 5.5 cents per share are 50% franked.

**Cash flow** from operations reduced \$17.9 million to \$60.1 million. This is primarily due to the working capital cycle and increase in project work at the end of the period.

## Strategy and outlook

In FY21, Appen made significant progress to reshape its strategy to capture market growth, with a particular focus on achieving growth outside our global customers where we are targeting >35% compound annual revenue growth rate from non-Global customers<sup>2</sup>.

The four pillars of Appen's strategy are to GROW and diversify revenue, AUTOMATE our crowd and labelling processes, EXPAND our product offering and EVOLVE how we do business.

As part of Appen's strategy, we've set the following revenue, profitability, and business mix targets for FY26.

1. At least double FY21 revenue
2. Improve customer mix with one-third revenue from non-Global customers
3. EBITDA margin of 20%

We are highly focused on these targets and will invest for growth in new products, sales and marketing, partnerships and explore M&A opportunities with a focus on long-term revenue growth. Our long-term revenue focus may impact EBITDA margins in the near term and future dividend payouts.

Our long-term focus means we will no longer provide short-term quantitative EBITDA guidance.

Our revenue order book including year-to-date revenue plus orders in hand stands at ~\$190 million in February 2022<sup>3</sup>. FY22 half on half revenue skew is expected to be similar to prior years (excluding FY20).

We expect costs to be higher in 1H 22 due to new transformation office costs, investment in product and technology, and share-based payment expenses. This will result in a larger earnings skew to 2H 22 when compared to FY21.

1 Expenses excluding crowd labelling services, share-based payments, depreciation and amortisation, transaction costs, restructure costs, finance costs, foreign exchange loss and deemed interest on earn-out related to the Quadrant acquisition and for the prior year, the Figure Eight earn-out.  
2 Non-Global includes customers from China, Enterprise, Government and Quadrant.  
3 Consistent with prior year methodology. FY21 order book of ~\$165.7 million (~\$240 million).



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

	Year ended 31 December 2021 US \$000	Restated Year ended 31 December 2020 US \$000	Change
Global Services revenue	344,679	328,143	5%
New Markets revenue	102,475	84,495	21%
Other income	120	358	
<b>Total sales revenue and other income from principal activities</b>	<b>447,274</b>	<b>412,996</b>	<b>8%</b>
<b>Underlying net profit after tax (NPAT) <sup>1</sup></b>	<b>40,597</b>	<b>45,276</b>	<b>(10%)</b>
<i>(Less)/add underlying adjustments (net of tax)</i>			
Amortisation of acquisition-related identifiable intangible assets	(8,303)	(7,859)	
Restructure costs <sup>2</sup>	(1,625)	-	
Transaction costs	(1,929)	(573)	
Deemed interest on earn-out liability <sup>3</sup>	(461)	(615)	
Cloud computing costs	(17)	-	
Acquisition-related share-based payments <sup>4</sup>	257	(2,441)	
Figure Eight earn-out adjustment	-	1,844	
<b>Statutory NPAT</b>	<b>28,519</b>	<b>35,632</b>	<b>(20%)</b>
Add: tax	7,356	8,907	
Add: net interest expense	1,362	1,435	
Add: deemed interest on earn-out liability <sup>3</sup>	657	853	
<b>EBIT <sup>5</sup></b>	<b>37,894</b>	<b>46,827</b>	<b>(19%)</b>
Add: depreciation and amortisation	35,038	27,923	
<b>Statutory EBITDA <sup>6</sup></b>	<b>72,932</b>	<b>74,750</b>	<b>(2%)</b>
<i>Add/(less): underlying adjustments</i>			
Restructure costs <sup>2</sup>	2,256	-	
Transaction costs	2,729	807	
Acquisition-related share-based payments <sup>4</sup>	(257)	2,441	
Cloud computing costs	24	-	
Figure Eight earn-out adjustment	-	(2,559)	
<b>Underlying EBITDA <sup>1</sup></b>	<b>77,684</b>	<b>75,439</b>	<b>3%</b>
Statutory diluted earnings per share (cents)	22.85	28.81	
Underlying diluted earnings per share (cents)	32.53	36.61	
% Statutory EBITDA/sales revenue	16.3%	18.1%	
% Underlying EBITDA/sales revenue	17.4%	18.3%	

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, acquisition-related share-based payments expenses, cloud computing costs and the earn-out (consideration) adjustment relating to the Figure Eight acquisition. Underlying NPAT for the year ended 31 December 2020 has been restated for a change in accounting policy associated with cloud computing implementation costs (refer to note 2(ii) of the financial report for further information).

2 Includes costs incurred in FY21 associated with the organisational restructure.

3 Contingent liability with respect to the Quadrant acquisition which will settle no later than 29 February 2024, subject to Quadrant attaining revenue milestones. The prior year comparative relates to Figure Eight.

4 Includes a true-up adjustment reducing the share-based payments expense in relation to specific (non market) hurdles of the 2020 and 2021 Long-term incentive plans, based on management's assessment of achieving these hurdles.

5 EBIT is defined as earnings before interest and tax.

6 EBITDA is EBIT before depreciation and amortisation.

# Social and environment

Innovation in AI technology can have a positive contribution to the society and the environment. To achieve these outcomes, it is important to ensure responsible business practices are upheld to have a positive impact not only on the end user, but those involved in the development process.

## Good business practice

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

We hold ourselves to the highest ethical standards and conduct our business with integrity, respect and fairness.

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

As representatives of the company, we ensure our people are aware of their obligations through mandatory code of conduct training. As at 31 December 2021, 91% of eligible employees had completed the mandatory code of conduct training. We consider a range of potential consequences for those who fail to complete the training including

considering conduct or performance impacts in line with our disciplinary processes where appropriate.

## Modern Slavery and respect for Human Rights

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

Our first modern slavery statement was issued in June 2021 and summarises our ongoing commitment and efforts to address human rights and labour risks associated with our business. We developed and piloted responsible business training which included specific information on human rights and managing modern slavery risks.

We also commenced the integration of our supplier requirements from our Global Ethical Sourcing and Modern Slavery Policy into our ongoing supplier due diligence processes and continue to work

with our suppliers and customers to manage the risks of modern slavery and human rights abuses in our supply chain.

Any breaches of our commitments to good business practices are taken seriously, where necessary any concerns raised, either through grievance processes or under the whistleblower process are investigated and reported back to the board. In 2021, no breaches were recorded.

## Importance of diversity to achieving fair AI

Ensuring equitable results for users of AI products requires developers to consider the impact of bias across the AI lifecycle. Bias in AI training needs to be addressed in the sourcing of data, but also in the preparation, evaluation and quality management stages. Our skilled global crowd spanning a range of diverse backgrounds, help our customers incorporate fairness and minimise bias, by ensuring not only diversity in the data itself, but within those that are involved in the data lifecycle and development of the product. As part of our ongoing efforts to ensure diverse representation across our crowd, we are conducting research programs globally to understand what diversity means in various locations, understand how that is reflected in our current crowd, and develop initiatives to address representation gaps.

## Priority SDGs







## Creating responsible AI standards

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

- Bias
- Security
- Explainability, and
- Impact.

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

## Digital work to combat world hunger

The World Food Program awarded Appen and our partners, the Celo Foundation and Corsali, a US\$100k grant to try to test and deploy digital gig work to support the graduates of their Tech-for-Food Program, EMPACT, in Kenya.

EMPACT is a training program funded by the World Food Program to help some of the most vulnerable and food insecure communities avoid hunger by training and connecting their youth to digital work.

## Bringing technology to underprivileged communities

We also continue to work with in-country fieldwork partners to bring digital work to underprivileged communities. Benn, from our team in Exeter, had the opportunity to experience the program first-hand.

*"I visited Kenya in late November to train some fieldwork partners (market research companies) to use some of Appen's recording software and hardware to collect speech data generated by native speakers of some of East Africa's lower-resource languages. While there were a number of challenges, including the ongoing pandemic, being able to physically support the team with the set-up of the specialised equipment and be part of their learning journey was invaluable. This project is a great example of the diversity of product offerings Appen delivers."*



## Making a difference by removing traditional barriers to work

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

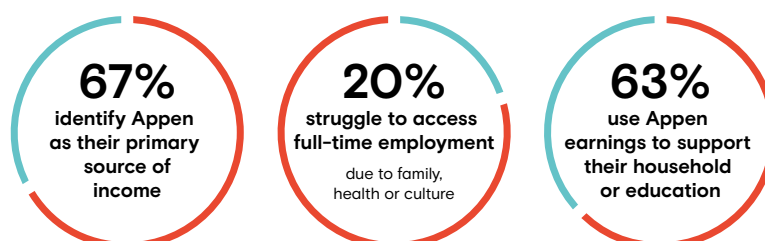
For many communities, digital work has unlocked a new world of possibilities for economic development, skills training, and the ability to participate in the digital economy.

Removing traditional barriers to work is a key differentiator of our business model. To gauge how our 'work-from-anywhere' model is helping to support individuals whose personal circumstances make it difficult for them to access traditional employment we launched the Impact Pulse Survey<sup>1</sup> to understand the ways that we provide support to our most vulnerable contributors.

## Impacting Sourcing and Appen's 1M+ Crowd



## Context of our Contributors



<sup>1</sup> Internal survey of our crowd workers conducted in November 2021 with ~7,000 responses.



## Value drivers

### Climate change

We acknowledge the risk associated with climate change and are committed to playing our part in supporting the transition to net zero emissions. In 2022 we are focused on setting our pathway to achieve net zero emissions by 2030 and working towards achieving certification from Climate Active.

### Environmental footprint

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

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

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

We disclose our approach and plans in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

### Governance

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

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

The Audit and Risk Management Committee is responsible for:

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

### Strategy

We have commenced our journey to move to net zero emissions by 2030. Climate change presents both a number of risks and opportunities to our business, as well as our customers and suppliers. We have already started reviewing our internal processes and have partnered with a number of our customers to ensure we are developing mutual resilience.

### Risk management

We assess the potential size and scope of climate risk through our risk management framework. Climate risk is incorporated into our Risk Appetite Statement which sets out our key risk types, the thresholds for each, and how we monitor and mitigate these risks. Management, the Audit and Risk Management Committee and the Board of Directors all have responsibilities with respect to overseeing, assessing and managing climate change risk (see Governance above).

### Metrics and targets

We completed our first GHG emissions inventory during the year, covering Scope 1 and 2. This assessment enables

us to better measure our impact, set targets and establish initiatives that will make a difference. Our current assessment of Scope 1 and 2 emissions is in the following table.

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

Source	2021 tCO <sub>2</sub> e
<b>Scope 1</b>	
Natural gas	226
<b>Scope 2 (Location based)</b>	
Purchased electricity	1,052
<b>Total Scope 1 &amp; 2 Emissions</b>	<b>1,278</b>

## Outlook

Over the next year we are further refining our inventory process to include additional Scope 3 categories, develop a partnership program with our suppliers to assist in education and reduction of their emissions, and increase our utilisation of renewable energy across our operation.

We are also focused on setting our pathway to achieve net zero emissions by 2030 and working towards achieving certification from Climate Active. We will outline these measures in our 2022 Annual Report.

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




1 Scope 1 emissions include all fuel consumption at a facility to produce electricity, steam, heat or power. This also includes heating, ventilation and air-conditioning (HVAC) for offices with boilers. Scope 1 emissions are calculated using actual usage data (where available) or estimated based on published average emissions factors by floor space. Refrigerants have been excluded as responsibility for management and maintenance of HVAC systems of all offices is the responsibility of building management.

2 Scope 2 emissions includes indirect emissions from purchased electricity, heat or steam. Scope 2 emissions are calculated using actual usage data (where available) or estimated based on published average emissions factors by floor space. The location-based figures reflect the average emissions intensity of the relevant grids on which our energy consumption occurs. The market-based figures reflect our procurement choices, or lack of choice, and are calculated using supplier-specific emission rates where available and applying residual mix emission factors to the remaining untracked energy use.



## Analysis of risks and opportunities

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

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

# Identifying and managing risk

In increasingly uncertain environments, embedding risk management in everything we do is critical to ensuring we achieve our strategic objectives.

## **Risk appetite**

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

## **Key changes in our principal risks**

In the year, we revised our principal risks to ensure environment, social and governance related risks were appropriately captured at the strategic level. Within these principal risks, the majority have seen a temporary increase in the year as we refocus to our product-led strategy combined with external factors such as the increasing pressure for talent in the US.

## **COVID-19 related risks**

COVID-19 continues to have an impact across a number of our principal risks in the year, particularly for our workforce. The ongoing uncertainty has had an impact on our workforce, despite the implementation of new workplace practices including initiatives from our COVID-19 Response Team and additional initiatives focused on mental wellbeing.

## **Emerging risks**

We define emerging risks as uncertainties which might not be clearly understood, or possible to fully assess. These risks are considered in conjunction with our principal risks, and once they are more clearly understood, are incorporated into our existing risk reporting structure. Emerging risks have been highlighted within our risk categories below.



## Governance

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

### Ultimate responsibility

#### Board through the Audit & Risk Management Committee

- Approve the risk management framework.
- Approve the risk appetite statement and subsequent addressing of escalated risk appetite triggers.
- Have oversight of strategic and related ESG risks (including climate related risks and impacts).

### Oversight

#### Executive and Senior Leadership Team

- Assess, manage and monitor risk profiles for identified strategic risks.
- Identify where risk appetite statement triggers may be met and further escalation is required.
- Promote a positive and appropriate attitude towards risk management and ensure employees are aware of their responsibilities.

### Ownership

#### Operational management

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

### Monitoring and partnering

#### Risk management function

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









# Identifying and managing risk

Key: ▲ Increase ▼ Decrease = Stable






A summary of our principal risks, changes in the year, mitigation strategies and related trends are detailed in the tables below. This reflects the risks identified by the Board for the year ended 31 December 2021. The risk landscape is continually evolving and we regularly monitor and identify risks on a proactive basis. This means the risk register and associated strategies are not exhaustive and are reflective of efforts at a set point in time.

## Business model

Principal risk	Mitigation	Value driver
<p><b>Strategic positioning of global operations</b></p> <p>Changes to global economic and political conditions can impact the group, including whether we continue to operate in each of our geographical areas.</p> <p><b>▲ Emerging risk</b></p> <div> <p><b>= Change</b></p> <p>This risk remains steady as a result of ongoing uncertainty in the wider geopolitical environment, particularly between the US and China.</p> </div>	<ul style="list-style-type: none"> <li>• Macroeconomic and geopolitical risks, including consideration of potential political uncertainty in certain markets and geographies, are factored into our strategic planning processes and investment activity.</li> <li>• We undertake ongoing horizon scanning to monitor potential policy, legal and regulatory developments that may impact our operations in particular jurisdictions and ensure we have plans and processes in place to react in an agile manner with minimal business disruption to any changes that may occur.</li> </ul>	<div>  <p><b>Customer and brand</b></p> </div> <div>  <p><b>Social and environment</b></p> </div>
<p><b>Alignment of customers, products and services to strategic objectives</b></p> <p>Currently a few large global technology companies are the major buyers of AI training data. The revenue from these clients is significantly larger than the revenue from other clients and the volumes can fluctuate. Clients can also reprioritise their spend away from areas of innovation or have ongoing needs for training data impacted by strategic changes of other players in the sector.</p> <div> <p><b>▲ Change</b></p> <p>This risk has trended upwards due to the impact of regulatory pressure for our larger customers.</p> </div>	<ul style="list-style-type: none"> <li>• We monitor relevant market and customer trends and regulatory changes to identify potential headwinds for our clients which may impact our future revenue or costs.</li> <li>• We have reprioritised to a product-led focus to meet evolving customer needs.</li> <li>• We identify and pursue new opportunities in fast-growing sectors and markets to diversify our customer and revenue base. This includes our acquisition of Quadrant in the year.</li> <li>• We continue to focus on increasing revenue in our New Markets division to reduce our reliance on our global customers.</li> </ul>	<div>  <p><b>Customer and brand</b></p> </div> <div>  <p><b>Global crowd</b></p> </div> <div>  <p><b>Technology, processes, systems</b></p> </div> <div>  <p><b>Financial</b></p> </div>










Principal risk	Mitigation	Value driver
<p><b>Market competition changes</b></p> <p>In some parts of our business there is competition from niche and low-cost providers. Customers may also choose to do some data annotation tasks in-house and/or use their scale to seek better terms on pricing.</p> <div> <p><b>▲ Change</b></p> <p>This risk has trended upwards due to the increasing pressure from competitors in the year.</p> </div>	<ul style="list-style-type: none"> <li>We monitor new investments in the data annotation sector closely.</li> <li>We have transitioned to a product led focus and reorganised the business accordingly.</li> <li>We have invested in new sales and marketing capabilities to deepen and expand our relationships with existing and new customers.</li> <li>We continue to invest in technology to increase the quality of our services and to deploy new capabilities.</li> <li>Our core Relevance activities (comprising 80% of total Global revenue) are less amenable to replication by machines or insourcing as they require a large-scale diverse crowd performing subjective human judgements.</li> </ul>	<div>  <p><b>Customer and brand</b></p> </div> <div>  <p><b>Technology, processes, systems</b></p> </div> <div>  <p><b>Financial</b></p> </div>
<p><b>Agility in meeting changing customer expectations</b></p> <p>The sector we operate in is fast moving, and we need to be agile to meet these expectations. Knowledge and skills need to be developed at the same rate as our clients to continue to meet their expectations.</p> <div> <p><b>▲ Change</b></p> <p>This risk has increased in the past year due to the increasing visibility of the sector which can result in fast moving projects and a requirement to react quickly to our clients' needs.</p> </div>	<ul style="list-style-type: none"> <li>We are specifically investing in a quick response team for our major clients to ensure we can keep pace with their expanding needs.</li> <li>We continue to build relationships with key clients to ensure we can anticipate strategy changes and react accordingly.</li> </ul>	<div>  <p><b>Customer and brand</b></p> </div> <div>  <p><b>Technology, processes, systems</b></p> </div>

## Identifying and managing risk

Key: ▲ Increase ▼ Decrease = Stable





Principal risk	Mitigation	Value driver
<p><b>Resilience following disaster, crisis or events impacting business continuity</b></p> <p>The loss of data, a physical site or critical employees could result in a major impact to our customers, revenues and reputation.</p> <div> <p>▲ <b>Change</b></p> <p>This risk has increased in the past year due to the increasing frequency of cyber-attacks, extreme weather events, and potential impact from the coronavirus pandemic.</p> </div>	<ul style="list-style-type: none"> <li>We store data in enterprise grade, cloud-based servers which are duplicated to minimise disruption.</li> <li>Our engineering team focuses on resilience to mitigate the risks of material or sustained disruption.</li> <li>We have business continuity plans for facilities that require a physical presence on-site and critical systems.</li> <li>We have embarked on a process to embed business continuity considerations into our client project plans beyond our critical projects.</li> <li>We conduct scenario testing for our disaster recovery plans.</li> <li>Our work-from-home model for data annotators makes our business model extremely flexible and resilient.</li> <li>We continue to have robust COVID-safe work practices for our employees.</li> </ul>	 <p><b>Customer and brand</b></p>  <p><b>Technology, processes, systems</b></p>  <p><b>Social and environment</b></p>

## People

Principal risk	Mitigation	Value driver
<p><b>Variations in workforce strategy affecting key employee capability and capacity</b></p> <p>Our business is reliant on specialised skills. Our ability to grow is dependent on attracting, developing and retaining our talent.</p> <div> <p>▲ <b>Change</b></p> <p>The impact of employment market related pressure, combined with fatigue related to ongoing COVID lockdowns has resulted in an increase in this risk.</p> </div>	<ul style="list-style-type: none"> <li>Our People and Culture team works closely with the business to understand the skills and capabilities required to deliver our business objectives and to ensure those needs are met.</li> <li>We provide learning and development programs to strengthen our existing capabilities and to retain talent through progression pathways.</li> <li>We have implemented a range of initiatives to support employees during the pandemic including additional Employee Assistance Program services and wellness events; increased communications and company town halls; as well as clearly articulating our COVID-safe return to office plans.</li> <li>We have conducted benchmarking across the sector to ensure our offerings are comparable and introduced additional employee benefits programs to retain and attract talent.</li> </ul>	 <p><b>Appen employees</b></p>  <p><b>Social and environment</b></p>






## Technology and innovation

Principal risk	Mitigation	Value driver
<p><b>Managing organisation culture and leadership through change</b></p> <p>We have undertaken a significant restructure and refocus which is reliant on key individuals to ensure successful change.</p> <div> <p><b>▲ Change</b></p> <p>This risk has increased in the year due to uncertainty in the employment market as well as the restructure earlier in the year.</p> </div>	<ul style="list-style-type: none"> <li>We positively reinforce our values, desired behaviours and attributes through direct links to reward and recognition.</li> <li>We have introduced a dedicated transformation team that is responsible for planning, executing, co-ordinating and controlling activities related to change.</li> <li>Where change is dependent on talent, we implement programs to ensure key employees receive tailored incentives.</li> <li>We have conducted focus groups and used the findings to revise our employee value proposition, ensuring it is robust and attractive to current and prospective talent.</li> </ul>	<p> <b>Appen employees</b></p> <p> <b>Technology, processes, systems</b></p>
<p><b>Investment in technology innovation and transformation</b></p> <p>Technology innovation is key to improving our capabilities, increasing efficiency and automation, keeping pace with customer expectations and staying ahead of our competition.</p> <div> <p><b>▲ Change</b></p> <p>This risk has increased in the current year as our digital transformation program progresses and we continue to invest in our engineering and innovation teams.</p> </div>	<ul style="list-style-type: none"> <li>We are investing in our transformation program to improve both customer and crowd experiences, further solidify our core foundations and deliver automation benefits and efficiencies and new offerings.</li> <li>We utilise agile methods in our project delivery to ensure investment in engineering projects is appropriately prioritised and oversight is in place.</li> </ul>	<p> <b>Technology, processes, systems</b></p> <p> <b>Customer and brand</b></p>





# Identifying and managing risk

Key: ▲ Increase ▼ Decrease = Stable

Principal risk	Mitigation	Value driver
<p><b>Market disruption</b></p> <p>The AI market is very dynamic and client needs and end-user expectations change rapidly. Changes in the AI market and regulatory environment could impact our business model, our required product offering and our strategic decisions across markets.</p> <p><b>▲ Emerging risk</b></p> <div> <p><b>= Change</b></p> <p>This risk has remained stable in the current year but we continue to monitor closely as we anticipate that this risk will increase over subsequent periods.</p> </div>	<ul style="list-style-type: none"> <li>We have a team that is dedicated to monitoring AI and technology markets, customer trends and regulatory changes.</li> <li>We use these insights to inform our strategy and technology roadmap, and to evolve our offering.</li> <li>We scan for additional opportunities to expand into other markets and/or technology to support our existing offering.</li> <li>We have partnered with the World Economic Forum to create responsible AI standards to increase the value of, and trust in AI, for businesses and the community.</li> </ul>	<p></p> <p><b>Technology, processes, systems</b></p> <p></p> <p><b>Customer and brand</b></p>
<p><b>Protection of intellectual property</b></p> <p>With an increasingly product-led strategy the need for solid intellectual property protection strategies are key to delivering outcomes for our customers.</p> <div> <p><b>= Change</b></p> <p>This risk has remained stable in the current year but we continue to monitor closely as we anticipate that this risk will increase over subsequent periods.</p> </div>	<ul style="list-style-type: none"> <li>We have an IP Committee that looks at new technologies through invention disclosures, develops appropriate protection strategies for that technology and ensures alignment with product directions (including patenting, copyright, trade secret, defensive publication etc).</li> <li>We have training to ensure employees are aware of the need to protect confidential information.</li> <li>Access to core technologies is geographically segmented to improve IP protection.</li> <li>Brands are protected in relevant markets.</li> </ul>	<p></p> <p><b>Technology, processes, systems</b></p>



## Crowd





Principal risk	Mitigation	Value driver
<p><b>Crowd conditions</b></p> <p>Independent contractors are critical to our business. The attraction and retention of skilled contractors enables our competitive advantage and customer value proposition.</p> <div> <p><b>= Change</b></p> <p>This risk remained stable in the current year. We continue to see customers requesting information on crowd conditions, particularly in areas related to content moderation.</p> </div>	<ul style="list-style-type: none"> <li>Our Crowd Code of Ethics establishes the conditions that we will adhere to, above the minimum legal requirements.</li> <li>We continue to conduct risk assessments on the locations where there may be issues with contractor conditions as well as changes in employment trends and upcoming legislation.</li> <li>We have programs for high performing contractors to expand their skills.</li> <li>Our Impact Sourcing strategy provides jobs and career development to people who otherwise have limited prospects for formal employment.</li> </ul>	<div>  <p><b>Global crowd</b></p> </div> <div>  <p><b>Customer and brand</b></p> </div>
<p><b>Crowd supply meets customer demand</b></p> <p>Our business model relies on our ability to provide customers with access to a broad range of skills provided by our global crowd.</p> <div> <p><b>= Change</b></p> <p>This risk remains stable. While there is increasing demand from customers for diverse crowd members, the increasing breadth of our crowd has continued to be to our advantage.</p> </div>	<ul style="list-style-type: none"> <li>We continue to invest in our contractor experience and have completed a number of projects to enhance communications and reduce friction in the onboarding process.</li> <li>We have commenced new strategies to combat contractor integrity to further guarantee that our clients have access to the best quality contractors.</li> <li>We have partnerships with sourcing agencies to increase our reach into difficult markets and to stimulate applicant interest.</li> </ul>	<div>  <p><b>Global crowd</b></p> </div> <div>  <p><b>Customer and brand</b></p> </div>



# Identifying and managing risk



Key: ▲ Increase ▼ Decrease = Stable

## Data management





Principal risk	Mitigation	Value driver
<p><b>Compliance with security, privacy and other data regulations</b></p> <p>We manage a large amount of data as part of our operations including a significant amount of personal information which requires increased security requirements.</p> <div> <p>▲ <b>Change</b></p> <p>This risk continues to trend higher due to increasing regulation globally as well as an increase in the amount of sensitive information we are being requested to collect or process.</p> </div>	<ul style="list-style-type: none"> <li>Security and privacy are core foundational elements in our new product-led strategy.</li> <li>We continue to integrate security and privacy requirements into our systems and offerings by increasing the collaboration between our product, engineering and privacy teams.</li> <li>We have a team that is responsible for understanding emerging information security risks. They consult with external advisors.</li> <li>Information security risk assessments are conducted on a regular basis and the IT team undergoes training in risk management.</li> <li>We are ISO 27001 and SOC 2 certified.</li> <li>We have policies, procedures and training to ensure employees are aware of their privacy and security obligations.</li> <li>Privacy and data security are standing agenda items for our IT Governance Steering Group and Privacy Steering Group which report quarterly to our Audit and Risk Management Committee.</li> </ul>	 <p><b>Technology, processes, systems</b></p>  <p><b>Customer and brand</b></p>
<p><b>Emerging cyber security issues</b></p> <p>We manage sensitive information, increasing our exposure and susceptibility to cyber attacks. Cyber threats could lead to a loss of data or service interruption impacting customers and our reputation.</p> <div> <p>▲ <b>Change</b></p> <p>As we continue to grow, we become an increasingly large target for cyber crime. This, combined with the overall increase in cyber attacks and growing sophistication in these attacks, has resulted in an increase in this risk during the year.</p> </div>	<ul style="list-style-type: none"> <li>We have implemented a cyber security risk management framework across the organisation. This adheres to industry recognised standards, such as the International Organization for Standardization (ISO) and National Institute of Standards and Technology (NIST). It includes the deployment of physical and technological security measures to identify, protect, detect and respond to information and cyber security risks.</li> <li>We have ISO 27001 and SOC 2 certification.</li> <li>We conduct audits of our cyber security practices, including scenario planning and penetration testing, for cyber security incident management.</li> <li>The strength of our control environment is tested on an ongoing basis by independent security experts. Their recommendations are implemented in a prioritised manner.</li> <li>We have policies, procedures and annual training to ensure employees are aware of the threat and their responsibilities, and we conduct regular synthetic phishing tests.</li> </ul>	 <p><b>Technology, processes, systems</b></p>  <p><b>Customer and brand</b></p>



## Financial

Principal risk	Mitigation	Value driver
<b>Financial sustainability</b> We operate globally and our business can be affected by foreign exchange rates, changes in debt markets and tax obligations. As a listed entity we also have an obligation to protect shareholders' capital. <div> <b>Change</b>  Moving to a reporting currency of USD has reduced the impact of foreign exchange fluctuations. This risk has remained steady in the year. </div>	<ul style="list-style-type: none"> <li>We moved to US dollars as our primary reporting currency to reduce foreign exchange translation risk. We engage in hedging arrangement to further mitigate this risk.</li> <li>We have a specialised financial and tax team. We also retain external tax experts who monitor developments in international tax and assess the impact of changes.</li> <li>We continue to monitor the external landscape and conduct scenario planning to ensure we can appropriately respond to changes, such as tax rates, in a timely manner.</li> <li>We continue to apply our hedging policy to Australian expenses that are settled with US dollar funds.</li> </ul>	 <b>Financial</b>  <b>Appen employees</b>

## Support

Principal risk	Mitigation	Value driver
<b>Compliance with legal, statutory and ethical obligations</b> We are a global business and have a responsibility to deliver consistent with our legal, statutory and ethical obligations across a number of jurisdictions. <div> <b>Change</b>  This risk has remained steady in the year. </div>	<ul style="list-style-type: none"> <li>We maintain appropriate controls, governance and oversight.</li> <li>We undertake ongoing horizon scanning to monitor potential policy, legal and regulatory developments that may impact our operations in particular jurisdictions. Our compliance framework includes policies, procedures and a suite of mandatory compliance training which helps drive positive attitudes to compliance across the business.</li> <li>We have added relevant subject matter expertise across the business and are increasing our training program for all staff to extend our compliance and reporting capabilities.</li> </ul>	 <b>Social and environment</b>  <b>Financial</b>  <b>Appen employees</b>
<b>Environmental, social and governance (ESG) risks and performance</b> As a growing company with a global workforce, we have a responsibility to consider the environmental, social and economic impacts and influences of our activities and to look for ways to make a positive contribution and reduce risk. <div> <b>Emerging risk</b>  <b>Change</b>  This risk has increased due to heightened scrutiny from stakeholders and customers wanting to see the adoption of ESG factors into business strategy. </div>	<ul style="list-style-type: none"> <li>We understand the local labour and human rights landscapes in the jurisdictions we operate in, and take steps to comply with modern slavery requirements.</li> <li>We have commenced our journey to net zero emissions by 2030 and have completed our Scope 1 and 2 GHG emissions inventory.</li> <li>Further information can also be found on <a href="#">page 32</a> as part of our TCFD reporting.</li> </ul>	 <b>Social and environment</b>

# Our approach to governance

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

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

We regularly review our governance practices considering the Company's growth and emerging corporate governance developments.

## Governance framework

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

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

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

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

## 2021 Board and Committee priorities

Key areas of governance focus and key activities undertaken by the Board, its Committees and management during 2021 included:

### Strategic and financial performance

- a Board and executive strategy session was held with a focus on existing and new market growth and internal and contributor productivity.

### Appen employees

- The COVID-19 Response Team continued to define safety protocols for all offices and provide updates on impacts to colleagues, the status of each office, and related policies.
- The Diversity and Inclusion Committee continued to focus on initiatives to promote gender diversity and implement practices for the benefit of under-represented groups.

### Global crowd

- Reinforced our Crowd Code of Ethics and its role in building our reputation as a company of fairness and integrity in how we partner with our crowd.

### Social and environment

- Completed our Scope 1 and 2 GHG emissions inventory.
- Submitted our initial Modern Slavery Statement.

### Governance and Board renewal

- a key focus for the Board was our response to the first strike against the remuneration report received at the

AGM. A review was conducted on executive pay following consultation with proxy advisors on issues perceived in the current remuneration structure. As a result, changes were made to the executive remuneration framework, effective from 1 January 2022, which have been outlined in our Remuneration report.

- appointed Richard Freudenstein as the independent non-executive Chair of the Board.

### Oversight of financial and capital management

- adopted US dollars as our primary currency to reduce foreign exchange translation risk.

### Ethics and responsible decision-making

- commenced progress in reducing our GHG emissions by completing the first GHG inventory and reporting in line with the CDP Framework.
- partnered with key customers to establish projects to identify and monitor our impact on social impact activities.
- issued our first Modern Slavery Statement.

### Compliance and risk management

- internal audit program – reviewing and assessing processes across key operational areas; including a review of our crowd pay processes.
- reviewed the risk management framework, revised risk appetite statement and updated our strategic risks to incorporate material ESG risks.



## Corporate Governance Statement

Our Corporate Governance Statement provides detailed information on our corporate governance framework. The Statement and the Board and Board Committee Charters are available at: [appen.com/investors/corporate-governance/](https://appen.com/investors/corporate-governance/)



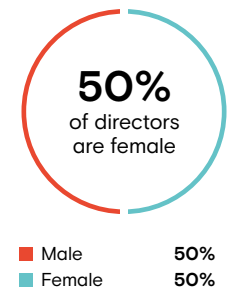
## Board skills and experience

The Board maintains a Board Skills Matrix that outlines the skills and experience that directors need to collectively possess for the Board to effectively discharge its duties. It is reviewed annually to ensure the core competencies listed remain relevant to the Company. The Board also regularly monitors and reviews its performance and the performance of its Committees.

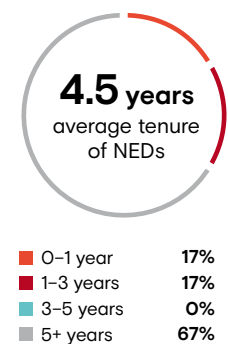
Skill	Description	Skill level
<b>Strategy</b>	Experience in defining strategic objectives, assessing business plans and driving execution. Ability to think strategically and identify and critically assess opportunities and threats and develop effective strategies in the context of changing market conditions.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

■ High competency and experience    ■ Medium competency and experience

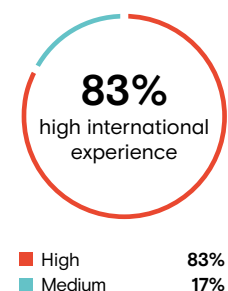
### Board diversity



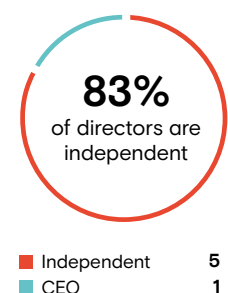
### Non-executive director tenure



### International business experience



### Director independence



# Board of Directors



## Richard Freudenstein

BA (Law) (Hons), BA (Economics)

### Non-Executive Chairman

**Appointed:** 12 August 2021

**Board Committees:** Member of the People and Culture Committee

### Experience and expertise

Richard was appointed as Chair in October 2021 and has been a non-executive director since August 2021. Richard is a director of Coles Group Limited, REA Group Ltd and Cricket Australia. Previously, he was Chairman of REA Group Ltd and a director of Ten Network Holdings Ltd, Foxtel and Astro Malaysia Holdings Berhad. Richard has held the roles of Chief Executive Officer (CEO) at Foxtel, News Digital Media and The Australian, and was Chief Operating Officer at British Sky Broadcasting. He is currently Deputy Chancellor and Fellow of the Senate at the University of Sydney.

### Directorships of other listed entities in the last three years

Coles Group Limited (November 2018 to present) and REA Group Limited (October 2006 to present).



## Mark Brayan

MBA, BSurv (Hons)

### Managing Director & Chief Executive Officer

**Appointed:** 13 July 2015

**Board Committees:** Nil

### Experience and expertise

Mark is responsible for the company's leadership, strategy and culture. He has more than 30 years' experience in technology and services. Prior to joining Appen, Mark was CEO of MST Global, a provider of technology solutions to the resources sector. Before that, he was the CEO of Integrated Research Limited (ASX:IRI), an international software company listed on the Australian Securities Exchange. Mark was also Chief Operating Officer (COO) of the HR outsourcing company Talent2 (ASX:TWO) and CEO of Concept Systems (ASX:CSI) before its merger with Talent2.

### Directorships of other listed entities in the last three years

Nil



## Steve Hasker

BCom, MBA, MIA, ACAA

### Independent Non-Executive Director

**Appointed:** 7 April 2015

**Board Committees:** Chair of the People and Culture Committee

### Experience and expertise

Steve is currently President and CEO of Thomson Reuters. He has been in this role since March 2020. Prior to this he was a Senior Advisor to TPG Capital and CEO of Creative Artists Agency Global, based in Los Angeles, where he oversaw CAA's commercial activities. Previously, Steve was Global President and COO of Nielsen, based in New York, responsible for Nielsen's commercial and product activities across its media and consumer businesses. Prior to joining Nielsen in 2009, he was a partner at McKinsey & Company's Global Media, Entertainment and Information practice in New York. Before joining McKinsey, Steve spent five years in several financial roles in the U.S., Russia and Australia. Steve is a member of the Institute of Chartered Accountants Australia and New Zealand.

### Directorships of other listed entities in the last three years

Global Eagle Entertainment Inc. (7 April 2015–4 March 2020) and Thomson Reuters (March 2020 to present).





## Robin Low

BCom, FCA, GAICD

### Independent Non-Executive Director

**Appointed:** 30 October 2014

**Board Committees:** Chair of the Audit and Risk Management Committee, Member of the People and Culture Committee

### Experience and expertise

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

### Directorships of other listed entities in the last three years

CSG Limited (20 August 2014–19 February 2020), AUB Group Limited (3 February 2014 to present), IPH Limited (23 September 2014 to present), Marley Spoon AG (29 January 2020 to present).



## Vanessa Liu

AB Psychology (magna cum laude with highest honors); JD (cum laude)

### Independent Non-Executive Director

**Appointed:** 27 March 2020

**Board Committees:** Member of the Audit and Risk Management Committee

### Experience and expertise

Vanessa has a deep understanding of emerging technology trends and enterprise uptake of artificial intelligence, especially in the US market. She was most recently the Vice President of SAP.iO, the early stage venture arm of SAP which invests in start-ups in enterprise technology. Before SAP, Vanessa was the Chief Operating Officer at Trigger Media Group, a digital media incubator. Previously, Vanessa was an Associate Partner at McKinsey & Company's Media and Entertainment Practice, based in Amsterdam, London and New York. She was responsible for serving clients in a variety of media and high-tech sectors on issues of digital strategy, emerging market strategy, growth and innovation.

### Directorships of other listed entities in the last three years

Nil



## Deena Shiff

BSc (Econ), BA (Law)

### Independent Non-Executive Director

**Appointed:** 15 May 2015

**Board Committees:** Member of the Audit and Risk Management Committee

### Experience and expertise

Deena has enjoyed a distinguished business career covering senior roles in corporate positions and the legal profession. She was the founding CEO of Telstra's corporate venture capital arm, Telstra Ventures, and Group Managing Director, Telstra Business. Previously, Deena was a partner in the leading law firm, Mallesons Stephen Jaques. She is currently Chair of the Advisory Board for the ARC Centre of Excellence for Automated Decisions and Society, Chair of the Advisory Board of the Australian Centre for China in the World, and Chair of the Australian Broadband Advisory Council.

### Directorships of other listed entities in the last three years

Chair of Marley Spoon AG (5 June 2018 to present), Pro Medicus (1 August 2020 to present), Electro Optic Systems Holdings Limited (December 2021 to present).

## Chris Vonwiller

BSc, BE (Hons), MBA, FIE (Aust.), FTSE

### Former Non-Executive Chairman

**Appointed:** 14 August 2009. **Resigned:** 28 October 2021

Chris was the Non-Executive Chairman of Appen from August 2009 until October 2021, having formerly served as Appen CEO from 1999–2010. Prior to joining Appen, served for 20 years in senior executive positions with the Australian telecommunications carrier Telstra Corporation Limited, playing a leading role in the development and deployment of innovative internet services, multimedia, and pay television. Chris is a former Chairman of the Warren Centre for Advanced Engineering at The University of Sydney. He was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2007.

## William Pulver

BCom (Marketing)

### Former Independent Non-Executive Director

**Appointed:** 19 April 2010. **Resigned:** 25 August 2021

William (Bill) served as Appen CEO from 2010–2013 and was the CEO of the Australian Rugby Union from 2013–2018. Previously, he was the President and CEO of NetRatings, Inc., a NASDAQ-listed company (NTRT), specialising in Internet media and market research. Prior to this, Bill held leadership roles at ACNielsen with eRatings.com, Pacific region and Australia.

# Executive Team



## Mark Brayan

MBA, BSurv (Hons)

### Managing Director & Chief Executive Officer

Appointed: July 2015

#### Experience and expertise

Refer to Board of Directors [page 46](#) for Mark's experience and expertise



## Kevin Levine

BComm, BAcc

### Chief Financial Officer

Appointed: January 2016

#### Experience and expertise

Kevin is responsible for the finance, IT and corporate functions including legal, investor relations and corporate development. He is a Chartered Accountant with more than 25 years' experience in executive operations and financial roles in listed and unlisted companies, with particular exposure to start-up, high growth companies in the services and technology sectors. Prior to joining Appen, Kevin was the CEO and CFO of Rubicor Group Limited, one of the largest networks of specialist recruitment businesses in Australasia. Before that, Kevin was the CFO of Trade Wind Communications Limited, an Australian public technology company previously listed in Canada and the US.



## Eric de Cavaignac

MBA, BA

### Chief Transformation Officer

Appointed: November 2021

#### Experience and expertise

Eric de Cavaignac joined Appen in November 2021 and is responsible for driving programs to scale operations and delivery, and support revenue growth. He brings over 25 years of experience in partnering with investors and management to transform businesses, and to deliver lasting growth and profit improvement.

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

Eric has a BA (Hons) in International Affairs from Trinity College, and an MBA (Beta Gamma Sigma, Dean's List) from Columbia Business School.



## Jen Cole

MA, BA

### SVP & GM, Enterprise

Appointed: November 2021

#### Experience and expertise

Jen Cole joined Appen in November 2021 and comes to Appen with over 22 years of experience building enterprise marketing and data platforms, leading go to market teams, and scaling the delivery of technology enabled services. As SVP & GM, Enterprise Jen is responsible for the success of Appen's Enterprise business including go-to-market strategy, sales, delivery, and operations to ensure continued growth and sustained client success.

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

Jen has an MA in Psychology from the University of California, Berkeley and a BA in Psychology from Colgate University.



## Mike Davie

BBA, MSc

### SVP & GM, Quadrant

Appointed: September 2021

#### Experience and expertise

Michael (Mike) Davie is the founder of Quadrant and joined Appen in September 2021 following the acquisition of Quadrant by Appen. Mike has been leading the commercialisation of disruptive mobile technology and Information and Communications Technology infrastructure for more than a decade with leading global technology firms in Asia, Middle East and North America. Prior to founding Quadrant, Mike was a member of the Advanced Mobile Product Strategy Division at Samsung where he developed go-to-market strategies for cutting edge technologies created in the Samsung R&D Labs. He also provided guidance to Asia and Middle East telcos on their 4G/LTE infrastructure data needs and worked closely with them to monetise their M2M and telco analytics data.



## Wilson Pang

MEng (ElecEng), BEng (ElecEng)

### Chief Technology Officer

Appointed: November 2018

#### Experience and expertise

Wilson is responsible for products and technology. He has over 20 years' experience in software engineering and data science. Prior to joining Appen, Wilson was Chief Data Officer of CTrip in China, the world's second largest online travel agency, where he led data engineers, analysts, data product managers, and scientists to improve user experience and increase operational efficiency. Before that, he was senior director of engineering at eBay in California and held leadership roles in data services and solutions, search science, marketing technology, and billing systems. Previously he worked as a systems architect at IBM.



## Kerri Reynolds

MBA, BA

### SVP, Crowd Sourcing Operations & HR

Appointed: March 2017

#### Experience and expertise

Kerri is responsible for attracting and building our global crowd of professionals and for the Human Resources function. She has over 20 years of experience in global talent acquisition and across several human resource functions. Before joining Appen, Kerri was the Senior Director of Staffing Strategy at Microsoft where she developed and implemented global talent acquisition strategies for the 50,000+ person Sales, Marketing & Services Groups. Prior to that, Kerri spent her career with MasterCard Worldwide, The Gap, and Citibank.



## Sujatha Sagiraju

MBA, MSc, B.Tech

### Chief Product Officer

Appointed: September 2021

#### Experience and expertise

Sujatha Sagiraju joined Appen in September 2021 as SVP of Product and she is responsible for the product strategy. She is a technology pioneer with over 20 years of broad experience in building disruptive large-scale online services and AI/ML and data platforms. She joined Appen from Microsoft where she held leadership roles in several groups including Bing and Azure AI Platform.

Sujatha has an MBA in Technology Management from University of Washington, Seattle, MS in Petroleum Engineering from University of Texas, Austin and BS in Chemical Engineering from Indian Institute of Technology, Chennai, India.



## Tom Sharkey

BSc (AeroEng)

### SVP, Client Services

Appointed: July 2018

#### Experience and expertise

Tom is responsible for the global client services and operations and facilities teams. He has over 30 years' experience in: technology services, outsourcing and capabilities expansion; sales and account management; and industrialised, efficient delivery models. Before joining Appen, Tom was SVP at Arvato, where he was responsible for a major global technology client and its worldwide service delivery, business transformation and automation objectives. He also was a Managing Director at Accenture for over nine years supporting a broad portfolio of fortune 500 companies in technology services, outsourcing and M&A.



## Roc Tian

PhD (Computer Software),  
MA Computer Applications

### SVP, China

Appointed: August 2019

#### Experience and expertise

Roc is responsible for business strategy, sales, marketing, delivery, operations, and government relationships in China. He has over 20 years of sales, consulting, and management experience with Fortune 100 companies and has a track record of success in scaling technology organisations. Most recently, Roc was senior partner of IBM Global Business Services in China. Before that, he led the growth of IBM's global delivery centre in China. Prior to IBM, Roc was a business quality director at HP. He was also the founder and CTO of a technology start-up that grew to over 100 people.

# Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the "Group" or "Appen") consisting of Appen Limited (referred to hereafter as the "Company" or "parent entity") and the entities it controlled at the end of, or during, the year ended 31 December 2021.

## Directors

The following persons were Directors of Appen Limited during the whole of the year and up to the date of this report, unless otherwise stated. The Directors' biographies are provided on [pages 46–47](#) of the Annual Report.

Richard Freudenstein (appointed as a Director on 12 August 2021 and appointed as Chairman on 28 October 2021)

Mark Ronald Brayan – Managing Director and Chief Executive Officer

Stephen John Hasker

Vanessa Liu

Robin Jane Low

Deena Robyn Shiff

Christopher Charles Vonwiller (Director and Chairman to 28 October 2021)

William Robert Pulver (Director to 25 August 2021)

## Principal activities

Appen is a leading data for AI lifecycle company that 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 enables our customers, who are leaders in technology, automotive, financial services, retail, healthcare and government, to build world-class AI products, by creating large volumes of high-quality, unbiased training data faster.

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 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 year, Appen announced a corporate restructure. As a result, Appen now has five customer-facing business units, each with financial and customer responsibility, as follows:

- **Global:** responsible for delivery of high-quality data annotation services and products to our five largest US global technology customers;
- **Enterprise:** responsible for leveraging our product suite and AI-driven automation to efficiently grow revenue outside of Global customers to serve new customers and use cases as AI is adopted throughout the economy;
- **Government:** responsible for serving the emerging AI needs of Government;
- **China:** responsible for capturing market share in the high growth market in China; and
- **Quadrant:** during the year, Appen acquired Quadrant Global Pte Ltd ("Quadrant"), a global leader in mobile location and Point-of-Interest (POI) data, thus expanding our addressable market, product offering and data annotation capabilities. Refer to [page 14](#) or more information.

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

- **Global Services:** represents the services that Appen provides to its five major US technology customers (Global customers) using the 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 also includes revenue derived using Quadrant's geolocation and POI data capabilities. New Markets customers benefit from our high-quality data annotation capabilities originating from Appen and now Quadrant's AI-augmented product suite, coupled with the provision of at-scale crowd management with Appen Connect. This enables Appen to deliver high-quality outcomes for customers, and deliver revenue growth, scale and margin expansion.

## Dividends

### Dividend declared

On 24 February 2022, the Company declared a final dividend for the year ended 31 December 2021 of AU 5.5 cents per share, 50% franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 1 March 2022 and the payment date will be 18 March 2022. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2021, and will be recognised in the subsequent financial year.

### Dividends paid

During the year, on 19 March 2021, the Company paid the 2020 final dividend of AU 5.5 cents per share, 50% franked, and on 24 September 2021, the Company paid the 2021 interim dividend of AU 4.5 cents per share, 50% franked.

## Impact of the COVID-19 pandemic

During the year, our global operations remained resilient, and we 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 extended the option to work from home until 31 March 2022. When we deem it safe to do so, we expect to return to the hybrid model where staff can work from home while at the same time enjoying the benefits of collaboration and teamwork that come from interacting and exchanging ideas in the office.

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

## Board renewal

As part of the Company's Board renewal program, on 12 August 2021, Richard Freudenstein joined the Board as a non-executive director and succeeded Chris Vonwiller as Chair, when Mr Vonwiller retired on 28 October 2021. Mr Vonwiller was Chair of the Company for 12 years and CEO from 1999 to 2010.

William Pulver retired on 25 August 2021, after 8 years as a non-executive director and having served as CEO of Appen from 2010 to 2013. He was succeeded as Chair of the People and Culture (formerly 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.



# Directors' report

for the year ended 31 December 2021

## Acquisition of leading data location provider

On 13 September 2021, Appen 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.

Appen made an upfront cash payment of \$25,268,000, which was fully funded from existing cash reserves, and a potential additional payment of up to \$20,000,000 in Appen shares to be issued upon achieving revenue milestones in 2022 and 2023. At acquisition date, the fair value of this contingent consideration was \$17,702,000.

## Significant changes in the state of affairs

During the 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.

In addition, the Company announced the acquisition of Quadrant, as discussed above.

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

## Matters subsequent to the end of the 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, no other matter or circumstance has arisen since 31 December 2021, that in the opinion of the Directors, 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.

## Likely developments and expected results of operations

The Group will continue to pursue its strategy to grow the business by being product-led across all industries and geographic locations.

## Environmental regulation

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

## Company Secretary

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

## Meetings of directors

The number of meetings of the Company's Board of Directors (the Board) and of each Board Committee held during the year ended 31 December 2021, and the number of meetings attended by each director were:

	Board		Audit and Risk Management Committee		People and Culture Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Chris Vonwiller <sup>1</sup>	13	13	3	3	–	–
Richard Freudenstein <sup>2</sup>	7	7	–	–	–	–
Bill Pulver <sup>3</sup>	11	11	–	–	2	2
Robin Low	16	16	4	4	4	4
Steve Hasker	16	16	–	–	4	4
Deena Shiff	16	16	4	4	–	–
Mark Brayan	16	16	–	–	–	–
Vanessa Liu	16	16	1	1	–	–

1 resigned 28 October 2021

2 appointed 12 August 2021

3 resigned 25 August 2021



# Directors' report

for the year ended 31 December 2021

## Shares under performance rights

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

Plan	Number of rights
2019	518,733
2020	720,824
<b>2021</b>	<b>787,775</b>
	<b>2,027,332</b>

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

## Shares issued on the exercise of performance rights

729,311 ordinary shares of the Company were issued on the exercise of performance rights during the year ended 31 December 2021.

## Indemnity and insurance of officers

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

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

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

## Indemnity and insurance of auditor

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

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

## Proceedings on behalf of the Company

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

## Auditor independence and non-audit services

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

During the year KPMG, the Group's auditor, performed certain other services in addition to the audit and review of the financial statements. These relate to transfer pricing and assurance services. Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in [note 27](#) to the financial statements.

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

## Rounding of amounts

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

# Remuneration report

Dear Shareholder

On behalf of Appen's People and Culture Committee, I am pleased to present our audited Remuneration Report for the year ended 31 December 2021. We have listened to valued shareholders' feedback in response to the first strike on the 2020 Remuneration Report and reviewed our executive remuneration framework.

## Strategic focus

During the year, we expanded the remit of the Committee beyond recommendations associated with Board appointments and executive remuneration, to also focus on strategic human resources objectives, including the well-being of our employees and culture. As a result, the Committee has been re-named the People and Culture Committee.

## 2021 business performance

Over the last five years, Appen's revenue has grown at a compound rate of 40%. FY21 revenue was up 8.3% and underlying EBITDA was up 3.0%, compared to FY20.

## 2021 remuneration outcomes

At Appen, executive remuneration continues to be heavily weighted towards performance and at-risk equity-based pay. In addition, the Board sets challenging STI and LTI targets. For the 2021 STI, revenue and underlying EBITDA targets, were set at 25% and 31% respectively above 2020 actuals. Stretch Underlying Basic Earnings per share (UBEPS) targets also applied to the equity-based LTI plan. These targets are designed to incentivise the executive team to perform for shareholders and only reward significant out-performance.

A summary of remuneration outcomes for 2021 was as follows:

- There was no increase in the CEO's fixed remuneration (or the fixed remuneration of any Executive KMP).
- The CEO and CFO did not receive any STI in relation to FY21.

- Only one KMP received an STI for FY21, being Mr Sharkey, Senior Vice-President Global Division, and the amount received was 67% of target, driven mainly by exceeding the threshold of divisional performance targets.
- All tranches of the 2018 Executive and 2018 Special LTI awards and (for US executives) tranche 2 of the 2019 Executive LTI award were tested following the end of FY20 and vested in full, as the performance and service conditions were met.
- For the FY20 LTI (tranche 1 and 2) and FY21 (tranche 1) awards, the relevant performance condition of 20% UBEPS growth has not been met and in order for these to vest in future years, significantly more challenging UBEPS targets will need to be met in the future – UBEPS growth of 44% over two years or UBEPS growth of 73% over three years.
- Non-executive director fees were increased following a review in late 2020, which showed Chair and Board fees were significantly below market compared to Appen's ASX listed peers.

## Remuneration Changes for 2022

Since the 2021 Annual General Meeting (AGM) and the first strike on the 2020 Remuneration Report, Appen has consulted with proxy advisors, shareholders and other stakeholders to understand their concerns.

We have taken this feedback seriously and have made changes to the executive remuneration structure for FY22.

We have focused on balancing shareholder expectations against Australian and US remuneration market practice where we compete for talent in the highly competitive global technology market. The table on pages 56–58 summarises the issues raised by proxy advisors, shareholders and other stakeholders in connection with the 2020 Remuneration Report, our response, and changes implemented by the Board with effect from 1 January 2022. This year we have also worked to improve the transparency and readability of our remuneration report disclosures.

## Looking ahead

Appen remains focused on delivering its product-led future in a globally competitive market and we believe our current remuneration structure will deliver long-term value creation for shareholders. The Board will continue to engage with proxy advisors, shareholders and their representatives on matters related to remuneration. We look forward to your comments and value your feedback on our remuneration framework and policies. We remain committed to remuneration practices that consider stakeholder expectations and align with good practice in Australia and the US.

Yours sincerely



**Stephen Hasker**  
Chair of the People and Culture Committee



## Who is covered by this Report?

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

### Non-Executive KMP:

Richard Freudenstein	Independent Director <sup>1</sup> and Non-Executive Chairman <sup>1</sup>
Stephen Hasker	Independent Non-Executive Director
Vanessa Liu	Independent Non-Executive Director
Robin Low	Independent Non-Executive Director
Deena Shiff	Independent Non-Executive Director
Chris Vonwiller	Former Non-Executive Chairman <sup>2</sup>
William Pulver	Former Independent Non-Executive Director <sup>3</sup>

### Executive KMP:

Mark Brayan	Managing Director and Chief Executive Officer (CEO)
Kevin Levine	Chief Financial Officer (CFO)
Tom Sharkey <sup>5</sup>	Senior Vice-President, Global Division
Jon Kondo <sup>5</sup>	Former Acting Senior Vice-President, Enterprise Division <sup>4</sup>

1 Director since 12 August 2021 and Chairman since 28 October 2021.

2 To 28 October 2021.

3 To 25 August 2021.

4 To 25 June 2021.

5 US-based executive.

## Our response to the strike

During 2021, members of the Board and People and Culture (formerly known as the Nomination and Remuneration) Committee met with its largest shareholders, proxy advisors and other stakeholders to understand their concerns which led to a first strike. The following table summarises the issues raised by those groups in connection with the 2020 Remuneration Report and how the Board has sought to address them. Appen has made changes to the executive remuneration framework that will apply from 2022, balancing shareholder feedback with an approach that attracts and retains talent in the highly competitive global technology market.

Issue raised or concern	2021 approach	What has changed or will change from 1 January 2022?	Rationale
<b>Short-term incentive (STI)</b>			
<b>There are no non-financial measures in the STI scorecard.</b>	<ul style="list-style-type: none"> <li>Executive KMP have a combination of the following financial measures that form the STI scorecard: <ul style="list-style-type: none"> <li>Revenue;</li> <li>Underlying EBITDA; and</li> <li>Divisional targets.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Non-financial measures will form 30% of the STI scorecard. These measures will be: <ul style="list-style-type: none"> <li>Crowd NP;</li> <li>Customer NPS; and</li> <li>Employee engagement.</li> </ul> </li> </ul>	<p>Appen's core belief has always been that financial success is reflective of strong financial and non-financial performance.</p> <p>We have also reflected our key strategic initiatives in the scorecard to always focus executives on achieving sustainable growth.</p> <p>The financial measures will encompass divisional and group targets, with appropriate weightings.</p>
<b>A large portion of STI could be awarded for below target performance.</b>	<ul style="list-style-type: none"> <li>No payment below 80% of target.</li> <li>At 80% of target, 64% payout.</li> <li>At 90% of target, 81% payout.</li> <li>At target, 100% payout.</li> <li>At 122.25% of target, 150% payout.</li> </ul>	<ul style="list-style-type: none"> <li>At 90% of target, 50% payout.</li> <li>At target, 100% payout.</li> <li>At 120% of target, 150% payout.</li> </ul>	<p>Vesting schedules for the STI are intended to provide a fair level of reward for commensurate effort and align more closely to Australian market practice.</p>
<b>There is no deferral of STI.</b>	No deferral of STI.	From 2022, 25% of the CEO's STI will be deferred into equity for one year.	<p>STI deferral will be introduced for the CEO to align with the Australian market and provide for shareholder alignment.</p> <p>STI deferral will not apply to other Australian Executive KMP so as not to create a disconnect with US Executive KMP who will receive their STI in cash, in line with US market practice.</p> <p>The Board will continue to monitor the appropriate quantum and application of STI deferral.</p>





Issue raised or concern	2021 approach	What has changed or will change from 1 January 2022?	Rationale
<b>Long-term incentive (LTI)</b>			
<b>The LTI only has one measure.</b>	UBEPS measure weighted 100%.	<p>UBEPS measure (50% weighting).</p> <p>Group revenue (50% weighting).</p>	<p>US executives will also have a time-based equity component introduced for FY22. This will be subject to service only.</p> <p>UBEPS remains a relevant long-term measure as it aligns executives to shareholder experience.</p> <p>Revenue growth and quality of revenue are key to our business strategy. Group revenue is a key metric and the most appropriate indicator of both short and long-term performance.</p> <p>Time-based equity aligns with US market practice, where equity awards are granted with no performance hurdles.</p>
<b>LTI is tested annually and allows for re-testing.</b>	The LTI hurdle is measured annually from year 1, and the annual testing may be carried forward for a maximum of two years and may vest if the equivalent compound annual growth rate (CAGR) is achieved.	<p>The LTI performance and vesting period will now be at the end of three years for all participants.</p> <p>The annual testing has been removed, and as a result, no re-testing can occur.</p>	<p>The three year LTI performance period aligns with Australian market practice and Appen's long-term outlook.</p> <p>The time-based equity component for US executives will vest over a three-year period, vesting in three equal tranches annually.</p> <p>The annual vesting of the time-based equity ensures that Appen remains competitive in the US market, where equity vests annually, quarterly or in some cases monthly in technology companies.</p>
<b>LTI quantum is high compared to Australian market practice.</b>	The LTI opportunity for the CEO is 200% of fixed remuneration. For other Executive KMP the LTI opportunity ranges between 165% and 275% of fixed remuneration.	LTI quantum will continue to be benchmarked against relevant peers and will be expressed as a percentage of fixed remuneration.	<p>Compared to our US competitors, the LTI is set at quite modest levels.</p> <p>Appen must remain competitive within the global technology market. Our remuneration philosophy is to skew towards pay-for-performance, resulting in relatively lower fixed and higher at-risk components.</p>

## Our response to the strike (continued)

Issue raised or concern	2021 approach	What has changed or will change from 1 January 2022?	Rationale
<b>Other</b>			
<b>Malus and clawback do not apply to the STI and LTI.</b>	No formal malus or clawback applied to the STI.  LTI subject to malus only.	Malus and clawback will apply to STI and LTI.	A formalised policy will be implemented in the interests of good governance and to address shareholder expectations.
<b>There is no minimum shareholding requirement.</b>	Appen has a policy that requires Executive KMP to hold shares equivalent to 50% of the performance rights granted in 2019.	A formal minimum shareholding requirement (MSR) will be implemented of 100% of fixed remuneration (FR) for the CEO and 50% of fixed remuneration for other Executive KMP over a five year period.  A formal MSR is intended to promote strong ongoing executive and shareholder alignment.	
<b>Total quantum is high. In 2020, although target remuneration did not change for the CEO, maximum remuneration increased.</b>  <b>There was no discount when shifting a portion of LTI to STI for the CEO.</b>	Appen reviews and benchmarks executive pay annually against comparable ASX-listed and US technology companies.	To remain competitive, Appen benchmarks: <ul style="list-style-type: none"> <li>• Australian Executive KMP against companies from 50%-200% of Appen's market capitalisation, ASX-listed technology companies and US public internet/software companies.</li> <li>• US Executive KMP against US non-founder public internet/software companies against which it competes for talent.</li> </ul> <p>The heavy skew in our executives' remuneration packages towards 'at-risk' pay is designed to support a pay-for performance culture. Actual outcomes will flex up and down in line with our annual performance via the STI and shareholder experience via the LTI.</p> <p>To address the change in pay mix for the CEO in 2021 and concerns regarding quantum, a portion of the CEO's STI from 2022 will be deferred to improve shareholder alignment.</p> <p>Appen remains firm that the LTI (and the newly introduced time-based equity for US executives) component is important to remain competitive in the global technology market while helping executives to build a shareholding in the Company. There is no proposed discount for time-based equity for US executives, especially given that the LTI is low relative to our peers in the US market.</p>	



# Our 2022 remuneration framework

Appen has made changes to the executive remuneration framework that will apply from 2022, and these changes are explained below. These changes should be read in conjunction with the “Our response to the strike” section above.

## Approach to 2022 Executive KMP remuneration

Our 2022 remuneration framework is intended to:

- Enhance executive remuneration alignment to Appen’s strategic objectives set out on [page 60](#);
- Strengthen alignment of executives with shareholders; and
- Differentiate remuneration structures that reflect local market practices.

In this context:

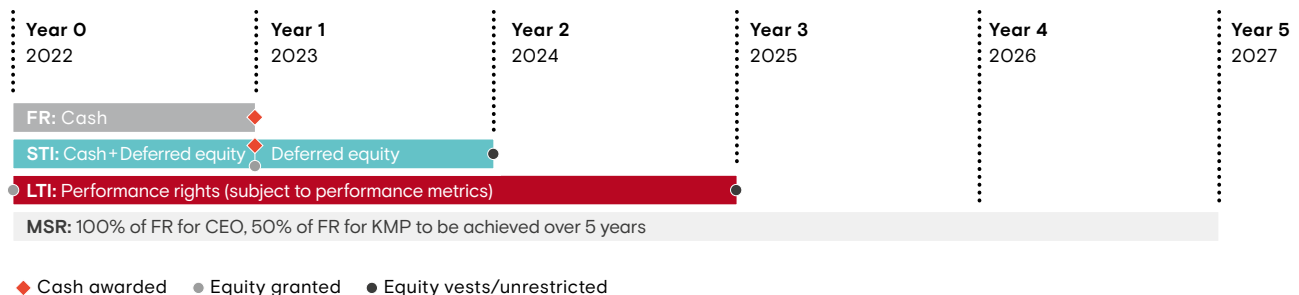
- The FY22 Group STI scorecard will comprise: revenue (50%) split 30% total revenue and 20% revenue from non-global customers to motivate customer diversification, EBITDA (20%), customer NPS (10%), crowd NPS (10%) and employee engagement (10%). The measures directly align to our five-year objectives by focusing on revenue growth, diversified customers and happy customers and workers. This targeted STI scorecard provides synergies between the five-year objectives and key annual focus areas.
- The LTI structure will differ based on the location of each executive. The performance component will be tested in two equal tranches against UBEPS (50%) and revenue (50%). Revenue growth and quality of revenue are key underpins to our business strategy, in both the short-term and long-term, therefore revenue is an appropriate metric to have in both the STI and LTI. UBEPS is intended to ensure revenue targets are achieved in a sustainable manner, balanced against profitability. In making its assessment of performance, the Board maintains overarching discretion. It will look to the quality of the revenue and earnings results individually and collectively, including consideration of EBITDA margin and the impact of any acquisitions to ensure LTI targets have been achieved in the right way.

The diagrams below outline the framework for Executive KMP remuneration in 2022.

### Australian Executive KMP approach

- For Australian Executive KMP, including the CEO and CFO, the LTI will be delivered in performance rights, vesting at the end of a three-year performance period, measured against UBEPS and revenue targets in two equal tranches.
- For the CEO, 25% of any STI paid will be deferred for one-year.

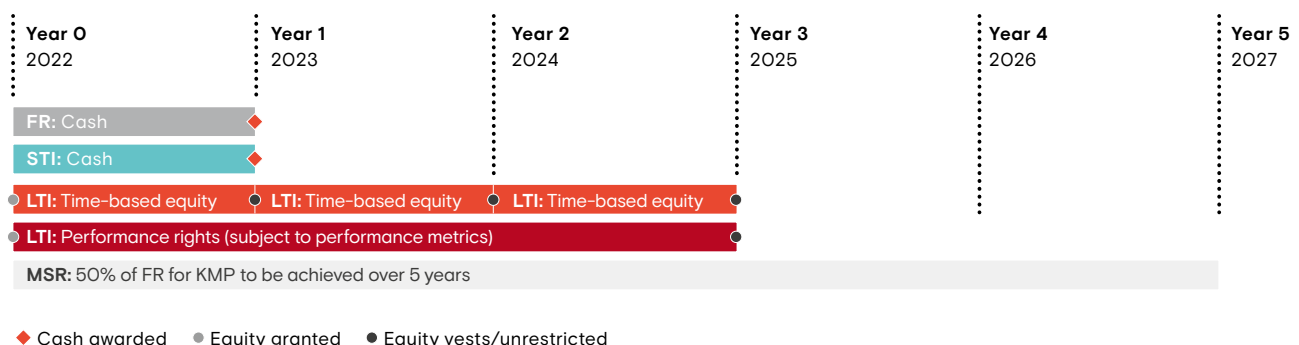
#### Vesting timeline



### US Executive KMP approach

- Half of the LTI will be delivered in performance rights, vesting over the same three-year period as Australian Executive KMP.
- Half of the LTI will be delivered in time-based equity, vesting annually over three years. This portion of the award will not be subject to performance hurdles, but will be subject to continued service.

#### Vesting timeline



# Our 2022 Remuneration framework (continued)

## Executive remuneration framework

The executive remuneration framework has been designed to motivate our people to deliver on the Company's growth strategy:

### Step 1

'Productise' what we do today

### Step 2

Add new training data products and capabilities

### Step 3

Expand into the broader AI market

Strengthen our people foundation

## Our five year objectives and key results

The framework also aligns with the Company's long-term (five-year) objectives.

Objective

**#1 Data for the AI Lifecycle Company**

Core strategic pillars



### Grow revenue and diversify

Drive growth in target customer segments



### Automate crowd and labelling processes

Leverage AI and ML in our labelling operations to improve the productivity of our crowd



### Expand our product offering

Expand our TAM by adding new products and capabilities – e.g. Quadrant and synthetic data



### Evolve how we do business

Improve the scalability and productivity of our GTM and project delivery

Delivering financial outcomes in FY26

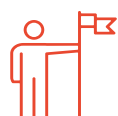
At least double FY21 revenue

More than one third of revenue from non-global customers

EBITDA margin target 20%

## 2021 remuneration principles

Our goal is to ensure that the level and composition of remuneration aligns with the shareholder interests' and allows Appen to compete in some of the tightest talent markets in the world and attract and retain high-performing global executives in the highly-bid technology sector. The key objectives that underpin Appen's 2021 remuneration framework are as follows:



**Linked to Company strategy via heavy weighting to performance-based pay**

Our focus is on rewarding KMP based on key metrics that truly impact the growth of the business both in the short and long-term: revenue and EBITDA.



**Alignment to creation of long-term shareholder value**

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



**Fair and competitive to attract and retain top talent globally**

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



**Reinforce responsible business practice**

Board discretion on malus and awards subject to continuing employment.



**Simple and clear**

Transparency on metrics, targets, assessment and outcomes.



# Overview of our 2021 remuneration framework

## Total fixed remuneration (FR)

### Objective:

Provide market competitive base salary and benefits commensurate with skills and experience to attract the best people both in Australia and around the world to design and lead the delivery of our product-led strategy.

### Structure:

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

### Current year approach

Fixed remuneration reflects:

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

Fixed remuneration is benchmarked against US technology companies and similarly sized ASX-listed companies. Fixed remuneration is intended to be positioned below the median of peers, with greater emphasis on at-risk pay-for-performance.

## Short-term incentive (STI)

### Objective:

Linked to challenging performance-related key annual financial metrics, that are consistent with the execution of our long-term strategy and the key to delivering sustainable and superior returns for shareholders.

### Structure:

Performance is measured over a 12-month period and awards are made on an annual basis in cash.

### Current year approach:

CEO and CFO – performance against challenging revenue and underlying EBITDA targets.

Global and enterprise division executives – performance against challenging revenue, underlying EBITDA and divisional targets.

In 2021, the revenue, underlying EBITDA and divisional targets were set well above 2020 actuals. (For example, revenue: 25% higher, underlying EBITDA 31% higher).

Target opportunity is a percentage of fixed remuneration (excluding retirement and insurance benefits for US-based executives). No payment is made if the combined result of all the performance measures is less than 80% of the target.

## Long-term incentive (LTI)

### Objective:

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

### Structure:

Equity-based compensation through the granting of performance rights.

### Australian Executive KMP:

For grants of performance rights up to 1 January 2022, performance rights have a dual vesting requirement of:

- hurdle rate of 20% underlying basic EPS (UBEPS) growth each year for three consecutive years which is tested annually; and
- continuous employment for the three-year vesting period.

### US Executive KMP:

For grants of performance rights up to 1 January 2022, performance rights have a hurdle rate of 20% UBEPS growth over three years. The rights may vest annually, in line with industry practice in the US.

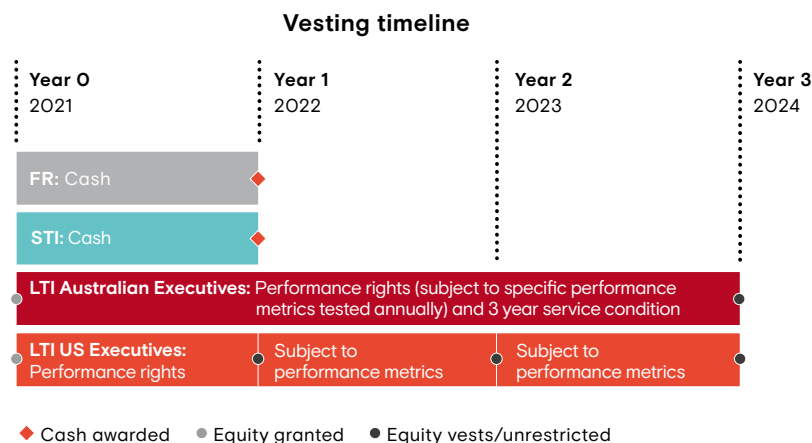
For both Australian and US executives, no payment is made if the performance outcome is less than 90% of the target.

Malus applies.



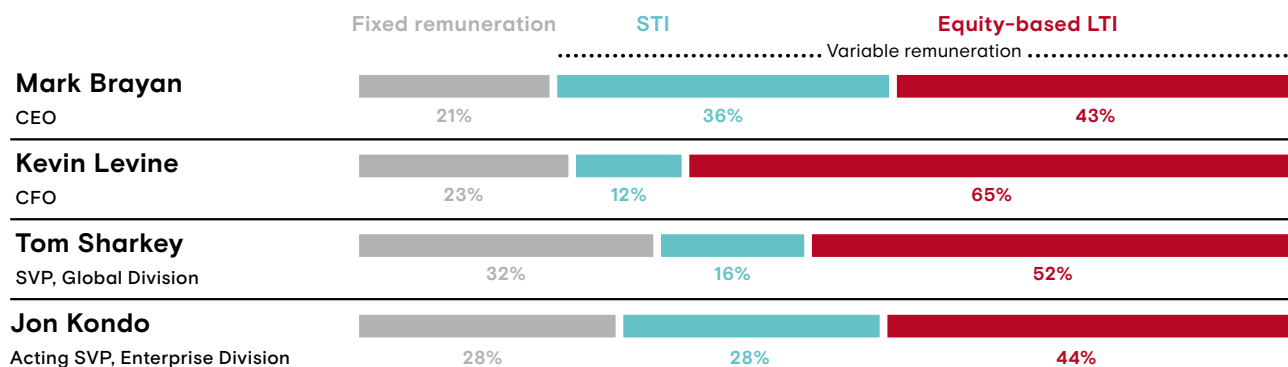
## 2021 executive remuneration structure

In 2021, executive remuneration comprised a mix of fixed and variable at-risk remuneration components through the STI and LTI plans.



## Executive KMP remuneration mix (percentage of total remuneration)

Executive remuneration is heavily weighted towards performance-based pay, including equity-based awards. The diagram below illustrates the target 2021 remuneration mix (including the target STI opportunity and LTI grant value), for each Executive KMP that was set at the start of FY21.



# CEO remuneration overview

## Approach to CEO target remuneration

In determining the remuneration to be granted to Mr Brayan in FY21, the Board considered the following:

- The key contribution that Mr Brayan plays in increasing short and long-term revenue and EBITDA.
- Mr Brayan's leadership in driving the Company's growth including the new product-led strategy and business transformation.
- The Company's performance, which has delivered share price growth of 2,232% since listing in 2015 to 31 December 2021. However, we acknowledge the recent downturn in the Company's share price by maintaining overall target remuneration levels for 2021.
- The current market rate for CEOs in the IT sector with the experience and responsibilities of Mr Brayan.
- Importantly, the CEO's compensation is heavily weighted towards at-risk performance-based pay and equity-based compensation to ensure that the CEO thinks and acts like a long-term owner of the Company and drives sustainable and superior results in line with shareholder expectations.

## 2021 remuneration opportunity

An independent market review of ASX listed and US technology companies with market capitalisation of between 50% and 200% of Appen's market capitalisation undertaken in late 2020 identified the following:

- Fixed remuneration (cash salary plus superannuation) of A\$750,000, was well below market, and in the bottom quartile of the peer group.
- Total cash remuneration was below market. This review was supplemented by an independent analysis of the pay positioning for high growth specialist US technology firms.
- Total remuneration was above median as a result of the still relatively large LTI opportunity.

Following the benchmarking exercise, the Board determined (based on advice and recommendation from the People and Culture Committee) that the CEO's fixed remuneration and total target quantum was appropriate, and made no change to the quantum of Mr Brayan's fixed and total remuneration for 2021. However, the Board decided to change the pay-mix to be closer to the Australian market.

Specifically, Mr Brayan's target STI was increased and his LTI was decreased. The total target remuneration which was at-risk (79% of total remuneration) did not change between 2021 and 2020. Specifically, 2021 remuneration, which was presented to, and approved by, shareholders at the AGM held on 28 May 2021, prior to the Remuneration Report strike, was as follows:

- Fixed remuneration to remain unchanged at A\$750,000.
- At-target STI increased from A\$750,000 to A\$1,250,000 (per annum) by allocating A\$500,000 from LTI to bring the balance between STI and LTI closer to the Australian market, and to drive key STI objectives including the delivery of challenging targets associated with revenue and underlying EBITDA growth.
- Total target remuneration of \$3.5 million remained unchanged from 2020.

An LTI grant of 55,908 performance rights was made in 2021 and will vest in 2024, subject to the achievement of annual performance targets of 20% UBEPS growth for three consecutive years and for Mr Brayan to remain employed at the end of the three-year period. The value of the LTI was A\$26.83 per share (the volume-weighted average price in December 2020) which equates to A\$1.5 million. This compares to an LTI grant equivalent of A\$2 million in 2020. We note that for Mr Brayan to receive this LTI, the Company must deliver at least 20% UBEPS growth for three consecutive years tested annually.

For FY21, Mr Brayan did not meet his STI performance targets, and hence no STI was awarded. Mr Brayan's fixed remuneration is below the Australian market median and was the only form of cash remuneration that Mr Brayan received with respect to FY21.

Considering shareholder feedback, there is no proposed change in FY22 to the CEO's target remuneration.



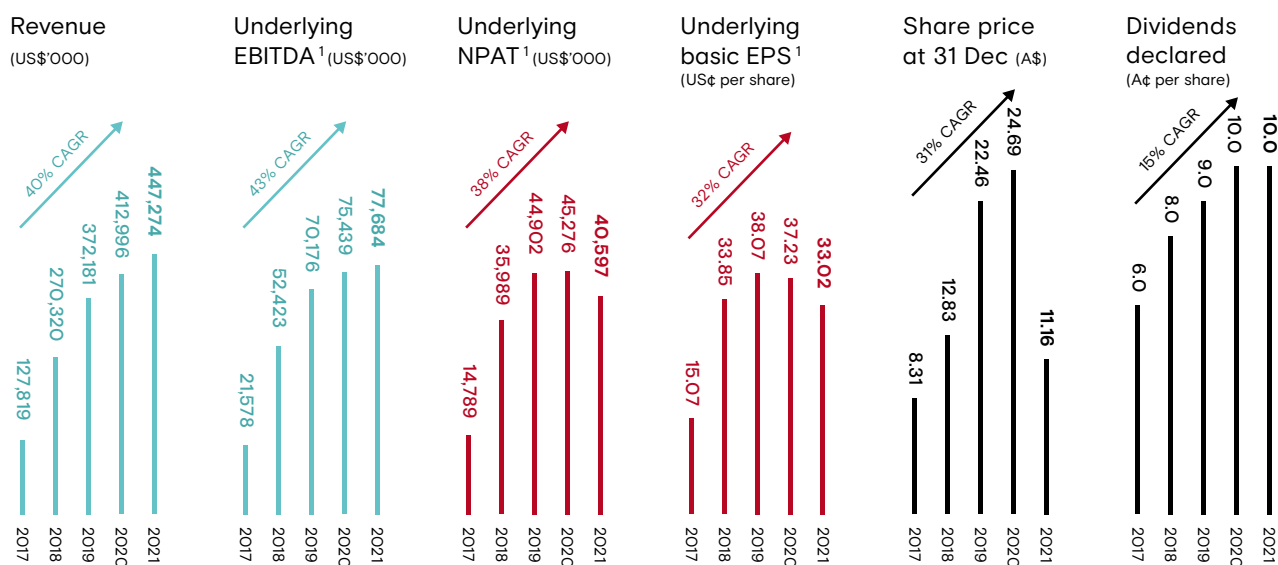
# How the 2021 rewards are linked to performance

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

## Short-term incentive measures

## Long-term incentive measures

## Shareholder returns



CAGR % represents the 5 year Compound Annual Growth Rate from FY17 to FY21, with FY16 as the base year.

Short-term incentive payments are linked to revenue and underlying EBITDA for our Australian Executive KMP, and to revenue, underlying EBITDA and divisional targets for our US Executive KMP. No STI was paid to our Australian Executive KMP for FY21.

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

Value has been created for shareholders through share price appreciation and dividends.

<sup>1</sup> Underlying NPAT, EBITDA and EPS excludes the impact of items relating to business acquisitions, including amortisation of acquired assets, share-based payments, restructure costs, transaction costs and fair-value adjustments. Underlying NPAT and EPS also exclude deemed interest on acquisition related earn-out payments.

# Executive KMP remuneration outcomes

## Short-term incentives (STI)

### Performance and 2021 STI outcomes

In 2021, revenue targets set were approximately 25% higher than 2020 actuals and underlying EBITDA targets set were approximately 31% higher than 2020 actuals. Actual revenue was 87% of target and underlying EBITDA was 77% of target. The blended weighted average revenue and underlying EBITDA achievement percentage was 79.9%, which was below the 80% minimum threshold for the CEO and CFO. Hence, the CEO and CFO did not receive any STI with respect to FY21. The Board has chosen not to exercise any discretion in relation to the STI for the CEO and CFO, in order to align their experience with shareholder outcomes.

The SVP of the Global Division, Mr Sharkey, did receive an STI for FY21, as he has an additional performance metric directly tied to divisional performance and therefore his STI scorecard differs to the CEO and CFO. Mr Sharkey's blended achievement percentage was 82.1% and above the 80% threshold, and hence he received an STI payout that was 67.4% of target.

The tables below detail performance against the STI financial targets and the STI payouts for each Executive KMP.

		Target	Actual <sup>1</sup>	% Actual/Target
Revenue	2021	\$514,417,496	\$446,025,640	87%
	2020	\$481,837,332	\$412,638,255	86%
Underlying EBITDA	2021	\$98,776,253	\$76,039,124	77%
	2020	\$90,371,921	\$75,438,725	83%

<sup>1</sup> Revenue comprises services revenue only – see note 4 in the financial report. 2021 excludes Quadrant.  
Underlying EBITDA excludes Quadrant and the resulting adjustment from the final STI calculation.

The weighted average achievement and payout percentages for FY21 and FY20 for each KMP was as follows:

Executive KMP		Revenue weighting	Underlying EBITDA weighting	Divisional target weighting	Weighted average achievement %	Weighted average payout %
Mark Brayan	2021	28.6%	51.3%	n/a	79.9%	0%
	2020	28%	56%	n/a	84%	71%
Kevin Levine	2021	28.6%	51.3%	n/a	79.9%	0%
	2020	28%	56%	n/a	84%	71%
Tom Sharkey	2021	28.9%	25.6%	27.6%	82.1%	67%
	2020	26%	28%	26%	80%	68%
Jon Kondo <sup>1</sup>	2020	26%	28%	26%	80%	68%

<sup>1</sup> Mr Kondo resigned on 25 June 2021.





The weighted average payout percentages translated into actual STI payouts as follows:

Executive KMP		Currency	Fixed remuneration <sup>2</sup> \$	STI target % of fixed remuneration <sup>3</sup> %	Weighted average payout <sup>4</sup> %	Total STI payout \$	Total STI payout (USD) \$
Mark Brayan <sup>1</sup>	2021	AUD	750,000	167%	0%	–	–
	2020	AUD	750,000	100%	71%	531,760	409,936
Kevin Levine <sup>1</sup>	2021	AUD	500,000	50%	0%	–	–
	2020	AUD	500,000	50%	71%	177,253	136,645
Tom Sharkey	2021	USD	425,000	50%	67%	143,147	143,147
	2020	USD	425,000	50%	68%	145,356	145,356
Jon Kondo <sup>5</sup>	2021	USD	385,000	100%	0%	–	–
	2020	USD	385,000	100%	68%	263,351	263,351

1 Mr Brayan and Mr Levine did not receive an STI with respect to FY21. Their weighted average achievement % was 79.9%, which was below the 80% minimum threshold, and hence their weighted average payout % was 0%.

2 Includes superannuation contributions for Australian Executive KMP.

3 Percentage of fixed remuneration (excluding retirement and insurance benefits for US Executive KMP).

4 Weighted average payout % varies because US Executive KMP have an additional metric of growth in divisional targets.

5 Mr Kondo resigned on 25 June 2021.

## Executive KMP remuneration outcomes (continued)

### Long-term incentives (LTI)

#### Performance and 2021 LTI outcomes

In order for performance rights to vest, participants must remain employed by the time the final tranche is tested. During the year, performance rights vested in full for Executive KMP with respect to the following three plans:

- 2018 Executive Award Plan (tranches 1, 2 and 3) with a UBEPS performance hurdle of 10%.
- 2018 Special Award Plan (tranches 1, 2 and 3) with a higher UBEPS performance hurdle of 20%.
- 2019 Executive Award Plan (tranche 2) for US executives with a UBEPS performance hurdle of 20%.

The table below summarises the tranches that were either performance tested or had previously met performance conditions and vested due to meeting service conditions in FY21. See the table on [page 78](#) for a detailed summary on the performance rights that vested in FY21.

Award	Tranche	Was there a performance condition required to be met in FY21 for the rights to vest?	Performance hurdle applied	Performance period	Performance achieved
2018 Executive Award	1	n/a	Performance condition of 10% annual UBEPS growth met at end of 2018.	2018 vs 2017	125% UBEPS CAGR
2018 Executive Award	2	n/a	Performance condition of 10% annual UBEPS growth met at end of 2019.	2019 vs 2018	12% UBEPS CAGR
2018 Executive Award	3	Yes	Performance condition of 10% UBEPS CAGR met at end of 2020.	3 year CAGR (2017–2020)	35% UBEPS CAGR
2018 Special Award	1	n/a	Performance condition of 20% annual UBEPS growth met at end of 2018.	2018 vs 2017	125% UBEPS CAGR
2018 Special Award	2	n/a	Performance condition of 20% UBEPS CAGR met at end of 2019.	2 year CAGR (2017–2019)	59% UBEPS CAGR
2018 Special Award	3	Yes	Performance condition of 20% UBEPS CAGR met at end of 2020.	3 year CAGR (2017–2020)	35% UBEPS CAGR
2019 Executive Award	2 <sup>1</sup>	Yes	Performance condition of 20% annual UBEPS growth met at end of 2020 <sup>2</sup> .	2020 vs 2019	32% UBEPS CAGR FY19 to FY20

<sup>1</sup> Tranche 1 of the 2019 Executive Award vested in the prior year for US executives.

<sup>2</sup> 2019 base UBEPS restated in April 2019 to adjust for the loss-making Figure Eight on acquisition, but prior to full integration into Appen.

In relation to the 2020 Executive Award (tranches 1 and 2) and the 2021 Executive Award (tranche 1) the relevant performance condition of 20% UBEPS growth has not been met in FY21 and in order for these to vest in future years, significantly more challenging UBEPS targets will need to be met in the future i.e. UBEPS growth of 44% over two years or UBEPS growth of 73% over three years.



## 2021 Executive KMP awards granted

The following awards were granted to Executive KMP for the 2021 year. The grant of performance rights to Mr Brayan was approved by shareholders at the Annual General Meeting on 28 May 2021. The LTI performance target were set at 20% growth in underlying basic earnings per share (UBEPS) each year for three consecutive years.

Plan	Grant date	Expiry date	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date	Value per right at grant date
2021 <sup>1</sup>	25 Dec 2020	N/A	N/A	1	UBEPS	20.0%	End 2021	Pending <sup>2</sup>	Employed at 1 Jan 2024	1 Jan 2024	A\$26.83
2021 <sup>1</sup>	25 Dec 2020	N/A	N/A	2	UBEPS	20.0%	End 2022	Pending <sup>2</sup>	Employed at 1 Jan 2024	1 Jan 2024	A\$26.83
2021 <sup>1</sup>	25 Dec 2020	N/A	N/A	3	UBEPS	20.0%	End 2023	Pending <sup>2</sup>	Employed at 1 Jan 2024 Release of 2023 annual results		A\$26.83

1 At the Board's discretion.

2 Can now only vest if the Company achieves 44% UBEPS growth over a two year period or 73% growth over a three year period.

## Remuneration received

### Actual remuneration received by Executive KMP

The table below details the actual remuneration that was received by current Executive KMP for FY21 and FY20. The remuneration for Mr Brayan and Mr Levine are both disclosed in Australian Dollars, as both receive their remuneration in Australian Dollars. This table differs to the statutory remuneration table on [page 70](#) which is prepared in accordance with accounting standards. The STI amount (if any) is the payment made in recognition of performance for that year. The LTI value at vesting date is the value of shares issued during the year as a result of the vesting of performance rights issued in prior years. The high value of the LTI at vesting date for Mr Brayan, Mr Levine and Mr Sharkey is attributable to the strong growth in Appen's share price between when the rights were granted (up to three years prior) and the vesting date. The growth in Appen's share price is shown on [page 65](#).

Executive KMP	Currency	Fixed			STI <sup>2</sup>	LTI value at vesting date <sup>4</sup>	Total value	LTI value at grant date
		Cash salary <sup>1</sup>	Super-annuation <sup>1,3</sup>	Termination payments				
		\$	\$	\$	\$	\$	\$	\$
Mark Brayan <sup>2</sup>	<b>2021</b>	AUD 727,369	22,631	-	-	2,735,817	3,485,817	1,351,399
	2020	728,652	21,348	-	531,760	2,779,522	4,061,282	784,132
Kevin Levine <sup>2</sup>	<b>2021</b>	AUD 477,369	22,631	-	-	1,772,049	2,272,049	875,444
	2020	478,652	21,348	-	177,253	1,736,217	2,413,470	355,717
Tom Sharkey	<b>2021</b>	USD 425,000	26,000	-	143,147	492,686	1,086,833	308,507
	2020	425,000	26,000	-	145,356	503,347	1,099,703	441,593
Jon Kondo <sup>5</sup>	<b>2021</b>	USD 188,304	26,000	135,463	-	368,428	718,195	894,000
	2020	385,000	26,000	-	263,351	251,674	926,025	315,099

1 Annualised fixed remuneration in the form of cash salary plus superannuation did not change for any of the Executive KMP.

2 Mr Brayan and Mr Levine did not receive an STI with respect to FY21, as the weighted average achievement % was 79.9%, which was below the 80% minimum threshold.

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

4 Value of LTI at vesting date is based on the market price of shares at the date that the LTI vests.

5 Remuneration was lower for Mr Kondo in 2021, because Mr Kondo resigned on 25 June 2021.

## Executive KMP remuneration outcomes (continued)

### Statutory remuneration for Executive KMP

The table below details the statutory accounting expense of all remuneration-related items for the Executive KMP. All figures are presented in US Dollars, which is Appen's presentational currency. This includes translating the remuneration of Mr Brayan and Mr Levine to US Dollars, even though they are both paid in Australian Dollars. The average AUD/USD exchange rate used were 0.7515 for 2021 and 0.6904 for 2020. The 31 December closing AUD/USD exchange rates used were 0.7261 for 2021 and 0.7709 for 2020.

Executive KMP		Fixed				Variable		Total
		Cash salary <sup>1</sup> \$	Super-annuation <sup>1,3</sup> \$	Leave entitlements \$	Termination payments \$	STI \$	LTI <sup>4</sup> \$	
Mark Brayan <sup>2</sup>	2021	546,640	17,008	40,265	–	–	167,133	771,046
	2020	503,054	14,739	55,424	–	409,936	1,209,371	2,192,524
Kevin Levine <sup>2</sup>	2021	358,757	17,008	33,903	–	–	29,913	439,581
	2020	330,456	14,739	25,432	–	136,645	691,418	1,198,690
Tom Sharkey	2021	425,000	26,000	2,348	–	143,147	(26,612)	569,883
	2020	425,000	26,000	3,984	–	145,356	682,254	1,282,594
Jon Kondo <sup>5</sup>	2021	188,304	26,000	–	135,463	–	(674,353)	(324,586)
	2020	385,000	26,000	14,437	–	263,351	947,327	1,636,115

1 Annualised fixed remuneration in the form of cash salary plus superannuation did not change for any of the Executive KMP. The fixed remuneration differences presented above for 2021 versus 2020 for Mr Brayan and Mr Levine relate to the impact of exchange rate translation, as the table is presented in US dollars.

2 Mr Brayan and Mr Levine did not receive an STI with respect to FY21, as the weighted average achievement percentage was 79.9%, which was below the 80% minimum threshold.

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

4 The values for equity-settled remuneration were measured at grant date in accordance with AASB2 *Share-based Payments* and represent the current year amortisation of the fair value of the rights over the vesting period. All statutory LTI figures are lower in 2021 relative to 2020, due to the true-up adjustment of the share-based payments accounting expense, in relation to the 2020 and 2021 Long-term incentive plans, based on management's assessment of the likelihood of achieving the performance hurdles.

5 Statutory remuneration was negative for Mr Kondo in 2021, because he resigned on 25 June 2021. The LTI figure reflects the true-up of the accounting expense associated with the forfeiture of his performance rights, associated with his resignation.



# Executive KMP 2021 remuneration in detail

## Short-term incentives (STI)

### Approach to STI

STI are performance-based incentives designed for executives to deliver and outperform key financial metrics that will lead to sustainable, superior returns for shareholders. STI is delivered in the form of an annual cash bonus payment. Performance is measured over a 12 month period. The performance measures for STI and the percentage weighting for each measure are as follows:

STI performance measures	2021 Weighting
Revenue (Mr Brayan, Mr Levine, Mr Sharkey)	33%
Underlying EBITDA (Mr Brayan, Mr Levine)	67%
Underlying EBITDA (Mr Sharkey)	33%
Divisional target (Mr Sharkey)	33%

The STI cash payment ranges from 0% to 167% of the relevant executive's fixed remuneration (excluding retirement and insurance benefits for US-based executives). The maximum weighted-average STI payout percentage is capped at 150% of target for all employees. No payment is made if the weighted-average achievement percentage is less than 80% of the target. For FY21, Mr Brayan and Mr Levine's weighted average achievement percentage was 79.9% of target, and did not meet the threshold for an entitlement to an STI.

The STI award is calculated based on the weighted-average achievement result of the performance measures.

Actual awards are calculated on a sliding scale between 0% and 150%, as follows:

Weighted average achievement – % against target	Weighted-average payout – % of target payout
Below 80%	Nil
80%	64%
90%	81%
122.25% or more	150%

The Board has discretion to adjust the level of STI to prevent any inappropriate shareholder outcomes. This includes reducing the level of STI down to zero.

## Executive KMP 2021 remuneration in detail (continued)

### Long-term incentives (LTI)

#### Approach to LTI

LTI is a form of equity-based compensation that is awarded in the form of performance rights. The LTI plan is designed to incentivise and challenge senior management to achieve long-term sustainable growth in earnings and shareholder value. It also supports the retention of high performing executives.

Appen is a fast growing global business in an extremely competitive industry, with executives operating primarily in the United States and Australia. To ensure that the LTI scheme is relevant and appropriate in the hiring, motivation and retention of key staff, the People and Culture Committee undertakes regular reviews of the LTI practices in both these markets.

The table below outlines key features of the LTI plan.

Feature	Description								
<b>Opportunity</b>	<p>Annual grants of performance rights (with quantum determined at Board discretion based on market remuneration analysis).</p> <p>Performance rights cannot be traded on the ASX and do not have any dividend or voting rights until they vest and are exercised.</p> <p>Rights are convertible to shares on the vesting date, assuming all the performance conditions and the employment conditions are met.</p> <p>The number of performance rights granted is based on face value (actual share price) rather than a discounted fair value.</p>								
<b>Vesting conditions</b>	<ol style="list-style-type: none"><li>1. UBEPS growth tested over three consecutive years.</li><li>2. Continuation of employment until beginning of the calendar year in which the performance rights are subject to vesting.</li></ol>								
<b>Performance period</b>	<p>Three-year performance period with grants consisting of three equal tranches each tested over a single 12-month period.</p> <p><b>Australian Executive KMP:</b> performance rights vest at the end of the three-year period subject to the achievement of the performance and continuous employment hurdles.</p> <p><b>US Executive KMP:</b> performance rights may vest annually, which is typical for US remuneration practices, subject to the achievement of the performance and continuous employment hurdles. A partial tranche may vest subject to the achievement of the performance and employment hurdles for grants issued during the year.</p>								
<b>Performance assessment</b>	<p>Rights for which the performance condition is not satisfied in the annual testing can be carried over for a maximum of two years and may vest if the equivalent compound annual growth rate (CAGR) is achieved, however this would require 44% UBEPS growth over a two-year period or 73% growth over a three-year period. This ensures that management is focused on delivering financial returns for shareholders over the long-term, but also acknowledges that investments may need to be made in certain years to achieve those returns. Rights granted in 2021 will only vest in 2024, if the Company achieves 44% UBEPS growth over a two-year period or 73% growth over a three-year period.</p> <p>Target achievement table:</p> <table><tr><th>UBEPS target achieved</th><th>% performance rights allocated</th></tr><tr><td>100% of more of UBEPS target</td><td>100%</td></tr><tr><td>90–99% of UBEPS target<sup>1</sup></td><td>50–80%</td></tr><tr><td>Less than 90%</td><td>Nil</td></tr></table> <p><sup>1</sup> At the Board's discretion.</p>	UBEPS target achieved	% performance rights allocated	100% of more of UBEPS target	100%	90–99% of UBEPS target <sup>1</sup>	50–80%	Less than 90%	Nil
UBEPS target achieved	% performance rights allocated								
100% of more of UBEPS target	100%								
90–99% of UBEPS target <sup>1</sup>	50–80%								
Less than 90%	Nil								
<b>Malus</b>	<p>Malus applies and the Board may forfeit any entitlement to any shares on vesting of the performance rights, if in the opinion of the Board, the employee acts fraudulently or dishonestly, is in breach of their obligations to the Company or if their contract of employment is terminated.</p>								



# Executive KMP service contracts

## Service contracts

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

Details of the other key terms are as follows:

Executive KMP	Role	Contract term	Annual salary review	Notice period by either party
Mark Brayan	Managing Director and CEO	No fixed term	1 March	6 months
Kevin Levine	CFO	No fixed term	1 March	3 months
Tom Sharkey	SVP, Global Division	No fixed term	1 March	90 days

# Non-executive director remuneration arrangements

## Non-executive director remuneration framework

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

At the AGM held on 28 May 2021, shareholders approved an increase in the total Non-executive director remuneration pool from A\$900,000 to A\$1,400,000 per annum. This change was made due to changes made to the Company's Constitution, in which the maximum number of directors permitted to sit on the Board increased from seven to 10, associated with the Board renewing its composition in 2021, in which long-standing directors retired. The increase in the number of directors was to ensure a smooth transition, so that the Company would have the flexibility to have more than seven directors on the Board at any one time.

The Company aims to provide a level of remuneration for Non-executive directors comparable with its general industry peer group. A formal independent review of Non-executive director fees took place in late 2020, taking into consideration the market rates for similar positions at relevant ASX listed companies with a market capitalisation of 50% to 200% of Appen's market capitalisation. The review found that the Board Chair's fees and the other Non-executive directors fees were in the bottom quartile. Based on this review, and as disclosed in the 2021 Notice of AGM, effective 1 January 2021, it was determined to increase the level of remuneration paid to the Non-executive directors as follows:

Role	Fee 2020 A\$	Fee 2021 A\$
Board Chair	\$200,000	\$250,000
Non-executive director	\$105,000	\$120,000
Audit and Risk Management Committee Chair	\$15,000	\$20,000
People and Culture Committee Chair	\$15,000	\$20,000

All fees presented above include statutory superannuation.

All Non-executive directors are remunerated by way of Board and Committee fees. These fees reflect the workload associated with a fast growing global business and the governance oversight required of the Company's strategic growth areas including Enterprise, Government and China. Non-executive directors do not receive any short-term or long-term incentive.

There are no changes to the level of Non-executive director fees proposed for 2022.

## Non-executive KMP remuneration arrangements (continued)

### Amounts paid to Non-executive directors in USD

Details of fees paid to Non-executive directors for FY21 and FY20 in US Dollars are outlined below.

Director	2021			2020		
	Fees US\$	Super- annuation US\$	Total US\$	Fees US\$	Super- annuation US\$	Total US\$
Richard Freudenstein <sup>1</sup>	44,026	4,403	48,429	–	–	–
Chris Vonwiller <sup>2</sup>	136,950	13,487	150,437	126,099	11,979	138,078
William Pulver <sup>3</sup>	63,561	6,234	69,795	75,659	7,188	82,847
Robin Low	105,214	–	105,214	82,847	–	82,847
Deena Shiff	86,178	4,006	90,184	66,202	6,289	72,491
Stephen Hasker	90,184	–	90,184	72,491	–	72,491
Vanessa Liu <sup>4</sup>	90,184	–	90,184	55,205	–	55,205
	616,297	28,130	644,427	478,503	25,456	503,959

In accordance with the Board's renewal policy:

- 1 Richard Freudenstein was appointed to the Board on 12 August 2021 and commenced as Chair from 28 October 2021.
- 2 Chris Vonwiller resigned as Chair on 28 October 2021.
- 3 William Pulver resigned on 25 August 2021.
- 4 Vanessa Liu was appointed on 27 March 2020.

### Amounts paid to Non-executive directors in AUD

Details of fees paid to Non-executive directors for FY21 and FY20 in Australian Dollars are outlined below. The total amount paid in FY21 is less than the A\$1,400,000 limit approved by shareholders at the 2021 AGM.

Director	2021			2020		
	Fees A\$	Super- annuation A\$	Total A\$	Fees A\$	Super- annuation A\$	Total A\$
Richard Freudenstein <sup>1</sup>	60,419	6,042	66,461	–	–	–
Chris Vonwiller <sup>2</sup>	180,666	17,793	198,459	182,648	17,352	200,000
William Pulver <sup>3</sup>	83,198	8,160	91,358	109,589	10,411	120,000
Robin Low	140,000	–	140,000	120,000	–	120,000
Deena Shiff	114,670	5,330	120,000	95,890	9,110	105,000
Stephen Hasker	120,000	–	120,000	105,000	–	105,000
Vanessa Liu <sup>4</sup>	120,000	–	120,000	79,962	–	79,962
	818,953	37,325	856,278	693,089	36,873	729,962

In accordance with the Board's renewal policy:

- 1 Richard Freudenstein was appointed to the Board on 12 August 2021 and commenced as Chair from 28 October 2021.
- 2 Chris Vonwiller resigned as Chair on 28 October 2021.
- 3 William Pulver resigned on 25 August 2021.
- 4 Vanessa Liu was appointed on 27 March 2020.



# Remuneration governance

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

Stephen Hasker, Member for the whole financial year and Committee Chair from 25 August 2021

Richard Freudenstein, Member from 12 August 2021

Robin Low, Member for the whole financial year

William Pulver, Former Member and Committee Chair to 25 August 2021

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

## Board

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

## People and Culture Committee

**Members:**  
Stephen Hasker  
Richard Freudenstein  
Robin Low

## Audit and Risk Committee

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

## Executive team

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

## Independent external advisors

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

- The number of Committee meetings and attendance by members during the reporting period is set out in the 'Meetings of directors' section on [page 52](#).

## Board oversight of remuneration

The Board ensures variable rewards are only paid when a senior executive creates value for shareholders-through meeting their financial targets and exceeding their agreed work plan objectives. The Board reviews the financial targets on an annual basis to ensure that they are sufficiently challenging and are consistent with the Company's long-term business strategy. The Board may also forfeit any entitlement to any shares on vesting of performance rights, if in the opinion of the Board, the employee acts fraudulently or dishonestly, or is in breach of their obligations to the Company ('malus').



## Corporate Governance Statement

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

## Remuneration governance (continued)

### Independent remuneration advisors

Where appropriate, the Board and the People and Culture Committee engage external and independent remuneration advisors to provide industry benchmarks, peer comparison information and specific local knowledge of country-specific remuneration practices. The Board and the People and Culture Committee engaged EY as its independent remuneration advisor in FY21 to provide market practice insights and advice in responding to Appen's first strike and benchmarking for executives.

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

### Securities trading policy



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

### Executive KMP share ownership requirement

An Executive Share Ownership Policy applies to the CEO and Executive KMP. Under the policy, the total number of shares held by the CEO and Executive KMP must be equivalent to at least 50% of the shares issued in respect of the performance rights granted in 2019, net of any necessary sales to cover tax obligations, while employed by the Company. Share transfers to affiliate or related entities or persons are permitted. From 1 January 2022, a formal minimum shareholding requirement (MSR) has been implemented of 100% of fixed remuneration for the CEO and 50% of fixed remuneration for other Executive KMP over a five year period.

### Non-executive director minimum shareholding requirement

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

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

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

As at the date of this report, all Non-executive directors that have served on the Board for at least three years, have met the minimum holding requirement.



## Other remuneration tables

### Securities holdings of Executive KMP

Executive KMP at 31 December 2021	Number of performance rights held	Number of ordinary shares currently held (direct and indirect)
Mark Brayan	294,033	482,032
Kevin Levine	180,077	192,846
Tom Sharkey	114,626	70,118

### Performance rights holdings of Executive KMP

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

		Held at 1 January 2021	Granted during the year	Exercised during the year	Forfeited	Held at 31 December 2021	Vested during the year
Mark Brayan	2018	23,153	-	(23,153)	-	-	(23,153)
	2018 Special	150,000	-	(150,000)	-	-	(150,000)
	2019	160,000	-	-	-	160,000	-
	2020	78,125	-	-	-	78,125	-
	<b>2021</b>	-	55,908	-	-	55,908	-
		<b>411,278</b>	<b>55,908</b>	<b>(173,153)</b>	-	<b>294,033</b>	<b>(173,153)</b>
Kevin Levine	2018	12,155	-	(12,155)	-	-	(12,155)
	2018 Special	100,000	-	(100,000)	-	-	(100,000)
	2019	80,000	-	-	-	80,000	-
	2020	48,828	-	-	-	48,828	-
	<b>2021</b>	-	51,249	-	-	51,249	-
		<b>240,983</b>	<b>51,249</b>	<b>(112,155)</b>	-	<b>180,077</b>	<b>(112,155)</b>
Tom Sharkey	2018	25,118	-	(25,118)	-	-	(25,118)
	2019	60,000	-	(15,000)	-	45,000	(15,000)
	2020	35,000	-	-	-	35,000	-
	<b>2021</b>	-	34,626	-	-	34,626	-
		<b>120,118</b>	<b>34,626</b>	<b>(40,118)</b>	-	<b>114,626</b>	<b>(40,118)</b>
Jon Kondo	2019	75,000	-	(30,000)	(45,000)	-	(30,000)
	2020	35,000	-	-	(35,000)	-	-
	<b>2021</b>	-	30,124	-	(30,124)	-	-
		<b>110,000</b>	<b>30,124</b>	<b>(30,000)</b>	<b>(110,124)</b>	-	<b>(30,000)</b>

## Other remuneration tables (continued)

### Performance rights vesting table

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

Grant date	Tranche	Performance condition	Measurement date	Base UBEPS US cps	Target UBEPS US cps	Actual UBEPS US cps	Annual growth %	Actual UBEPS CAGR %	Performance condition met	Service condition	Vesting date
Plan: 2018											
20/2/18	1	FY18 UBEPS growth over FY17 UBEPS >= 10%	End 2018	15.07	16.57	33.85	125%	125%	Yes	Employed at 1 Jan 2021	1-Jan-21
		FY19 UBEPS CAGR % over FY17 UBEPS >= 10%	End 2019	15.07	18.23	38.07	n/a	59%	n/a	Employed at 1 Jan 2021	1-Jan-21
		FY20 UBEPS CAGR % over FY17 UBEPS >= 10%	End 2020	15.07	20.06	37.23	n/a	35%	n/a	Employed at 1 Jan 2021	1-Jan-21
		FY19 UBEPS growth over FY18 UBEPS >= 10%	End 2019	33.85	37.23	38.07	12%	12%	Yes	Employed at 1 Jan 2021	1-Jan-21
20/2/18	2	FY19 UBEPS CAGR % over FY17 UBEPS >= 10%	End 2019	15.07	18.23	38.07	n/a	59%	n/a	Employed at 1 Jan 2021	1-Jan-21
		FY20 UBEPS CAGR % over FY17 UBEPS >= 10%	End 2020	15.07	20.06	37.23	n/a	35%	n/a	Employed at 1 Jan 2021	24-Feb-21
		FY20 UBEPS growth over FY19 UBEPS >= 10%	End 2020	38.07	41.88	37.23	-2%	-2%	No	Employed at 1 Jan 2021	24-Feb-21
		FY20 UBEPS CAGR % over FY17 UBEPS >= 10%	End 2020	15.07	20.06	37.23	n/a	35%	Yes	Employed at 1 Jan 2021	24-Feb-21
Plan: 2018 Special											
20/2/18	1	FY18 UBEPS growth over FY17 UBEPS >= 20%	End 2018	15.07	18.08	33.85	125%	125%	Yes	Employed at 1 Jan 2021	1-Jan-21
		FY19 UBEPS CAGR % over FY17 UBEPS >= 20%	End 2019	15.07	21.70	38.07	n/a	59%	n/a	Employed at 1 Jan 2021	1-Jan-21
		FY20 UBEPS CAGR % over FY17 UBEPS >= 20%	End 2020	15.07	26.04	37.23	n/a	35%	n/a	Employed at 1 Jan 2021	1-Jan-21
		FY19 UBEPS growth over FY18 UBEPS >= 20%	End 2019	33.85	40.62	38.07	12%	12%	No	Employed at 1 Jan 2021	1-Jan-21
20/2/18	2	FY19 UBEPS CAGR % over FY17 UBEPS >= 20%	End 2019	15.07	21.70	38.07	n/a	59%	Yes	Employed at 1 Jan 2021	1-Jan-21
		FY20 UBEPS CAGR % over FY17 UBEPS >= 20%	End 2020	15.07	26.04	37.23	n/a	35%	n/a	Employed at 1 Jan 2021	24-Feb-21
		FY20 UBEPS growth over FY19 UBEPS >= 20%	End 2020	38.07	45.69	37.23	-2%	-2%	No	Employed at 1 Jan 2021	24-Feb-21
		FY20 UBEPS CAGR % over FY17 UBEPS >= 20%	End 2020	15.07	26.04	37.23	n/a	35%	Yes	Employed at 1 Jan 2021	24-Feb-21
Plan: 2019											
22/7/19	2	FY20 UBEPS growth over FY19 UBEPS >= 20%	End 2020	28.26	33.91	37.23	32%	32%	Yes	Employed at 1 Jan 2021	1-Jan-21
		FY21 UBEPS CAGR % over FY19 UBEPS >= 20%	End 2020	28.26	40.69	n/a	n/a	n/a	n/a	Employed at 1 Jan 2021	1-Jan-21





## Performance rights exercised during the year by Executive KMP

Executive	Number of rights exercised	Value of rights at grant date (US\$)	Value of rights at exercisable date (US\$)
Mark Brayan	173,153	\$1,067,605	\$2,126,480
Kevin Levine	112,155	\$691,601	\$1,377,368
Tom Sharkey	40,118	\$308,507	\$492,686
Jon Kondo	30,000	\$894,000	\$368,428

The high value attributable to the value of rights at exercisable date reflects the strong growth in Appen's share price between grant and exercise date, as shown in the graph on page 65. The rights exercised during the year relate to vesting of the relevant plans as detailed above, upon the successful achievement of the relevant performance and employment hurdles.

## Unvested performance rights held by Executive KMP

The number of unvested performance rights held by Executive KMP at 31 December 2021 are:

Plan	Mark Brayan	Kevin Levine	Tom Sharkey
2019	160,000	80,000	45,000
2020	78,125	48,828	35,000
<b>2021</b>	55,908	51,249	34,626
Total	294,033	180,077	114,626

## Executive and Non-executive Director shareholdings

Director	Number of shares				31 December 2021
	1 January 2021	Purchased/ exercised during the year	Sold during the year	Ceased to be KMP	
Richard Freudenstein <sup>3</sup>	–	30,000	–	–	30,000
Chris Vonwiller <sup>4</sup>	9,060,286	–	–	(9,060,286) <sup>2</sup>	–
William Pulver <sup>5</sup>	332,384	–	–	(332,384) <sup>2</sup>	–
Mark Brayan	418,309	173,153	(109,430) <sup>1</sup>	–	482,032
Robin Low	172,946	–	–	–	172,946
Deena Shiff	50,432	–	–	–	50,432
Stephen Hasker	50,000	–	–	–	50,000
Vanessa Liu	1,000	3,000	–	–	4,000
	10,085,357	206,153	(109,430)	(9,392,670)	789,410

1 Mr Brayan sold 109,430 shares during the year to fund personal tax obligations. The share sale was announced to the ASX on 4 June 2021 ([appen.com/investors/announcements/](https://appen.com/investors/announcements/)).

2 Mr Vonwiller and Mr Pulver both ceased to be KMP during the year.

3 Appointed 12 August 2021.

4 Retired 28 October 2021.

5 Retired 25 August 2021.

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

**Richard Freudenstein**  
Director

24 February 2022  
Sydney

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

to the directors of Appen Limited



I declare that, to the best of my knowledge and belief, in relation to the audit of Appen Limited for the financial year ended 31 December 2021 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'C. Slapp'.

Cameron Slapp  
*Partner*

Sydney

24 February 2022



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# Financial report

# Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2021

		Group	
	Note	2021 US\$000	Restated 2020 US\$000
<b>Services revenue</b>	4	<b>447,154</b>	412,638
Other income		110	106
Interest income calculated using the effective interest method		10	212
Recovery of impairment of receivables	8	–	40
Net foreign exchange gain		–	4,660
<b>Expenses</b>			
Crowd labelling services		(268,378)	(236,091)
Employee expenses	5	(71,015)	(71,659)
Share-based payments expense	5	(516)	(12,537)
Depreciation and amortisation expense	5	(35,038)	(27,923)
Travel expense		(271)	(689)
Professional fees		(7,088)	(8,241)
Restructure costs		(2,256)	–
Communication expense		(1,068)	(837)
Transaction costs	5	(2,729)	(807)
Deemed interest on earn-out liability	19	(657)	(853)
Figure Eight earn-out adjustment		–	2,559
Net foreign exchange loss		(1,176)	–
Other expenses		(19,835)	(14,392)
Finance costs	5	(1,372)	(1,647)
<b>Profit before income tax expense</b>		<b>35,875</b>	44,539
Income tax expense	6	(7,356)	(8,907)
<b>Profit after income tax expense for the year attributable to the owners of Appen Limited</b>	21	<b>28,519</b>	35,632
<b>Other comprehensive (loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(1,579)	(3,609)
Other comprehensive loss for the year, net of tax		(1,579)	(3,609)
<b>Total comprehensive income for the year attributable to the owners of Appen Limited</b>		<b>26,940</b>	<b>32,023</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	35	<b>23.19</b>	29.30
Diluted earnings per share	35	<b>22.85</b>	28.81

The above should be read in conjunction with the accompanying notes. The restated numbers should be read in conjunction with the "Change in accounting policies" outlined in note 2.



# Consolidated statement of financial position

as at 31 December 2021

		Group	
	Note	2021 US\$000	Restated 2020 US\$000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	47,878	60,488
Trade and other receivables	8	89,243	50,611
Contract assets	9	10,471	31,516
Derivative financial instruments	14	–	1,479
Income tax refund due	6	8,963	8,289
Prepayment		3,729	2,423
Other assets	31	2,481	–
<b>Total current assets</b>		<b>162,765</b>	<b>154,806</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	3,118	3,973
Right-of-use assets	11	13,557	17,993
Intangibles	12	314,788	275,796
Deferred tax	6	4,060	8,240
Other assets		629	801
<b>Total non-current assets</b>		<b>336,152</b>	<b>306,803</b>
<b>Total assets</b>		<b>498,917</b>	<b>461,609</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	41,609	44,168
Derivative financial instruments	14	816	–
Contract liabilities	15	16,076	7,458
Lease liabilities	17	5,004	5,036
Employee benefits	18	3,030	3,261
Other liabilities		73	77
<b>Total current liabilities</b>		<b>66,608</b>	<b>60,000</b>
<b>Non-current liabilities</b>			
Borrowings	16	–	–
Lease liabilities	17	10,056	14,432
Deferred tax	6	11,602	13,057
Employee benefits	18	420	436
Earn-out liability	19	18,359	–
<b>Total non-current liabilities</b>		<b>40,437</b>	<b>27,925</b>
<b>Total liabilities</b>		<b>107,045</b>	<b>87,925</b>
<b>Net assets</b>		<b>391,872</b>	<b>373,684</b>
<b>Equity</b>			
Issued capital	20	262,917	262,917
Reserves	21	132,972	114,784
Accumulated losses	22	(4,017)	(4,017)
<b>Total equity</b>		<b>391,872</b>	<b>373,684</b>

The above should be read in conjunction with the accompanying notes. The restated numbers should be read in conjunction with the "Change in accounting policies" outlined in note 2.

# Consolidated statement of changes in equity

for the year ended 31 December 2021

Group	Issued Capital US\$000	Reserves US\$000	Accumulated Losses US\$000	Total equity US\$000
Balance at 1 January 2021 (restated)	262,917	114,784	(4,017)	373,684
Profit after income tax expense for the year	–	–	28,519	28,519
Other comprehensive income for the year, net of tax	–	(1,579)	–	(1,579)
Total comprehensive (loss)/income for the year	–	(1,579)	28,519	26,940
Transfer between reserves	–	28,519	(28,519)	–
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	–	516	–	516
Dividends paid (note 23)	–	(9,268)	–	(9,268)
<b>Balance at 31 December 2021</b>	<b>262,917</b>	<b>132,972</b>	<b>(4,017)</b>	<b>391,872</b>

Group	Issued Capital (Restated) US\$000	Reserves (Restated) US\$000	Accumulated Losses (Restated) US\$000	Total equity (Restated) US\$000
Balance at 1 January 2020	262,917	77,764	(4,017)	336,664
Profit after income tax expense for the year	–	–	35,632	35,632
Other comprehensive loss for the year, net of tax	–	(3,609)	–	(3,609)
Total comprehensive (loss)/income for the year	–	(3,609)	35,632	32,023
Transfer between reserves	–	35,632	(35,632)	–
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	–	12,416	–	12,416
Dividends paid (note 23)	–	(7,419)	–	(7,419)
<b>Balance at 31 December 2020</b>	<b>262,917</b>	<b>114,784</b>	<b>(4,017)</b>	<b>373,684</b>

The above should be read in conjunction with the accompanying notes. The restated numbers should be read in conjunction with the "Change in accounting policies" outlined in note 2.





# Consolidated statement of cash flows

for the year ended 31 December 2021

		Group	
	Note	2021 US\$000	Restated 2020 US\$000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		434,261	413,589
Payments to suppliers and employees (inclusive of GST)		(374,170)	(335,632)
		60,091	77,957
Interest received		10	212
Interest paid		(629)	(1,323)
Income taxes paid		(5,549)	(12,119)
Net cash from operating activities	34	53,923	64,727
<b>Cash flows from investing activities</b>			
Payment for strategic acquisitions, net of cash acquired	31	(24,999)	(27,011)
Transaction costs		(2,729)	(807)
Payments for property, plant and equipment	10	(1,301)	(1,877)
Payments for intangibles	12	(21,794)	(19,130)
Net cash used in investing activities		(50,823)	(48,825)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	16	10,000	27,011
Repayment of borrowings	16	(10,000)	(23,473)
Payments for lease liabilities		(4,877)	(4,279)
Dividends paid	23	(9,268)	(7,419)
Net cash used in financing activities		(14,145)	(8,160)
Net (decrease)/increase in cash and cash equivalents		(11,045)	7,742
Cash and cash equivalents at the beginning of the financial year		60,488	52,799
Effects of exchange rate changes on cash and cash equivalents		(1,565)	(53)
Cash and cash equivalents at the end of the financial year	7	47,878	60,488

The above should be read in conjunction with the accompanying notes. The restated numbers should be read in conjunction with the "Change in accounting policies" outlined in note 2.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 1. General information

---

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

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

Level 6  
9 Help Street  
Chatswood NSW 2067

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 February 2022.

## Note 2. Basis of preparation

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### Statement of compliance

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

### Historical cost convention

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

### Critical accounting estimates

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

### Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in [note 30](#).

### Change in accounting policies

Material accounting policies adopted in the preparation of these financial statements are presented alongside the relevant notes. The accounting policies adopted are consistent with those of the previous years, 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 year.
- 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 date, being an AUS/USD exchange rate of 0.7261 at 31 December 2021 and 0.7709 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.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 2. Basis of preparation (continued)

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

During the year, 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*)<sup>1</sup>, 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 Software as a Service (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 current and comparative 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 year, associated with the ERP implementation, will be reversed and the associated written down value as at 1 January 2020 (the start of the comparative year) will be expensed, as incurred, as shown below:

### Impact of changes in accounting policy (net of tax)

	As previously reported (US\$000)	Impact of change (US\$000)	As restated (US\$000)
Reserves balance as at 1 January 2020	79,030	(1,266) <sup>1</sup>	77,764
Depreciation and amortisation expense for the year ended 31 December 2020	(28,283)	360 <sup>2</sup>	(27,923)
Intangibles balance as at 31 December 2020 (refer to note 12)	277,055	(1,259)	275,796

1 \$1,266,000 was the unamortised balance, net of tax, of the ERP system as at 1 January 2020, which was retrospectively expensed at the commencement of the prior year.

2 \$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.

### Current and non-current classification

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

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

### Rounding of amounts

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

### New, revised or amended Accounting Standards

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the 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.

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.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 3. Operating segments

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During the 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 year ended 31 December 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. New Markets also includes Quadrant.

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 year ended 31 December 2021, approximately 87.0% (31 December 2020: 88.9%) 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 new reportable segments for the year ended 31 December 2021 and 31 December 2020. The revenue and segment profit for the New Markets segment includes the contribution from Quadrant, following its acquisition on 13 September 2021. Refer to [note 31](#) for more details relating to the acquisition.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 3. Operating segments (continued)

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

31 December 2020 (restated)	Global Services US\$000	New Markets US\$000	Corporate (Unallocated) US\$000	Total US\$000
<b>Services revenue</b>	<b>328,143</b>	<b>84,495</b>	<b>–</b>	<b>412,638</b>
Interest	–	2	210	212
Other income	34	26	86	146
<b>Total revenue &amp; other income</b>	<b>328,177</b>	<b>84,523</b>	<b>296</b>	<b>412,996</b>
<b>Segment EBITDA</b>	<b>88,269</b>	<b>(7,484)</b>	<b>90</b>	<b>80,875</b>
Share based payment – employees				(10,096)
Foreign exchange gain				4,660
<b>Group underlying EBITDA</b>				<b>75,439</b>
Transaction costs				(807)
Depreciation and amortisation				(27,923)
Figure Eight earn-out adjustment				2,559
Acquisition-related share based payments				(2,441)
Deemed interest on earn-out liability				(853)
Net interest expense				(1,435)
<b>Profit before income tax</b>				<b>44,539</b>
Income tax expense				(8,907)
<b>Profit after income tax expense</b>				<b>35,632</b>

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 3. Operating segments (continued)

Geographical information	Sales income		Geographical non-current assets	
	2021 US\$000	Restated 2020 US\$000	2021 US\$000	Restated 2020 US\$000
Australia	1,332	5,436	46,269	1,394
US	412,876	399,657	275,660	285,979
Other countries	32,946	7,545	9,534	10,565
	447,154	412,638	331,463	297,938

## Note 4. Revenue

	2021 US\$000	Restated 2020 US\$000
Services revenue	447,154	412,638

### Disaggregation of services revenue

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

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

31 December 2020 (Restated)	Global customers US\$000	New Markets customers US\$000	Corporate (Unallocated) US\$000	Total US\$000
Revenue – Global Services segment	328,143	–	–	328,143
Revenue – New Markets segment	45,368	39,127	–	84,495
<b>Total revenue</b>	<b>373,511</b>	<b>39,127</b>	<b>–</b>	<b>412,638</b>

The revenue generated from New Markets customers and segment includes the contribution from Quadrant, following its acquisition on 13 September 2021. Refer to [note 31](#) for more details.





# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 4. Revenue (continued)

### Accounting policy

The Group recognises revenue as follows:

#### Revenue from contracts with customers

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

- revenue from subscription to a platform for a specified period of time; and
- revenue from delivering collected or annotated data.

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring annotated and/or collected data as per customer requirements, when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the data required.

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

Revenue from services represents the provision of managed services or revenue derived from use of platform and tools. Revenue is recognised in profit or loss progressively as the annotated and/or collected data is completed and validated or approved by the customer. Stage of completion of transactions involving the rendering of services is determined by reference to the services performed to date as a percentage of total services to be performed.

#### Interest

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

#### Other revenue

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

#### Foreign exchange gains and losses

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

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 5. Expenses

Profit before income tax includes the following specific expenses:

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Depreciation and amortisation</b>		
Depreciation:		
Leasehold improvements	751	629
Fixtures and fittings	168	119
Computer equipment	1,091	1,151
Audio equipment	27	24
Land and buildings – right-of-use assets	5,192	4,683
Total depreciation	7,229	6,606
Amortisation:		
Systems implementation	40	13 <sup>1</sup>
Product development	16,025	9,533
Other intangibles	218	31
Amortisation sub-total	16,283	9,577
Amortisation – acquisition related:		
Product development	7,130	7,123
Customer relationships	4,268	4,268
Brand	75	300
Customer contracts	53	49
Amortisation – acquisition related sub-total	11,526	11,740
<b>Total depreciation and amortisation</b>	<b>35,038</b>	<b>27,923</b>

1 Systems 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.

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Finance costs</b>		
Interest and finance charges paid/payable on borrowings	629	768
Interest and finance charges paid/payable on lease liabilities	743	879
	<b>1,372</b>	<b>1,647</b>



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 5. Expenses (continued)

	Group 2021 US\$000	Restated 2020 US\$000
<b>Share-based payments expense</b>		
Share-based payment – employees	773 <sup>1</sup>	10,096
Share based payment – acquisition related:		
Share-based payment in respect of Figure Eight acquisition	(257) <sup>1</sup>	1,286
Share-based payment in respect of Leapforce acquisition	–	1,155
Share based payment – acquisition related sub-total	(257)	2,441
Total share-based payments expense	516	12,537

1 The expense has reduced, as it includes a true-up adjustment of share-based payments expense in relation to specific (non-market) hurdles of the 2020 and 2021 Long-Term Incentive Plans, based on management's assessment of achieving these hurdles.

	Group 2021 US\$000	Restated 2020 US\$000
<b>Transaction costs</b>		
Strategic consulting costs	1,484	–
Integration costs	20	651
Transaction costs related to the Quadrant acquisition	1,116	–
Other	109	156
Total transaction costs	2,729	807

	Group 2021 US\$000	Restated 2020 US\$000
<b>Employee expenses</b>		
Defined contribution superannuation expense	917	3,946
Employee expenses	70,098	67,713
Total employee expenses	71,015	71,659

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 5. Expenses (continued)

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### Accounting policy

#### Depreciation expense

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

#### Amortisation expense

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

#### Finance costs

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

#### Share-based payments expense

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

#### Employee expenses

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



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 6. Income tax

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Income tax expense</b>		
Current tax	3,381	(55)
Deferred tax – origination and reversal of temporary differences	3,587	10,524
Adjustment recognised for prior periods – current tax	1,402	3,889
Adjustment recognised for prior periods – deferred tax	(1,014)	(5,451)
<b>Income tax expense</b>	<b>7,356</b>	<b>8,907</b>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	4,114	(5,152)
Increase in deferred tax liabilities	(1,540)	10,095
Deferred tax – origination and reversal of temporary differences	2,574	4,943
<b>Numerical reconciliation of income tax expense and tax at the statutory rate</b>		
Profit before income tax expense	35,875	44,539
Tax at the statutory tax rate of 30%	10,763	13,362
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	(1,533)	(696)
Deferred tax adjustments on intangible assets	(1,419)	(108)
Figure Eight earn-out payments adjustment	–	(458)
Non-deductible transaction costs related to acquisition	348	–
Exchange differences	2	(803)
Sundry items	–	(42)
	8,161	11,255
Adjustment recognised for prior periods	388	(1,463)
Difference in overseas tax rates	(1,193)	(885)
<b>Income tax expense</b>	<b>7,356</b>	<b>8,907</b>

## for the year ended 31 December 2021

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Deferred tax asset</b>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	–	231
Tax losses – China <sup>1</sup>	2,489	–
Revenue received in advance	1	–
Employee benefits	690	4,909
Accrued expenses	150	214
Transaction costs	–	2,021
Other expenses and exchange differences	730	865
Deferred tax asset	4,060	8,240
Movements:		
Opening balance	8,240	2,790
(Debited)/credited to profit or loss	(4,114)	5,102
Exchange differences	(66)	348
Closing balance	4,060	8,240
	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Deferred tax liability</b>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax loss from Figure Eight acquisition <sup>2</sup>	(958)	(6,403)
Intangible assets	16,467	16,097
Revenue received in advance	1,591	1,649
Other expenses and exchange differences	(5,498)	1,714
Deferred tax liability	11,602	13,057
Movements:		
Opening balance	13,057	2,813
Credited to reserves – cloud computing costs (refer to <u>note 2(iii)</u> )	–	(353)
(Debited)/credited to profit or loss	(1,540)	10,193
Exchange differences	85	404
Closing balance	11,602	13,057

2 Estimated tax losses relating to Figure Eight to be applied to future periods amounts to \$19.9 million, of which \$4.9 million has been recognised as a deferred tax asset. Sufficient profits are forecast to fully offset this deferred tax asset against tax losses in the next five years.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 6. Income tax (continued)

	Group	Restated 2020 US\$000
	2021 US\$000	
Income tax refund due	8,963	8,289

### Critical accounting judgements, estimates and assumptions

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

#### Recoverability of deferred tax assets

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

### Accounting policy

#### Current tax

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

#### Deferred tax

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

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

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

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

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



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 7. Cash and cash equivalents

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Current assets</b>		
Cash on hand	3	1
Cash at bank	47,875	60,487
	<b>47,878</b>	60,488

### Accounting policy

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

## Note 8. Trade and other receivables

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Current assets</b>		
Trade receivables	87,546	49,390
Less: Allowance for expected credit losses	(242)	(622)
	<b>87,304</b>	48,768
Other receivables	1,860	1,503
GST receivable	79	340
	<b>89,243</b>	50,611

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances. The increase in trade receivables at 31 December 2021 was due to increased volumes in the last two months of the year and that the December month billing milestone aligned with the reporting period at 31 December 2021, whereas for the comparative period, the billing milestone was only satisfied after the 31 December reporting period and hence classified as a contract asset under [note 9](#).

### Impairment and allowance for expected credit losses

At 31 December 2021, the Group has recognised a provision of \$242,000 (2020: \$622,000) in respect of the impairment of receivables.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 8. Trade and other receivables (continued)

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

Group	Carrying amount		Allowance for expected credit losses	
	2021 US\$000	Restated 2020 US\$000	2021 US\$000	Restated 2020 US\$000
Not overdue	83,092	33,858	–	–
0 to 3 months overdue	3,667	12,230	–	–
3 to 6 months overdue	553	3,085	8	405
Over 6 months overdue	234	217	234	217
	87,546	49,390	242	622

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

	Group	
	2021 US\$000	Restated 2020 US\$000
Opening balance	622	720
Amounts provided for during the year as uncollectable	(211)	(58)
Amounts reversed	(169)	(40)
Closing balance	242	622

### Critical accounting judgements, estimates and assumptions

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

### Accounting policy

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

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

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

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

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 9. Contract assets

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Current assets</b>		
Contract assets	10,471	31,516
<b>Reconciliation</b>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year is set out below		
Balance at 1 January	31,516	5,531
Subsequently invoiced and transferred to receivables – reversal	(31,516)	(5,531)
Accrued revenue recognised – 30 June <sup>1</sup>	28,177	21,125
Balance at 30 June	28,177	21,125
Subsequently invoiced and transferred to receivables – reversal	(28,177)	(21,125)
<b>Accrued revenue recognised – 31 December<sup>1</sup></b>	<b>10,471</b>	<b>31,516</b>

1 Relates to services completed that the Group is yet to receive an unconditional right to the amount due, as the relevant invoices in respect of the completed work are pending satisfaction of the customer's billing milestones or billing period. The reduction in contract assets at 31 December 2021 relates to the fact that for many invoices, the last day of the billing period aligned with the 31 December 2021 reporting period, and hence these invoices are reflected as part of trade receivables (refer to [note 8](#)).

## Note 10. Property, plant and equipment

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Non-current assets</b>		
Leasehold improvements – at cost	3,915	3,851
Less: Accumulated depreciation	(2,898)	(2,255)
	1,017	1,596
Fixtures and fittings – at cost	1,183	1,197
Less: Accumulated depreciation	(870)	(759)
	313	438
Computer equipment – at cost	6,166	5,327
Less: Accumulated depreciation	(4,411)	(3,447)
	1,755	1,880
Audio equipment – at cost	182	188
Less: Accumulated depreciation	(149)	(129)
	33	59
	3,118	3,973



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 10. Property, plant and equipment (continued)

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Leasehold improvements US\$000	Fixtures and fittings US\$000	Computer equipment US\$000	Audio equipment US\$000	Total US\$000
Balance at 1 January 2020 (Restated)	1,645	479	1,741	46	3,911
Additions	520	73	1,246	38	1,877
Disposals	–	–	(1)	–	(1)
Exchange differences	60	5	45	(1)	109
Depreciation expense (Restated)	(629)	(119)	(1,151)	(24)	(1,923)
Balance at 31 December 2020 (Restated)	1,596	438	1,880	59	3,973
Additions	226	1	1,072	2	1,301
Disposals	(9)	–	(34)	–	(43)
Exchange differences	(45)	42	(72)	(1)	(76)
Depreciation expense	(751)	(168)	(1,091)	(27)	(2,037)
<b>Balance at 31 December 2021</b>	<b>1,017</b>	<b>313</b>	<b>1,755</b>	<b>33</b>	<b>3,118</b>

### Critical accounting judgements, estimates and assumptions

#### Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or assets that have been abandoned or sold will be written off or written down.

### Accounting policy

Each class of property, plant and equipment is carried at cost or fair value, less any accumulated depreciation or impairment losses. The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciation rates used for each class of depreciable assets are:

Leasehold improvements	Over the lease term
Fixtures and fittings	3–13 years
Computer equipment	1–4 years
Audio equipment	1–4 years

Any gain or loss on disposal of an item of plant and equipment is recognised in the consolidated statement of profit or loss.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 11. Right-of-use assets

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Non-current assets</b>		
Land and buildings – right-of-use	25,944	25,426
Less: Accumulated depreciation	(12,387)	(7,433)
	<b>13,557</b>	17,993

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Land and buildings US\$000
Balance at 1 January 2020 (Restated)	15,377
Additions	7,092
Disposals	(257)
Exchange differences	464
Depreciation expense (Restated) (refer to <a href="#">note 5</a> )	(4,683)
Balance at 31 December 2020 (Restated)	17,993
Additions	1,022
Exchange differences	(266)
Depreciation expense (refer to <a href="#">note 5</a> )	(5,192)
<b>Balance at 31 December 2021</b>	<b>13,557</b>

For other AASB 16 and lease related disclosures refer to the following:

- Refer to [note 5](#) for interest on lease liabilities and other lease payments;
- Refer to [note 17](#) for lease liabilities;
- Refer to [note 24](#) for maturity analysis of lease liabilities; and
- Refer to the consolidated statement of cash flows for repayment of lease liabilities.

### Accounting policy

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities. The leases have varying terms, escalation clauses and renewal rights. On renewal, the lease terms are re-negotiated.

Depreciation is charged on a straight-line basis over the term of the lease. The Group leases land and buildings for its offices under lease agreements of between three and 11 years. Options to extend are assessed for reasonable certainty in assessing the term of the lease to charge the depreciation expense.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 12. Intangibles

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Non-current assets</b>		
Goodwill – at cost	247,654	202,595
Systems implementation – at cost	1,515	1,320
Less: Accumulated amortisation	(1,293)	(1,253)
	222	67
Product development – at cost	100,873	80,299
Less: Accumulated amortisation	(50,515)	(27,224)
	50,358	53,075
Customer relationships – at cost	31,500	31,500
Less: Accumulated amortisation	(16,398)	(12,130)
	15,102	19,370
Brand – at cost	600	600
Less: Accumulated amortisation	(600)	(525)
	–	75
Customer contracts – at cost	2,372	2,372
Less: Accumulated amortisation	(2,372)	(2,319)
	–	53
Other intangibles – at cost	1,935	910
Less: Accumulated amortisation	(483)	(349)
	1,452	561
	314,788	275,796

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 12. Intangibles (continued)

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Goodwill US\$000	Systems imple- mentation US\$000	Product devel- opment US\$000	Customer relation- ships US\$000	Brand US\$000	Customer contracts US\$000	Other intangibles US\$000	Total US\$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
Additions through business combinations	-	-	-	-	-	-	-	-
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	-	195	20,574	-	-	-	1,025	21,794
Additions related to business combinations (refer to <a href="#">note 31</a> )	45,446	-	-	-	-	-	-	45,446
Exchange differences	(387)	-	(136)	-	-	-	84	(439)
Amortisation expense	-	(40)	(23,155)	(4,268)	(75)	(53)	(218)	(27,809)
<b>Balance at 31 December 2021</b>	<b>247,654</b>	<b>222</b>	<b>50,358</b>	<b>15,102</b>	<b>-</b>	<b>-</b>	<b>1,452</b>	<b>314,788</b>

Goodwill includes the provisional goodwill associated with the Quadrant acquisition. The provisional goodwill value will be adjusted at 30 June 2022 to reflect new information obtained relating to the valuation of Quadrant's net assets, mainly relating to the valuation of separately identifiable acquisition-related intangibles.

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 (refer to [note 2\(ii\)](#) for further information).

The additions for product development during the year relate to continued investment by Appen, in development and enhancement of its products and tools, to drive growth, scale and cost efficiency.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 12. Intangibles (continued)

### 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 year (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 Quadrant Global Pte Ltd ("Quadrant"), 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.

#### Quadrant, Figure Eight and Mendip (New Markets ex-China CGU)

Goodwill associated with the acquisition of Quadrant, 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 year period to 31 December 2026, derived by applying downward sensitivity adjustments to Appen's five-year plan approved by the Board;
- Average annual revenue growth rate of 23.3% from the current year to 2026. This includes revenue growth resulting from an increase in our addressable market resulting from the use of Quadrant's geolocation and POI data capabilities, which will expand our product and service offering to our customer-base and offer new growth opportunities. Average annual revenue growth rate excluding Quadrant is 19.1% from the current year to 2026. 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, Government and Quadrant, 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%;
- Low case model estimates of the digitisation and business transformation benefits to be achieved over the next five years; and
- A pre-tax discount of 13.8% based on the weighted average cost of capital.

The goodwill carrying value of \$194,504,000 (2020: restated \$149,442,000) has been allocated to the New Markets (ex-China) CGU and includes the goodwill carrying value at 31 December 2021, associated with the Quadrant acquisition. At 31 December 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.

Management has assessed that the average annual revenue growth rate from the current year to 2026 to result in a break-even point is 12.7% per annum (i.e. where the recoverable amount of the discounted future cash flows equals the carrying value of the net assets of the New Markets (ex-China) CGU), in isolation of changes in other new assumptions.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 12. Intangibles (continued)

### Butler Hill, Leapforce and RaterLabs (Global Services CGU)

Goodwill associated with the acquisition of Butler Hill, Leapforce and RaterLabs have been allocated for impairment testing against the Global Services CGU, based on the goodwill calculated at time of acquisition. 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 year period to 31 December 2026, derived by applying downward sensitivity adjustments to Appen's five-year plan approved by the Board;
- Average annual net revenue growth rate of 8.9% 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%;
- Low case model estimates of the digitisation and business transformation benefits to be achieved over the next five years; and
- A pre-tax discount of 13.8% based on the weighted average cost of capital.

The goodwill carrying value of \$53,150,000 (2020: restated \$53,153,000) has been allocated to the Global Services CGU. At 31 December 2021, the recoverable amount, being the net amount of discounted future cash flows, exceeds the carrying value of assets in the Global Services CGU.

For the Global Services CGU, no reasonable possible change in key assumptions would result in impairment.

### Critical accounting judgements, estimates and assumptions

#### Capitalisation of product development costs

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

#### Goodwill and other indefinite life intangible assets

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 year. 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, discount rates based on the current cost of capital and growth rates of estimated future cash flows.

#### 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.

### Accounting policy

#### General

Expenditure on research activities is recognised as an expense when incurred.

Development costs (for example, product development costs) are capitalised when the Group can demonstrate all of the following: the technical feasibility of completing the asset so that it is available for use or sale; the intention to complete the asset and use or sell it; the ability to use or sell it; how the asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and the ability to measure reliably the expenditure attributable to the asset during its development.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 12. Intangibles (continued)

### Accounting treatment

#### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and it is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### Systems implementation

Significant costs on systems implementation are deferred and amortised on a straight-line basis over the period of their expected benefit, being the finite life of seven years. However, configuration costs associated with the implementation of cloud-based ERP systems are expensed as incurred. Refer to [note 2\(ii\)](#) for further information.

#### Product development

Product development costs are capitalised at the direct costs incurred and amortised on a straight-line basis over the period of their expected benefit being their finite life from three to seven years. Amortisation starts at the time that the technology is activated and is used either internally or externally. The capitalised costs include directly attributable costs relating to product development, such as employment costs of the engineering team, product hosting services, external consultants and IT software and hardware.

#### Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of seven to ten years.

#### Brand

Brand names acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of two years.

#### Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of five years.

#### Other intangibles

Costs in relation to other intangibles are capitalised as an asset and amortised on a straight-line basis over the period of their expected benefit being three to seven years.

Off-the-shelf databases are internally generated intangibles and are capitalised only if they meet all of the criteria stated in the accounting policy section with respect to the accounting policy associated with development costs. Costs are capitalised at the direct costs incurred and amortised on a straight-line basis over the period of their expected benefit being their finite life of seven years. Amortisation starts at the time that the database is available for use or sale to external customers.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 13. Trade and other payables

	Group 2021 US\$000	Restated 2020 US\$000
<b>Current liabilities</b>		
Trade payables	25,311	21,804
Other payables and accrued expenses	16,298	22,364
	41,609	44,168

Refer to [note 24](#) for further information on financial instruments.

### Accounting policy

Trade and other payables are measured at amortised cost and are not discounted, due to their short-term nature. The amounts are unsecured and usually paid within agreed payment terms.

## Note 14. Derivative financial instruments

	Group 2021 US\$000	Restated 2020 US\$000
<b>Current liabilities/(assets)</b>		
Forward foreign exchange contracts – cash flow hedges	816	(1,479)

Refer to [note 25](#) for further information on fair value measurement.

### Accounting policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 15. Contract liabilities

	Group	
	2021 US\$000	Restated 2020 US\$000
<b>Current liabilities</b>		
Invoices issued/deposits received in advance	16,076	7,458
<b>Reconciliation</b>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	7,458	15,516
Payments received in advance	19,671	14,462
Transfer to revenue	(16,912)	(22,261)
Additions related to business combinations (refer to note 31)	5,279	–
Revaluation and fair value amortisation relating to Figure Eight	580	(259)
Closing balance	16,076	7,458

### Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$16,076,000 as at 31 December 2021 (\$7,458,000 as at 31 December 2020) and is expected to be recognised as revenue in future periods as follows:

	Group	
	2021 US\$000	Restated 2020 US\$000
Less than 3 months	5,186	1,704
Over 3 months	10,890	5,754
	16,076	7,458

### Accounting policy

Contract liabilities represent the Group's obligations to render services to a customer and reflects the value of advance payments made by customers who have been invoiced for services that will be provided in the future and are recognised when the customer pays consideration or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the services to a customer.

The Group does not disclose further qualitative information related to remaining performance obligations, as they are either part of a contract that has an original expected duration of one year or less; or the associated revenue is recognised in the amount of which the Group has a right to invoice.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 16. Borrowings

	Group 2021 US\$000	Restated 2020 US\$000
<b>Non-current liabilities</b>		
Facility A (Senior debt)	-	-
Facility B (Working capital)	-	-
Facility C (Acquisition funding)	-	-
	-	-

Movements in each class of borrowings during the current and previous financial year, are set out below:

### Facility B (Working capital)

During the year, the Group drew down, and subsequently repaid, US\$10,000,000 to assist with a working capital shortfall due to timing delays around cash collections from invoices, due to implementation of a new payables and procurement platform at a major customer.

### Facility C (Acquisition funding)

	Group 2021 US\$000	Restated 2020 US\$000
Carrying amount at the start of the year	-	-
Amount borrowed	-	27,011
Revaluation	-	(2,862)
Less: amortised borrowing costs	-	(676)
Less: amount repaid	-	(23,473)
Carrying amount at the end of the year	-	-

No amount was borrowed to fund the upfront consideration of \$25,268,000, which respect to the Quadrant acquisition, which was funded from the Group's existing cash reserves.

### Facility A

The facility was established in December 2017 and varied in April 2019, with a limit of US\$20 million. This facility has a four-year term with a bullet repayment at the end of the term and is not subject to annual review. The facility was used to fund the Leapforce acquisition. This facility attracts interest at a margin over bank reference rates, based on the net leverage ratio.

### Facility B

This facility was established in December 2017 and varied in April 2019, with a limited of AU\$20 million. The facility has a four-year term with a bullet repayment at the end of the term and is not subject to annual review.

The facility is available to assist with the funding for general corporate and working capital needs of the Group (including transaction costs) and excludes funding of any permitted acquisition. The facility attracts interest at a margin over bank reference rates, based on the net leverage ratio.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 16. Borrowings (continued)

### Facility C

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

During the prior year, the facility was used to fund the earn out payment for the Figure Eight acquisition. The facility is available for general corporate needs of the Group, limited to the amount drawn down for the earn out payment. Post the drawdown, the facility limit has been reduced to the amount drawn down for the earn out payment and can be re-drawn for other purposes. The facility attracts interest at a margin over bank reference rates, based on the net leverage ratio.

The facility was not used to fund the upfront consideration of \$25,268,000, which respect to the Quadrant acquisition, which was funded from the Group's existing cash reserves.

### Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Group	
	2021 US\$000	Restated 2020 US\$000
Total facilities		
Facility A (Senior debt)	20,000	20,000
Facility B (Working capital)	14,525	15,418
Facility C (Acquisition funding)	24,137	24,137
	58,662	59,555
Used at the reporting date		
Facility A (Senior debt)	-	-
Facility B (Working capital)	-	-
Facility C (Acquisition funding)	-	-
	-	-
Unused at the reporting date		
Facility A (Senior debt)	20,000	20,000
Facility B (Working capital)	14,525	15,418
Facility C (Acquisition funding)	24,137	24,137
	58,662	59,555

### Accounting policy

Loans and other borrowings are initially recognised at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 17. Lease liabilities

	Group 2021 US\$000	Restated 2020 US\$000
<b>Current liabilities</b>		
Lease liability	5,004	5,036
<b>Non-current liabilities</b>		
Lease liability	10,056	14,432

Per AASB 16, the Group has recognised the financial liabilities representing the obligation to make future lease payments across the lease contract terms.

### Accounting policy

The Group recognises lease liabilities for contracts identified as containing a lease, except when the lease is for 12 months or less or the underlying asset is of low value.

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in the profit or loss.

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate or borrowing rate relevant for the jurisdiction of the lease. Subsequently, the carrying value of the liability is adjusted to reflect interest and lease payments made. If the borrowing rate for the jurisdiction of the lease cannot be determined, then the Group's incremental borrowing rate is used. Lease liabilities may be measured when there is a change in future lease payments arising from a change in an index or market rate, or if there is a change in the Group's estimate of the amount expected to be payable.

The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred. Variable lease payments may include rent concessions in the form of rent forgiveness or a waiver as a direct consequence of the COVID-19 pandemic and which relate to payments originally due on or before 30 June 2022.

## Note 18. Employee benefits

	Group 2021 US\$000	Restated 2020 US\$000
<b>Current liabilities</b>		
Annual leave	3,030	3,261
<b>Non-current liabilities</b>		
Long service leave	420	436



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 18. Employee benefits (continued)

### Accounting policy

#### Short-term employee benefits

These are expected to be settled wholly within 12 months after the employees render the related service and include wages, salaries and sick leave. These are measured at the undiscounted amounts expected to be paid when the obligation is settled.

#### Other long-term employee benefits

Provision is made for long service leave not expected to be settled within 12 months after balance date in which the employees render the related service. Long-term employee benefits are measured at the present value of the expected future payments to be made to employees.

Expected future payments incorporate anticipated future wage and salary levels, duration of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for long-term employee benefits are recognised in profit or loss in the periods for which the changes occur.

## Note 19. Earn-out liability

	Group	
	2021 US\$000	Restated 2020 US\$000
Earn-out liability	18,359	–

At 31 December 2021, the present value of the deferred consideration on the earn-out liability associated with the acquisition of Quadrant was \$17,702,000 and the deemed interest on the earn-out liability was \$657,000. The deemed interest is disclosed in the consolidated income statement.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 20. Issued capital

		Group		
	2021 Shares	2020 Shares	2021 US\$000	Restated 2020 US\$000
Ordinary shares – fully paid	123,074,916	122,345,605	262,917	262,917

### Movements in ordinary share capital

Details	Date	Shares	US\$000
Balance	31 December 2019	121,107,755	262,917
Issue of shares on exercise of performance rights	25 February 2020	541,215	–
Issue of shares on exercise of performance rights	29 June 2020	7,033	–
Issue of shares as contingent consideration on acquisition of Leapforce Inc. and RaterLabs Inc.	7 December 2020	681,468	–
Issue of shares on exercise of performance rights	7 December 2020	8,134	–
Balance	31 December 2020	122,345,605	262,917
Issue of share on exercise of performance rights	25 February 2021	668,527	–
Issue of shares on exercise of performance rights	6 April 2021	53,750	–
Issue of shares on exercise of performance rights	28 June 2021	7,034	–
Balance	31 December 2021	123,074,916	262,917

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Share buy-back

There is no current on-market share buy-back.

### Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group may raise capital to fund a strategic investment or acquisition. The acquisition of Quadrant did not require the raising of capital to fund the up-front consideration.

The capital risk management policy remains unchanged from the prior year.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 20. Issued capital (continued)

### Accounting policy

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## Note 21. Reserves

	Group	
	2021 US\$000	Restated 2020 US\$000
Common control reserve	(1,307)	(1,307)
Foreign currency translation reserve	(6,728)	(5,149)
Share-based payments reserve	27,719	27,203
Profits reserve	111,286	92,035
Other reserves	2,002	2,002
	<b>132,972</b>	114,784

### Common control reserve

The reserve represents the difference between the consideration transferred by the Company for the acquisition of commonly controlled entities and the existing book value of those entities immediately prior to the acquisition.

### Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to US dollars.

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees as part of their remuneration.

### Profits reserve

The Profits reserve represents current year profits transferred to a reserve to quarantine these profits from being appropriated against prior year accumulated losses. Such profits are available for the payment of future dividends.

### Other reserves

This reserve represents the equity settled portion of contingent consideration together with any capital raising expenses that were allocated to equity, in connection with the acquisition of Butler Hill.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 21. Reserves (continued)

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Group	Common control US\$000	Foreign currency translation US\$000	Share-based payments US\$000	Profits US\$000	Other US\$000	Total US\$000
Balance at 1 January 2020 (Restated)	(1,307)	(1,540)	14,787	63,822	2,002	77,764
Foreign currency translation	-	(3,609)	-	-	-	(3,609)
Share-based payments	-	-	12,416	-	-	12,416
Transfer from accumulated losses	-	-	-	35,632	-	35,632
Dividends paid	-	-	-	(7,419)	-	(7,419)
Balance at 31 December 2020 (Restated)	(1,307)	(5,149)	27,203	92,035	2,002	114,784
Foreign currency translation	-	(1,579)	-	-	-	(1,579)
Share-based payments	-	-	516	-	-	516
Transfer from accumulated losses	-	-	-	28,519	-	28,519
Dividends paid	-	-	-	(9,268)	-	(9,268)
<b>Balance at 31 December 2021</b>	<b>(1,307)</b>	<b>(6,728)</b>	<b>27,719</b>	<b>111,286</b>	<b>2,002</b>	<b>132,972</b>

### Accounting policy

#### Foreign currency translation reserve

The assets and liabilities of foreign operations are translated into US dollars using the exchange rates at reporting date. The revenues and expenses of foreign operations are translated into US dollars using the average exchange rates, which approximate the rates at the transaction dates for the year. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve.

#### Share-based payments reserve

The Group had a number of share-based payment arrangements that were granted to employees during FY21 and earlier years. The fair value is based on the number of rights granted and expected to vest and the share price at the date of grant less the present value of the future dividend stream.

#### Profits reserve

Profits after income tax expense for the year are transferred to the profits reserve to facilitate the payment of dividends in the future.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 22. Accumulated losses

	Group	
	2021 US\$000	Restated 2020 US\$000
Accumulated losses at the beginning of the financial year	(4,017)	(4,017)
Profit after income tax expense for the year	28,519	35,632
Transfer to Profits reserve	(28,519)	(35,632)
Accumulated losses at the end of the financial year	(4,017)	(4,017)

## Note 23. Dividends

### Dividends

Dividends paid during the financial year were as follows:

	Group	
	2021 US\$000	Restated 2020 US\$000
2020 final dividend of AU 5.5 cents per share (2020: 2019 final dividend of AU 5.0 cents per share)	5,242	3,560
2021 interim dividend of AU 4.5 cents per share (2020: 2020 interim dividend of AU 4.5 cents per share)	4,026	3,859
	9,268	7,419

### Dividend declared

On 24 February 2022, the Company declared a final dividend for the year ended 31 December 2021 of AU 5.5 cents per share. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 1 March 2022 and the payment date is 18 March 2022. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2021 and will be recognised in subsequent financial periods.

### Franking credits

	Group	
	2021 US\$000	Restated 2020 US\$000
Franking credits available for subsequent financial years based on a tax rate of 30%	18	1,011

The above amounts represent the balance of the franking account as at the end of the financial year. The reduction relative to the prior year relates to the FY20 tax refund which was finalised and received in FY21.

### Accounting policy

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

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 24. Financial instruments

### Financial risk management objectives

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

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

### Market risk

#### Foreign currency risk

During the year, the Group 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 denominated in US dollars. This change in reporting currency significantly reduced the Group's exposure to foreign currency risk. However, the Group is still exposed to some foreign currency risk, as certain transactions, principally corporate head office expenses and the payment of dividends to shareholders are denominated in Australian Dollars.

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

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

	Purchase Australian dollars		Forward exchange rates	
	2021 US\$000	Restated 2020 US\$000	2021	Restated 2020
<b>FX Forward Contract</b>				
<b>Sell United States dollars</b>				
Foreign exchange forward contract maturity:				
0–3 months	20,119	–	1.3148	–
3–6 months	4,291	–	1.3002	–
6–12 months	10,077	676	1.3615	1.4384
More than 12 months	13,831	–	1.3969	–
<b>FX Option Contract</b>				
<b>Sell United States dollars</b>				
Foreign exchange forward contract maturity:				
0–3 months	–	9,000	–	1.4600
3–6 months	–	9,000	–	1.4600
6–12 months	–	9,000	–	1.4600



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 24. Financial instruments (continued)

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

	Average exchange rates		Reporting date exchange rates	
	2021	2020	2021	2020
<b>United States Dollars</b>				
Australian Dollars	1.3371	1.4401	1.3769	1.2972
United Kingdom Pound Sterling	0.7275	0.7760	0.7400	0.7325
European Economic and Monetary Union Euro	0.8479	0.8737	0.8815	0.8153
Hong Kong Dollars	7.7737	7.7560	7.7971	7.7525
Philippine Pesos	49.3593	49.5137	51.0424	47.9874
Chinese Yuan	6.4382	6.8938	6.3588	6.5277

Foreign exchange risk recognises financial assets and financial liabilities denominated in a currency that is not denominated in US Dollars. The risk is measured using sensitivity analysis.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Group	Assets		Liabilities	
	2021 US\$000	Restated 2020 US\$000	2021 US\$000	Restated 2020 US\$000
Australian Dollars	10,066	8,339	722	1,970
United Kingdom Pound Sterling	1,732	1,603	191	274
European Economic and Monetary Union Euro	1,304	1,395	-	-
Philippine Pesos	1,428	1,549	436	221
Chinese Yuan	7,788	3,457	1,153	20
Japanese Yen	56	-	16	-
Singapore Dollars	20	-	-	-
Hong Kong Dollars	-	-	-	13
	22,394	16,343	2,518	2,498

The Group had financial net assets denominated in foreign currencies of \$19,876,000 (2020: net assets of \$13,845,000). Financial net assets exclude intangibles, fixed assets, intercompany balances and other non-monetary balances.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 24. Financial instruments (continued)

Based on this exposure, had the US dollar weakened by 10% or strengthened by 10% (2020: weakened by 10% or strengthened by 10%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year based on the assets denominated in foreign currency, excluding the translation difference for consolidated reporting purpose, and the Group's equity would have been lower or higher as follows:

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

	USD strengthened			USD weakened		
	% change	Restated Effect on profit before tax US\$000	Restated Effect on equity US\$000	% change	Restated Effect on profit before tax US\$000	Restated Effect on equity US\$000
<b>Group – 2020</b>						
Australian Dollars	10%	–	7	10%	–	(7)
United Kingdom Pound Sterling	10%	(16)	(116)	10%	16	116
European Economic and Monetary Union Euro	10%	(140)	(6)	10%	140	6
Philippine Pesos	10%	–	(133)	10%	–	133
Chinese Yuan	10%	–	(344)	10%	–	344
		(156)	(592)		156	592

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

### Price risk

The Group holds an immaterial amount of cryptocurrency assets which, prima facie, may be subject to price risk. Given that all of the cryptocurrency held is a core and integral part of Quadrant's business operations, as cryptocurrency is used to pay geolancers and used to pay suppliers, cryptocurrency assets are deemed to be inventory and valued at the lower of cost and net realisable value, which is the acquisition date fair value. This means that mark to market movements are not reflected in the group's statement of financial position or statement of comprehensive income.

### Interest rate risk

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

At the reporting date, the Group had no borrowings.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 24. Financial instruments (continued)

### Credit risk

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

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

### Liquidity risk

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

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

### Financing arrangements

Unused borrowing facilities at the reporting date:

	Group	
	2021 US\$000	Restated 2020 US\$000
Facility A (Senior debt)	20,000	20,000
Facility B (Working capital)	14,525	15,418
Facility C (Acquisition funding)	24,137	24,137
	58,662	59,555

### Remaining contractual maturities

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

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

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 24. Financial instruments (continued)

Group – 2020 (Restated)	Weighted average interest rate %	1 year or less US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Remaining contractual maturities US\$000
<b>Non-derivatives</b>						
<b>Non-interest bearing</b>						
Trade payables	–	21,804	–	–	–	21,804
Other payables	–	22,364	–	–	–	22,364
<b>Interest-bearing – fixed rate</b>						
Lease liability	4.30%	5,253	4,834	7,727	3,080	20,894
Total non-derivatives		49,421	4,834	7,727	3,080	65,062

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

## Note 25. Fair value measurement

### Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

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



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 25. Fair value measurement (continued)

Group – 2020 (Restated)	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
<b>Assets</b>				
Forward foreign exchange contracts	–	1,479	–	1,479
Total assets	–	1,479	–	1,479
<b>Liabilities</b>				
Earn-out liability in respect of the Figure Eight acquisition	–	–	–	–
Total liabilities	–	–	–	–

There were no transfers between levels during the financial year.

The earn-out liability and associated deemed interest in respect of the Quadrant acquisition is classified as level 3, as the liability is based on an assessment by management of future revenue projections.

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

### Valuation techniques for fair value measurements categorised within level 2

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

### Level 3 assets and liabilities

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

Group	Earn-out US\$000
Balance at 31 December 2019	27,246
Additional interest	846
Figure Eight purchase price adjustment	(2,559)
Figure Eight earn-out liabilities paid out	(23,473)
Foreign exchange translation	(2,060)
Balance at 30 December 2020	–
Earn-out liability in respect of the Quadrant acquisition	17,702
Deemed interest in respect of the Quadrant acquisition	657
<b>Balance at 31 December 2021</b>	<b>18,359</b>

### Accounting policy

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

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

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 26. Key management personnel disclosures

### Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Group	
	2021 US\$	Restated 2020 US\$
Short-term employee benefits	2,278,145	3,077,301
Post-employment benefits	249,609	106,934
Long-term benefits	76,516	109,730
Share-based payments	(503,919)	3,530,370
	2,100,351	6,824,335

Detailed remuneration disclosures are contained in the remuneration report section of the director's report.

## Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	Group	
	2021 US\$	Restated 2020 US\$
<b>Audit and review services – KPMG</b>		
Audit or review of the Group's financial statements	311,502	234,590
Audit of the Group's subsidiaries financial statements – network firms	22,163	19,473
<b>Total audit services</b>	<b>333,665</b>	254,063
<b>Other services – KPMG</b>		
Compliance services – transfer pricing	72,266	75,418
Other services	22,775	93,664
<b>Total other services</b>	<b>95,041</b>	169,082
<b>Total audit and other services</b>	<b>428,706</b>	423,145



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 28. Contingent liabilities

The Group has given bank guarantees as at 31 December 2021 of \$613,000 (2020: \$472,564) in satisfaction of its performance obligations with respect to rental premises. In addition, the Group has a contingent consideration and associated deemed interest liability of \$18,359,000, with respect to the Quadrant acquisition, measured at fair value at balance date.

## Note 29. Related party transactions

### Parent entity

Appen Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in [note 32](#).

### Key management personnel

Disclosures relating to key management personnel are set out in [note 26](#) and the remuneration report included in the directors' report.

### Loans to/from related parties

There were no formal loans to or from related parties at the current and previous reporting date, however there were intercompany receivables and payables associated with the movement of funds between entities in the Group.

## Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

	Company	
	2021 US\$000	Restated 2020 US\$000
(Loss)/profit after income tax	(4,961)	13,615
Total comprehensive (loss)/income	(4,961)	13,615



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 30. Parent entity information (continued)

### Statement of financial position

	Company	
	2021 US\$000	2020 US\$000
Total current assets	1,393	2,576
Total assets	288,821	320,849
Total current liabilities	1,175	1,119
Total liabilities	1,175	1,119
Net assets	287,646	319,730
Equity		
Issued capital	262,917	262,917
Share-based payments reserve	27,719	27,203
Profits and translation reserve	(975)	31,625
Other reserves	2,002	2,002
Accumulated losses	(4,017)	(4,017)
Total equity	287,646	319,730

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had a deed of cross guarantee in relation to the debts of its subsidiaries as at 31 December 2021 and 31 December 2020.

### Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

### Capital commitments

The parent entity had no material capital commitments as at 31 December 2021 and 31 December 2020.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

## Note 31. Business combinations

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

The total consideration included an upfront consideration of \$25,268,000 (cash consideration paid on 13 September 2021 adjusted for working capital) and an earn-out payment of up to \$20,000,000 in Appen shares to be issued upon achieving revenue milestones in 2022 and 2023. At acquisition date, the discounted fair value of the earn-out payment was \$17,702,000.

Total goodwill was \$45,446,000 representing the difference in the fair value of net assets acquired to consideration paid or payable.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 31. Business combinations (continued)

The acquired business contributed revenues of \$1,129,000 and a loss after tax of \$228,000 to the Group for the period from the date of acquisition on 13 September 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, the full year contribution would have been revenues of \$3,725,000 and loss after tax of \$485,000.

Details of the fair value of identifiable assets acquired, liabilities assumed and goodwill determined are set out below. The identification and fair value measurement of the assets and liabilities acquired are provisional and amendments can be made to these figures up to 12 months, following the date of acquisition if new information is obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. For example, the Group is yet to identify and value the acquisition-related intangible assets, and hence at 30 June 2022, there will be a re-allocation of amounts recognised as goodwill to acquisition-related intangible assets.

The Group incurred acquisition-related costs of \$1,116,000 to external service providers, inclusive of stamp duty costs of \$95,000. These have been disclosed in the consolidated income statement, but have been excluded from the calculation of underlying EBITDA. The below table shows the acquisition date net assets acquired, goodwill and consideration paid and payable.

	Acquisition date fair value US\$000
Cash and cash equivalents	269
Trade and other receivables	908
Inventory – cryptocurrency	2,481
Trade payables	(294)
Other payables	(53)
Accrued expenses	(508)
Unearned revenue	(238)
Deferred revenue	(5,041)
<b>Net liabilities acquired at balance date</b>	<b>(2,476)</b>
Goodwill	45,446
<b>Acquisition date fair value</b>	<b>47,922</b>
<b>Consideration</b>	
Cash paid	25,268
Earn-out liability (contingent consideration)	17,702
<b>Total consideration</b>	<b>42,970</b>
Add: Fair value of net identifiable liabilities	2,476
<b>Goodwill</b>	<b>45,446</b>
<b>Cash used to acquire business, net of cash acquired</b>	
Total consideration	42,970
Less: cash and cash equivalents acquired	(269)
Less: contingent consideration	(17,702)
<b>Net cash used</b>	<b>24,999</b>

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 31. Business combinations (continued)

### Critical accounting judgements, estimates and assumptions

The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

#### Inventory – Cryptocurrency assets

Quadrant holds cryptocurrency assets, mainly in the form of Ethereum, stableCoin (USDC) and its own utility token called eQUAD, which is used to pay its crowd of geolancers for POI (point-of-interest) data and pay suppliers. Given that cryptocurrency assets are a core and integral part of the Quadrant's operations, management has deemed that the cryptocurrency assets should be classified as inventory, and therefore valued at the lower of cost and net realisable value. This valuation is derived from relevant exchanges for each of the different types of cryptocurrency held at acquisition date.

### Accounting policy

Business combinations occur when an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. Under the acquisition method, the business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised. Consideration transferred, including any contingent consideration is required to be measured at fair value on the date of acquisition, which takes into account the perspective of a "market participant" and is measured at the amount that the Group would have to pay to such a participant for them to assume the remaining obligations under the contracts to acquire these businesses.

Contingent consideration obligations are classified as equity or liability in accordance with AASB 132 *Financial Instruments: Presentation*. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. Where the accounting standards require that an obligation to be settled in shares is classified as a liability, change in measurement from the point of initial recognition, through to when the milestone is achieved, and the number of shares to be granted is determined, are recognised in profit or loss. Subsequently, once the number of shares is fixed and determined any changes in the value of shares to be granted between the milestone being achieved and the point of settlement are recognised within equity.

The Group has contingent consideration obligations classified as liabilities at the reporting date.

As a consequence, any changes in the fair value of contingent consideration that do not meet the requirements above, such as a subsequent renegotiation and settlement of the obligation or consideration, does not result in a change to the value of goodwill and instead changes to the fair value of contingent consideration is classified as a liability and recognised in the profit or loss. Any goodwill that arises is tested annually for impairment. Transaction costs on the acquisition are expensed as incurred, unless they relate to the issue of debt or equity securities.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy below:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		2021 %	2020 %
Appen Butler Hill Pty Limited	Australia	100%	100%
Appen Financial Services Pty Ltd	Australia	100%	100%
Appen Butler Hill Inc. <sup>1</sup>	United States of America	100%	100%
Leapforce Inc.	United States of America	100%	100%
RaterLabs Inc.	United States of America	100%	100%
Figure Eight Technologies Inc.	United States of America	100%	100%
Figure Eight Federal LLC	United States of America	100%	100%
Appen (Europe) Limited <sup>1</sup>	United Kingdom	100%	100%
Mendip Media Group Limited	United Kingdom	100%	100%
Appen Butler Hill Limited <sup>1</sup>	Hong Kong	100%	100%
Beijing Appen Technology Co., Ltd <sup>1</sup>	China	100%	100%
Appen Technology (Wuxi) Co. Ltd	China	100%	100%
Appen Data Technology (Shanghai) Co. Ltd	China	100%	100%
Appen Japan Pty Ltd <sup>1</sup>	Japan	100%	–
Quadrant Pte Ltd <sup>1</sup>	Singapore	100%	–
Quadrant Protocol Ltd <sup>1</sup>	British Virgin Islands	100%	–

1 Wholly-owned subsidiaries of Appen Butler Hill Pty Limited.

### Accounting policy

The consolidated financial report incorporates all of the assets, liabilities and results of Appen Limited and all of the subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date control is obtained by the Group. Acquisition of subsidiaries are accounted for using the acquisition method of accounting. A change in ownership interest without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised as directly attributable to the parent.

The consolidation of a subsidiary is discontinued from the date control ceases. When the Group loses control over a subsidiary, it de-recognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Intercompany transactions, balances and unrealised gains or losses on transactions between Group members/subsidiaries are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 33. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each Company guarantees the debts of the others:

Appen Limited

Appen Butler Hill Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under *Corporations Instrument 2016/785* issued by the Australian Securities and Investments Commission.

The above Companies represent a 'Closed Group' for the purposes of the *Corporations Instrument*, and as there are no other parties to the deed of cross guarantee that are controlled by Appen Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2021 US\$000	Restated 2020 US\$000
<b>Statement of profit or loss and other comprehensive income</b>		
Revenue	57,650	41,193
Crowd labelling services	(2,836)	(1,795)
Employee expenses	(23,640)	(22,186)
Depreciation and amortisation expense	(2,247)	(2,439)
Travel expense	(17)	(179)
Professional fees	(1,455)	(1,617)
Rent and occupancy expense	(680)	(549)
Communication expense	(1,337)	(2,013)
Transaction costs	(1,772)	(26)
Net foreign exchange loss <sup>1</sup>	(1,522)	(17,369)
Other expenses	(8,248)	(3,303)
Finance costs	(1,559)	(1,080)
<b>Profit/(loss) before income tax (expense)/benefit</b>	<b>12,337</b>	<b>(11,363)</b>
Income tax (expense)/benefit	(1,827)	5,894
<b>Profit/(loss) after income tax (expense)/benefit</b>	<b>10,510</b>	<b>(5,469)</b>
<b>Other comprehensive income/(loss)</b>		
Foreign currency translation	4,732	(1,375)
Other comprehensive income/(loss) for the year, net of tax	4,732	(1,375)
<b>Total comprehensive income/(loss) for the year</b>	<b>15,242</b>	<b>(6,844)</b>

<sup>1</sup> Per AASB 121, at an individual entity level, foreign exchange gains and losses on foreign denominated intercompany investment balances are recognised through profit or loss, but are reflected through other comprehensive income/foreign currency translation reserve on consolidation.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 33. Deed of cross guarantee (continued)

	2021 US\$000	Restated 2020 US\$000
<b>Statement of financial position</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,070	15,862
Trade and other receivables	3,473	3,626
Contract assets	3,047	2,020
Derivative financial instruments	–	1,479
Income tax refund due	2,265	3,581
Prepayments	879	395
	16,734	26,963
<b>Non-current assets</b>		
Investments accounted for using the equity method	3,095	5,882
Property, plant and equipment	1,055	1,730
Right-of-use assets	4,267	5,561
Goodwill	45,059	–
Intangibles	1,082	795
Deferred tax	6,662	6,721
Intercompany loans	247,180	264,497
Prepayments	310	286
	308,710	285,472
<b>Total assets</b>	<b>325,444</b>	<b>312,435</b>
<b>Current liabilities</b>		
Trade and other payables	5,019	4,700
Derivative financial instruments	816	–
Contract liabilities	3,048	1,677
Provisions	1,200	1,173
	10,083	7,550
<b>Non-current liabilities</b>		
Lease liabilities	4,868	6,050
Provisions	424	436
Borrowings	–	–
Earn-out liability	18,359	–
	23,651	6,486
<b>Total liabilities</b>	<b>33,734</b>	<b>14,036</b>
<b>Net assets</b>	<b>291,710</b>	<b>298,399</b>
<b>Equity</b>		
Issued capital	262,917	262,917
Reserves	28,793	35,482
<b>Total equity</b>	<b>291,710</b>	<b>298,399</b>

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 34. Cash flow information

### Reconciliation of profit after income tax to net cash from operating activities

	Group	
	2021 US\$000	2020 US\$000
Profit after income tax expense for the year	28,519	35,632
Adjustments for:		
Depreciation and amortisation	35,038	27,923
Net loss on disposal of property, plant and equipment	(43)	(14)
Share-based payments	516	12,537
Foreign exchange differences	(1,565)	(53)
Impairment movement on trade receivables	380	98
Interest expense – deemed interest on earn-out	657	853
Interest expense – right-of-use assets	743	879
Transaction costs paid for acquisition	2,729	807
Figure Eight earn-out adjustment	–	(2,559)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(17,587)	4,565
(Decrease)/increase in trade and other payables	(2,559)	4,547
(Decrease)/increase in employee benefits and provisions	(247)	1,957
Increase/(decrease) in contract liabilities	8,618	(8,058)
Decrease in provision for income tax	(1,276)	(14,387)
Net cash from operating activities	53,923	64,727

### Accounting policy

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 35. Earnings per share

	Group 2021 US\$000	Restated 2020 US\$000
Profit after income tax attributable to the owners of Appen Limited	28,519	35,632
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	122,956,759	121,618,318
Adjustments for calculation of diluted earnings per share:		
Rights over ordinary shares	1,857,243	2,039,642
Weighted average number of ordinary shares used in calculating diluted earnings per share	124,814,002	123,657,960
	Cents	Restated Cents
Basic earnings per share	23.19	29.30
Diluted earnings per share	22.85	28.81

### Accounting policy

#### Basic earnings per share

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

#### Diluted earnings per share

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



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments

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### Performance rights

#### Long-term incentive plan

The Company has developed a Long-term incentive plan (LTIP) which incorporates performance conditions and was effective from 1 January 2015. With respect to its Executives, the Board has taken a blended approach to the Australian and US practices. The key components of the LTI scheme (up to 31 December 2021) are:

- annual grants of performance rights (with quantum determined at Board discretion).
- vesting conditions of:
  - 1 underlying basic EPS (UBEPS) growth tested over three consecutive years, tested annually with 100% vesting where the UBEPS target is achieved, 50–80% vesting for 90–99% achievement (at Board discretion) and nil vesting below 90% achievement; and
  - 2 continuation of employment until the beginning of the calendar year in which the performance rights are subject to vesting.
- Performance rights lapse on cessation of employment before vesting. This means that no performance rights will be provided if an executive resigns, despite meeting the relevant performance hurdles.
- Three-year performance periods, with grants consisting of three equal tranches each tested over a single 12-month period.
- Australia-based executives: performance rights vest at the end of the three-year period subject to the achievement of the performance and continuous employment hurdles.
- US-based executives: performance rights may vest annually, which is typical for US remuneration practices, subject to the achievement of the performance and continuous employment hurdles. A partial tranche may vest subject to achievement of performance and employment hurdles for grants issued during the year.
- Rights for which the performance condition is not satisfied in the annual testing are carried over for a maximum of two years and may vest if the equivalent compound annual growth rate (CAGR) is achieved. This ensures that management is focused on delivering financial returns for shareholders over the long term, but also acknowledges that investments may need to be made in certain years to achieve those returns.

The fair value of the performance rights has been measured based on the share price at the date of the grant less the present value of the future dividend stream. The dividend stream has been based on a dividend yield of 0.45% and a risk free interest rate of ~0.1%. An overview of all current performance rights plans and conditions is placed for all employees including executives is disclosed in the following table.



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments (continued)

### Overview of Current Performance Rights and Conditions

Plan	Grant date	Expiry date <sup>1</sup>	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date <sup>2</sup>	Value per right at grant date (\$A)
2018	1 Jan 2018	N/A	N/A	1	N/A	No performance condition	N/A	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$17.60
2018	20 Feb 2018	N/A	N/A	1	UBEPS	10.0%	End 2018	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$7.77
2018	20 Feb 2018	N/A	N/A	2	UBEPS	10.0%	End 2019	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$7.77
2018	20 Feb 2018	N/A	N/A	3	UBEPS	10.0%	End 2020	Yes	Employed at 1 Jan 2021	Release of 2020 results	\$7.77
2018 STI	30 Aug 2018	N/A	N/A	2	Relevance EBITDA and EBITDA margin	N/A	End 2018	Yes	N/A	25 Feb 2019	\$7.87
2018 STI	20 Dec 2018	N/A	N/A	3	Relevance EBITDA and EBITDA margin	N/A	End 2019	Yes	N/A	25 Feb 2020	\$12.83
2018 Special	20 Feb 2018	N/A	N/A	1	UBEPS	20.0%	End 2018	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$7.81
2018 Special	20 Feb 2018	N/A	N/A	2	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2021	1 Jan 2021	\$7.81
2018 Special	20 Feb 2018	N/A	N/A	3	UBEPS	20.0%	End 2020	Yes	Employed at 1 Jan 2021	Release of 2020 results	\$7.81
2019	31 Jan 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2022	1 Jan 2022	\$15.50
2019	31 Jan 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Yes	Employed at 1 Jan 2022	1 Jan 2022	\$15.50
2019	31 Jan 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$15.50
2019	31 Jan 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	\$15.50
2019	31 Jan 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Yes	Employed at 1 Jan 2021	Release of 2020 results	\$15.50
2019	31 Jan 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$15.50
2019	21 May 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	\$23.91
2019	21 May 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Yes	Employed at 1 Jan 2021	Release of 2020 results	\$23.91

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments (continued)

Plan	Grant date	Expiry date <sup>1</sup>	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date <sup>2</sup>	Value per right at grant date (\$A)
2019	21 May 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$23.91
2019	22 July 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	\$29.80
2019	22 July 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Yes	Employed at 1 Jan 2021	Release of 2020 results	\$29.80
2019	22 July 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$29.80
2019	22 July 2019	N/A	N/A	4	UBEPS	20.0%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$29.80
2020	19 Dec 2019	N/A	N/A	1	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2023	1 Jan 2023	\$23.37
2020	19 Dec 2019	N/A	N/A	2	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2023	1 Jan 2023	\$23.37
2020	19 Dec 2019	N/A	N/A	3	UBEPS	20.0%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$23.37
2020	Jan to Mar 2020	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2020	Yes for rights with no performance condition	Employed at 1 Jan 2021	Release of 2020 results	\$19.59
2020	Jan to Mar 2020	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$19.59
2020	Jan to Mar 2020	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$19.59
2019	30 Apr 2020	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2022	1 Jan 2022	\$19.59
2020	30 Apr 2020	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2020	Yes for rights with no performance condition	Employed at 1 Jan 2021	Release of 2020 results	\$18.28
2020	30 Apr 2020	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$18.28
2020	30 Apr 2020	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$18.28
2020	30 Apr 2020	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2020	Yes for rights with no performance condition	Employed at 1 Jan 2021	1 Jan 2023	\$18.28
2020	30 Apr 2020	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	1 Jan 2023	\$18.28



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments (continued)

Plan	Grant date	Expiry date <sup>1</sup>	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date <sup>2</sup>	Value per right at grant date (\$A)
2020	30 Apr 2020	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$18.28
2020	Apr to Jun 2020	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2020	Yes for rights with no performance condition	Employed at 1 Jan 2021	Release of 2020 results	\$25.43
2020	Apr to Jun 2020	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$25.43
2020	Apr to Jun 2020	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$25.43
2020	Apr to Jun 2020	N/A	N/A	4	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 results	\$25.43
2020	Jul to Sep 2020	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2020	Yes for rights with no performance condition	Employed at 1 Jan 2021	Release of 2020 results	\$34.99
2020	Jul to Sep 2020	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$34.99
2020	Jul to Sep 2020	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$34.99
2020	Jul to Sep 2020	N/A	N/A	4	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 results	\$34.99
2020	Oct to Dec 2020	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2020	Yes for rights with no performance condition	Employed at 1 Jan 2021	Release of 2020 results	\$29.73
2020	Oct to Dec 2020	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	\$29.73
2020	Oct to Dec 2020	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 results	\$29.73
2020	Oct to Dec 2020	N/A	N/A	4	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 results	\$29.73
2020	25 Dec 2020	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 1 Jan 2023	1 Jan 2023	\$24.42
2021	Jan to Mar 2021	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2021	Yes for rights with no performance condition	Employed at 1 Jan 2022	Release of 2021 Results	\$24.34
2021	Jan to Mar 2021	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 Results	\$24.34
2021	Jan to Mar 2021	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$24.34

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments (continued)

Plan	Grant date	Expiry date <sup>1</sup>	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date <sup>2</sup>	Value per right at grant date (\$A)
2021	Jan to Mar 2021	N/A	N/A	1	UBEPS	20%	End 2021	Pending	Employed at 1 Jan 2024	1 Jan 2024	\$24.36
2021	Jan to Mar 2021	N/A	N/A	2	UBEPS	20%	End 2022	Pending	Employed at 1 Jan 2024	1 Jan 2024	\$24.36
2021	Jan to Mar 2021	N/A	N/A	3	UBEPS	20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$24.36
2021	15 Feb 2021	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2021	Yes for rights with no performance condition	Employed at 1 Jan 2022	Release of 2021 Results	\$23.52
2021	15 Feb 2021	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 Results	\$23.52
2021	15 Feb 2021	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$23.52
2021	17 Feb 2021	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2024	1 Jan 2024	\$22.77
2021	17 Feb 2021	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2024	1 Jan 2024	\$22.77
2021	17 Feb 2021	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$22.77
2021	2 Sep 2021	N/A	N/A	1	UBEPS	20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 Results	\$11.59
2021	2 Sep 2021	N/A	N/A	2	UBEPS	20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 Results	\$11.59
2021	2 Sep 2021	N/A	N/A	3	UBEPS	20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$11.59
2021	Jul to Sep 2021	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 Results	\$11.52
2021	Jul to Sep 2021	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 Results	\$11.52
2021	Jul to Sep 2021	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$11.52
2021	Jul to Sep 2021	N/A	N/A	4	N/A or UBEPS	0% to 20%	End 2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	\$11.52
2021	Jul to Sep 2021	N/A	N/A	1	N/A or UBEPS	0% to 20%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 Results	\$11.12
2021	Jul to Sep 2021	N/A	N/A	2	N/A or UBEPS	0% to 20%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 Results	\$11.12



# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments (continued)

Plan	Grant date	Expiry date <sup>1</sup>	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved	Vesting condition	Vesting date <sup>2</sup>	Value per right at grant date (\$A)
2021	Jul to Sep 2021	N/A	N/A	3	N/A or UBEPS	0% to 20%	End 2023	Pending	Employed at 1 Jan 2024	Release of 2023 Results	\$11.12
2021	Jul to Sep 2021	N/A	N/A	4	N/A or UBEPS	0% to 20%	End 2024	Pending	Employed at 1 Jan 2025	Release of 2024 results	\$11.12
2021	13 Sep 2021	N/A	N/A	1	N/A	No performance condition	N/A	Pending	Employed at 15 Dec 2024	15 Dec 2024	\$9.98
2021	13 Sep 2021	N/A	N/A	2	N/A	No performance condition	N/A	Pending	Employed at 15 Dec 2025	15 Dec 2025	\$9.98

1 Rights are convertible to shares on the vesting dates, assuming all the performance conditions of the plan and the employment condition are met. If rights are not converted, they expire after eight years from the grant date.

2 Target achievement table:

UBEPS Target Achieved	% Performance Rights Allocated
100% or more of UBEPS Target	100%
90–99% of UBEPS Target*	50–80%
Less than 90%	Nil

\*At the Board's discretion.

Set out below are summaries of performance rights granted under the plan:

31 Dec 2021 Plan	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2018	128,881	–	(126,118)	(2,763)	–
2018 Special	257,034	–	(257,034)	–	–
2019	892,927	–	(230,581)	(143,613)	518,733
2020	1,040,894	–	(80,864)	(239,206)	720,824
2021	–	928,053	–	(140,278)	787,775
	2,319,736	928,053	(694,597)	(525,860)	2,027,332

31 Dec 2020 Plan	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2017	231,516	–	(231,516)	–	–
2018	129,392	–	(2,445)	1,934	128,881
2018 Special	264,067	–	(7,033)	–	257,034
2018 STI	83,333	–	(83,333)	–	–
2019	1,169,107	91,623	(227,300)	(140,503)	892,927
2020	–	1,063,932	(4,755)	(18,283)	1,040,894
	1,877,415	1,155,555	(556,382)	(156,852)	2,319,736

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.02 years (2020: 1.17 years).

# Notes to the consolidated financial statements

for the year ended 31 December 2021

## Note 36. Share-based payments (continued)

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### Accounting policy

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is determined based on the vesting period, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. At each reporting date, the entity revises its estimate of the number of rights that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of profit or loss and other comprehensive income with a corresponding adjustment to equity.

## Note 37. Other information

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### COVID-19 pandemic

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, crowd workers, employees and geographic regions in which the Group operates. The impact of the COVID-19 pandemic is addressed in the Directors' report.

## Note 38. Events after the reporting period

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

Apart from the dividend declared as disclosed in [note 23](#), no other matter or circumstance has arisen since 31 December 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.



## Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Richard Freudenstein  
Director

24 February 2022  
Sydney



# Independent auditor's report

to the shareholders of Appen Limited



## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Appen Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the **Group's** financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 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 year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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



# Independent auditor's report

to the shareholders of Appen Limited

## Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation of goodwill
- Acquisition of Quadrant Global Pte Ltd

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation of goodwill (\$248m)

### Refer to Note 12 to the Financial Report

#### The key audit matter

The Group's annual testing of goodwill for impairment is a key audit matter, given the size of the balance relative to total assets and the judgements applied due to the changes to the composition of CGUs during the year, allocation of goodwill and the forward looking assumptions the Group applied in their value in use model:

We focused on:

- Forward looking assumptions – forecast cash flows, growth rates and terminal growth rates that are used in the Group's models are highly sensitive to small changes in these assumptions, reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy;
- Discount rates which are applied to determine the Goodwill value are complicated in nature and vary according to the conditions and environment the specific cash generating unit (CGU) is subject to; and
- Changes to the composition of CGUs during the year necessitating our consideration of the appropriateness of those changes.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

#### How the matter was addressed in our audit

Our procedures included:

- We assessed the basis for the Group's changes to the composition of CGUs, based on our understanding of how operations are monitored and where independent cash flows are generated, against the requirements of the accounting standards;
- We checked the forecast cash flows in the Group's value in use model to the Board approved FY21 budget and the FY22–FY25 business plan;
- We assessed the cash flows and related growth rates applied in the model by comparing them to external analysts' reports. We checked the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the industry in which they operate;
- Working with our valuation specialists, we independently developed a discount rate range using publicly available data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;
- We assessed the Group's assumptions for terminal growth rates in comparison to economic and industry forecasts;
- We performed sensitivity analyses on the key assumptions used in the model and applied other values within a range that we assessed as being reasonably possible, to focus our further work; and
- We assessed the disclosures in the financial report using our understanding of the Group's testing for impairment obtained from our procedures and against the requirements of the accounting standards.

# Independent auditor's report

to the shareholders of Appen Limited

## Acquisition of Quadrant Global Pte Ltd

### Refer to Note 31 to the Financial Report

#### The key audit matter

On 13 September 2021, the Group completed the acquisition of Quadrant Global Pte Ltd, a provider of mobile location and Point-of-Interest (POI) data company headquartered in Singapore. The total consideration consists of an upfront consideration of \$25.3m and contingent consideration of \$17.7m.

We determined that the acquisition was a key audit matter because of the size of the transaction and the high level of judgement made by the Group that is required in determining:

- When control of Quadrant Global Pte Ltd was obtained;
- Consideration payable, including the fair value of the contingent consideration;
- Disclosure of the acquisition in the financial statements; and
- Whether acquisition accounting remains provisional at reporting date.

#### How the matter was addressed in our audit

Our procedures included:

- Evaluating documentation underlying the Group's assessment of when control is obtained of Quadrant Global Pte Ltd;
- We assessed the Group's determination of the contingent consideration against the contractual terms of the underlying sale and purchase agreements and the criteria in the accounting standards;
- Where contingent consideration obligations are to be settled through the issuance of shares, we assessed the Group's classification of those obligations as either a liability or equity for appropriateness. We did this by inspecting the terms of the sale and purchase agreement and considering the application of the criteria in the accounting standards;
- We evaluated the forward looking assumptions underpinning the significant judgements used by the Group including examining the basis for the Group's expectation that remaining contingent consideration will be paid. We did this by considering the performance assumptions against the Group's stated plan and strategy and the feasibility of these assumptions;
- We evaluated management's conclusion as to whether any element of the acquisition accounting is incomplete and remains provisional; and
- We assessed the business combination disclosures in the financial report against the requirements of the accounting standards.

## Other Information

Other Information is financial and non-financial information in Appen Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.



# Independent auditor's report

to the shareholders of Appen Limited

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- Preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- Implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- Assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- To obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- To issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Appen Limited for the year ended 31 December 2021, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 54 to 79 of the Directors' report for the year ended 31 December 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Cameron Slapp  
Partner  
Sydney  
24 February 2022

## Additional information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows.  
This information is current as at 01 February 2022.

### Distribution of shareholders

The distribution of issued capital is as follows:

Size of holding	Number of shareholders	Ordinary shares	% of issued capital
100,001 and over	45	69,578,695	56.55
10,001 to 100,000	524	11,225,406	9.12
5,001 to 10,000	1,006	7,181,720	5.84
1,001 to 5,000	10,090	22,097,690	17.96
1 to 1,000	41,990	12,963,486	10.53
<b>Total</b>	<b>53,655</b>	<b>123,046,997</b>	<b>100.00</b>

### Distribution of performance rights holders

The distribution of unquoted performance rights on issue is as follows:

Size of Holding	Number of performance rights holders	Unlisted performance rights	% of total performance rights
100,001 and over	5	836,385	41.26
10,001 to 100,000	22	582,526	28.73
5,001 to 10,000	42	298,192	14.71
1,001 to 5,000	106	267,298	13.18
1 to 1,000	87	42,931	2.12
<b>Total</b>	<b>262</b>	<b>2,027,332</b>	<b>100.00</b>

The performance rights on issue are unquoted and have been issued under our employee incentive scheme.

### Less than marketable parcels of ordinary shares

There are 5,612 shareholders with unmarketable parcels, holding 165,638 shares.



## Additional information

### Twenty largest shareholders

The names of the twenty largest shareholders of quoted equity securities are as follows:

	Ordinary shares	
	Number held	% of issued capital
1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,691,131	24.13
2 C & J VONWILLER PTY LTD <VONWILLER FAMILY A/C>	9,060,286	7.36
3 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,822,088	6.36
4 CITICORP NOMINEES PTY LIMITED	6,416,449	5.21
5 NATIONAL NOMINEES LIMITED	3,694,673	3.00
6 BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	1,310,350	1.06
7 BNP PARIBAS NOMS PTY LTD <DRP>	1,076,558	0.87
8 BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	988,031	0.80
9 PACIFIC CUSTODIANS PTY LIMITED <APX PLANS CTRL A/C>	738,248	0.60
10 BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	711,447	0.58
11 BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	705,556	0.57
12 NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	539,949	0.44
13 BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	517,821	0.42
14 CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	494,645	0.40
15 NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	352,353	0.29
16 NEW GREENWICH PTY LTD <NEW GREENWICH S/F A/C>	332,384	0.27
17 POWERWRAP LIMITED <SCHEME – IML TRADES A/C>	313,598	0.25
18 SANDHURST TRUSTEES LTD <JMFG CONSOL A/C>	310,747	0.25
19 NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	285,351	0.23
20 GINGA PTY LTD <T G KLINGER SUPER FUND A/C>	270,000	0.22
	<b>65,631,665</b>	<b>53.34</b>
Remaining quoted equity securities	<b>57,415,332</b>	<b>46.66</b>
<b>Total number of ordinary shares on issue</b>	<b>123,046,997</b>	<b>100.00</b>

### Unquoted equity securities

The Company had the following unquoted securities on issue as at 01 February 2022:

	Number on issue	Number of holders
Performance rights	2,027,332	262

## Additional information

### Substantial shareholders

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The names of the Substantial Shareholders as disclosed in notices submitted to the ASX as at 01 February 2022 are:

Shareholder	Ordinary shares	
	Number held	% of issued capital
Mondrian Investment Partners Limited	9,071,402	7.37%
C & J Vonwiller Pty Limited	9,060,083	7.36%

### Restricted securities

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The Company had no restricted securities on issue as at 01 February 2022.

### Voting rights

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In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll.

Holders of performance rights have no voting rights.

### On-market buy-backs

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There is no current on-market buy-back in relation to the Company's securities.



# Corporate directory

## Registered office

Level 6, 9 Help Street  
Chatswood NSW 2067  
+61 2 9468 6300  
[www.appen.com](http://www.appen.com)

## Company secretary

Carl Middlehurst

## Investor relations

+61 2 9468 6300  
[investorrelations@appen.com](mailto:investorrelations@appen.com)  
[www.appen.com/investors](http://www.appen.com/investors)

## Shareholder enquiries

Link Market Services  
Locked Bag A14  
Sydney South NSW 1235  
+61 1300 554 474  
[registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Auditor

KPMG  
Tower Three  
International Towers Sydney  
300 Barangaroo Avenue  
Sydney NSW 2000

## Stock exchange listing

Appen Limited shares are listed on the  
Australian Securities Exchange (ASX code: APX)

## Corporate Governance Statement

[www.appen.com/corporate-governance](http://www.appen.com/corporate-governance)





[appen.com](https://appen.com)