

Real  
world  
AI

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## About this report

We have used the International Integrated Reporting Council (IIRC) <IR> Framework and the Sustainability Accounting Standards Board (SASB) Standards to guide our disclosures on how Appen creates value and which topics are financially material to our business.





# Artificial intelligence...

Appen makes AI work in the real world by delivering high-quality training data at scale. Training data is used to build and continuously improve the world's most innovative AI enhanced systems and services.

Our clients include the world's largest technology companies, global leaders in automotive, financial services, retail and healthcare, and government agencies.

**...informed by Appen.**

# What we do ?

Appen is the global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence.

We collect, classify, translate, review and label large volumes of image, text, speech, audio, video and other data used to build and train AI systems.

The data is annotated by our global crowd of over 1 million skilled contractors who speak 235 languages and work in over 170 countries.

We also have the industry's most advanced AI-assisted annotation platform.



# Why we do it ...

**When creating AI in the real world, the data used to train the AI is more important than the model itself.**

AI models learn by observing large volumes and diverse sets of examples. These examples are called training data. For data to be understood by an AI model, it requires associated meaning. We provide this meaning by annotating the data.

AI performance is correlated with the volume, quality and diversity of data used for training. AI training data needs to be refreshed regularly.

# Search

**3.5bn+**  
searches per day<sup>1</sup>

## Search engines and social media

Online search powers the internet, connecting users with appropriate and relevant information.

**Appen supports the world's leading search engines and social media networks by providing large scale model evaluation. Our global crowd ensures that results are tailored to users' specific locations and demographics.**

<sup>1</sup> Internet Live Stats 2020.

# Drive

**40**  
terabytes

of data for every  
eight hours of  
driving<sup>1</sup>

## Autonomous driving

Autonomous vehicles have the ability to identify and interpret the immediate environment and operate with minimal or no human intervention.

Appen provides the vision and sensor annotations that are used to develop the perception models that underpin autonomous driving.

<sup>1</sup> Auto Tech Review 2020.



# Immerse

**1 in 5**

US consumers used  
VR in 2020<sup>1</sup>

## Augmented and virtual reality

Augmented and virtual reality (AR/VR) create immersive experiences and present new ways for companies to engage with customers.

**Appen provides the training data that is used to power the leading AR/VR engines, including eye and hand tracking.**

<sup>1</sup> ARtillery Intelligence 2020.





# Chat

**30%**  
annual growth in the  
chatbot market<sup>1</sup>

## AI-enabled chatbots

Chatbots simulate human interactions, mainly for customer service and support. Understanding customer intent (natural language understanding (NLU)) and responding with human-level accuracy (natural language generation (NLG)) are only possible because of AI.

**Appen's deep expertise in data collection and annotation specific to NLU and NLG, combined with our global crowd, power some of the world's leading chatbots.**

<sup>1</sup> Markets and Markets 2019.

# Interact

**128m**

people in the US will  
use a voice assistant  
at least monthly<sup>1</sup>

## Voice interactions

Home assistants, smart speakers and voice activated devices have quickly become commonplace. Automatic speech recognition and natural language processing are critical to their success.

**Appen has been powering the world's leading voice user interfaces for 20+ years. The combination of our linguistic expertise, global crowd supporting 235 languages and leading annotation software enables us to deliver high-quality training data for voice interface systems.**

<sup>1</sup> eMarketer 2020.



# Shop

**21%+**

of total retail sales  
in the US are online<sup>1</sup>

## E-commerce

E-commerce has created a broad online marketplace that connects shoppers with retailers. COVID-19 has accelerated adoption and e-commerce is now an indispensable part of everyday life for many people.

**Appen supports the leading e-commerce sites and platforms to ensure that information is accurately categorised and searchable to deliver the best customer experience.**

<sup>1</sup> Digital Commerce 360 2021.

# Capturing the market opportunity

US digital advertising spend

21%

growth in 2021

Global AR/VR spend

US\$73bn

by 2024

Speech and voice recognition

19%

annual growth

The growth in AI-enabled products and services highlights the growing demand for quality training data.

AI training dataset market

22.5%

annual growth

AI in computer vision

40-51%

annual growth

LiDAR market size

US\$10bn

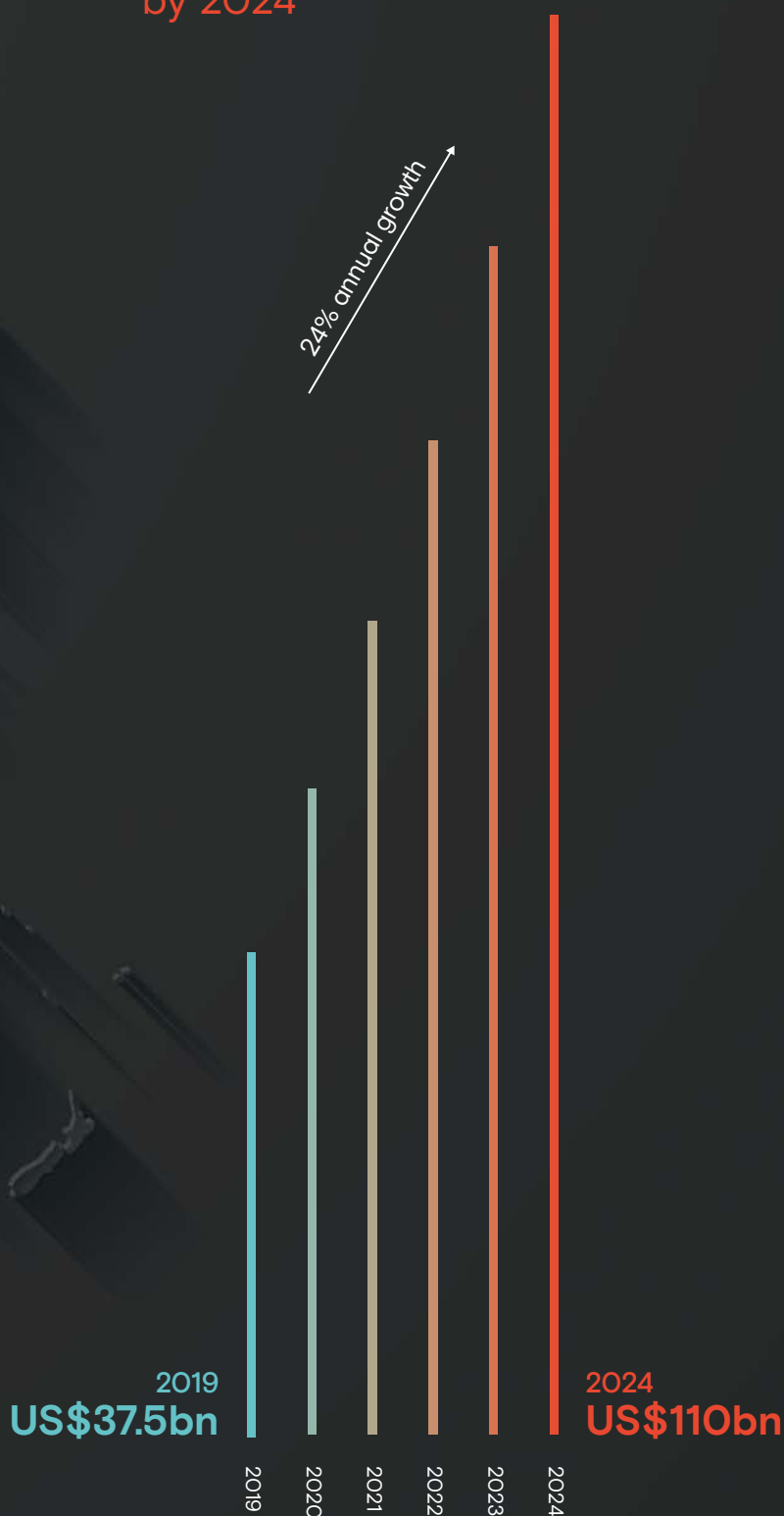
by 2025

Digital advertising spend (2021 v 2020) - eMarketer 2020. AR/VR - IDC Worldwide Augmented and Virtual Reality Spending Guide November 2020. Voice and speech recognition (compound annual growth 2018-2025) - Markets and Markets 2019. AI training dataset market (compound annual growth 2020-2027) - A2Z Market Research 2021. Computer vision (compound annual growth 2017-2026) - Report Consultant 2018, Maximize Market Research 2019. LiDAR market size - Global Market Insights 2019. Global spend on AI - IDC Worldwide Artificial Intelligence Spending Guide 2019 and 2020.

# Global spend on AI

# \$110bn

by 2024



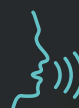
## Accelerators



Growth in online advertising



E-commerce acceleration



Uptake of voice interface systems



New AI use case adoption



Autonomous driving



Automated machine learning (AutoML) for model building

# 2020 highlights

## Customers

**20+ years**

working with leading technology companies

**931m**

relevance judgements in 2020

**136**

new customers

**US\$124m**

annual contract value (as at 1 February 2021)

► [See page 28.](#)

## Global crowd

Crowd contractors

**1m+**

Living in

**170+**

countries

Expertise in

**235**

languages

Crowd NPS

**48**

↑ 1 percentage point

► [See page 22.](#)

## Financial

Net profit after tax

**A\$50.5m**

statutory ↑ 21%

**A\$64.4m**

underlying ↓ 1%

Revenue

**A\$599.9m**

↑ 12%

EBITDA

**A\$107.9m**

statutory ↑ 23%

**A\$108.6m**

underlying ↑ 8%

Dividend per share (A¢)

**10.0¢**

full year dividend ↑ 11%

► [See page 30.](#)



## Social and environment

Crowd Code of Ethics

- ▶ Fair pay
- ▶ Inclusion
- ▶ Crowd voice
- ▶ Privacy and confidentiality
- ▶ Communication
- ▶ Wellbeing

World Economic Forum partnership on

### Responsible AI

COVID-19 translation initiative

datasets for

# 70,000

key COVID-19 terms and phrases for 38 languages

New

### Environment Position Statement

▶ [See page 32.](#)

## Employees

Employees

# 1,125

↑ 44%

Employee engagement

# 82%

↑ 6 percentage points

Female representation

# 58%

of employees

# 43%

of Board Directors

# 29,380

hours of training

▶ [See page 24.](#)

## Technology

Major technology customers

# 4 of 5

use our industry-leading data annotation platform

Automation of LiDAR and OCR annotation

# 3-6x faster

ISO certified

# 5 secure facilities

Launched new

### Mobile app

for crowd sign up, projects

▶ [See page 26.](#)

Financials as at 31 December 2020, all comparisons are to the year ended 31 December 2019. 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, transaction costs and fair-value adjustments. Underlying NPAT also excludes deemed interest on acquisition related earn-out payments.

# Shaping the future



Appen continued its growth in 2020 in both revenue and earnings while navigating some headwinds arising from the global pandemic. Over the past 24 years, we have established a strong and unique role at the centre of one of the world's most exciting industries – Artificial Intelligence and Machine Learning.

We have built global scale, breadth of services and technology depth. We are investing in our people and technology to achieve ongoing growth.

The applications of AI are expanding rapidly. Through our role in providing algorithm training data, Appen seeks to make AI work in the real world and transform the way organisations and companies do business.

## Financial performance

The financial results for 2020 demonstrated the underlying resilience of the business. In summary:

- Total revenue grew 12% to \$599.9 million.
- Statutory EBITDA increased by 23% to \$107.9 million. Underlying EBITDA increased 8% to \$108.6 million. This includes growth investments of \$12.7 million in sales and marketing, technology and our China business.
- We maintained healthy profitability on sales and achieved an underlying EBITDA margin of 18.1%.
- Statutory NPAT was \$50.5 million, an increase of 21%. Underlying NPAT was \$64.4 million, a small decrease of 1% from 2019 due to the impact of growth investments and higher amortisation.



Our balance sheet continues to be very healthy, with cash and cash equivalents at 31 December 2020 of \$78.4 million. The Board declared a final dividend of 5.5 cents per share, 50% franked. Combined with the 4.5 cent interim dividend paid in September 2020, the total dividend for the year is 10.0 cents per share.

### Priorities in 2020

The Board maintained its focus on the company's growth initiatives, including the drive to broaden our base of customers, leverage technology for scale and automation, and increase the proportion of our revenue which is repeatable. There was a major focus on supporting and growing our two new business divisions – China and Government.

Technology is central to delivering productivity improvements and responsiveness to new customer requirements. Throughout 2020, we maintained our investments in software development initiatives in this area.

In such a dynamic growth sector, management of risk is a critical factor. Under the oversight of the Board Audit and Risk Management Committee, we strengthened the company's risk management framework to ensure that our culture of growth and innovation is supported by identification and mitigation of risk at all levels in the company.

### Social and environment

AI opens attractive opportunities but must be implemented ethically. This is an issue of focus for the Board. Appen seeks to assist customers to implement AI solutions which are fair and unbiased. We are helping develop responsible AI standards through our multi-year partnership with the World Economic Forum.

The nature of Appen's business results in a relatively low environmental footprint. Nevertheless, we are committed to reducing the impact of our operations, including buildings, power consumption, travel, and water usage and to achieving net zero emissions by 2050.

In strengthening our governance framework, we have been sensitive to feedback from our stakeholders including our crowd, employees, customers, and shareholders. Our policies and practices have been guided by external frameworks including the ASX Corporate Governance Principles and



Our mission is to help build better AI by creating large volumes of high-quality training data faster. Our vision is to make AI work in the real world. We believe AI can transform the way organisations and companies do business.”

Recommendations (4th edition), the Sustainability Accounting Standards Board (SASB) Standards, the Integrated Reporting Framework, and the Task Force on Climate-related Financial Disclosures.

### Board

The Appen Board was strengthened by the appointment of Vanessa Liu on 27 March 2020. Vanessa is based in New York and brings a deep understanding of digital technologies and AI. Her familiarity with, and understanding of, the US market and customers is particularly valuable.

Our rapidly developing industry and competitive environment have required full engagement of Board members. I have valued their commitment and contributions through the year.

### Our people

Our employees have responded impressively to the challenges arising from the coronavirus pandemic. To keep them safe and informed, we established a COVID-19 Response Team to define safety protocols for all our offices globally and update them frequently.

The Executive Team has also shown great leadership through their quick and effective response to the pandemic. They have continued to deliver on our strategic growth objectives, and we are indebted to them.

We value the cultural and linguistic diversity of our workforce, and we seek to maintain Appen as a great place to work with a high-performing culture. To underpin this, we established a Diversity and Inclusion Committee composed of Appen employees.

Our 1 million+ crowd continues to be one of Appen's most valuable assets. Our ability to support remote working in a secure environment has been a success factor in the new work environment. We have implemented policies to manage the risks of modern slavery and human rights abuses, and we work with our customers to ensure ethical sourcing. Our crowd operations are rigorously governed by our Crowd Code of Ethics.

### Shareholders

The directors greatly appreciate the continuing support of our shareholders. Your loyalty and engagement are valued, and you have our commitment to deliver strong results. In 2021, the Board will be seeking to ensure that the investments we have made yield growth in our customer base and returns on your investment.

**Christopher Vonwiller**  
Chairman



# Driving growth

We're pleased to report another year of solid growth despite the many challenges of 2020.

Our record full year revenue and underlying EBITDA, as reported by our Chairman, maintained our run of constant growth since our IPO in 2015. Revenue has grown 49% CAGR from 2015 to 2020, and underlying EBITDA has increased 51% CAGR. Our growth has been underpinned by the ongoing demand for high-quality training data for AI, principally from our major customers, the world's largest technology companies, but also from many new customers.

2020 was a breakout year for new customer wins. Our investments in sales and marketing yielded 136 new customers last year across a variety of sectors, including technology, autonomous vehicles, financial services and education, and multiple data types, such as image, video, LiDAR, text and speech. Many of these customers are small, but they increase Appen's market penetration and lay a strong foundation for growth in coming years.

We also expanded the number of projects across our top five customers by 34%, increasing the value we deliver to our largest customers, cementing our relationships with them, and supporting their many new product developments.

Customer and project growth was enabled by our annotation platform, acquired with Figure Eight in 2019. The platform delivers utility to companies without data labelling or crowd management technology, provides additional functionality to our largest customers, and supports multiple data types and use cases that allow all of our customers to deliver on their expanding AI roadmaps. The platform also provides us with a pathway to valuable committed revenue, which was 31% of total revenue in the second half of the year, up from 12% in the first half.



We're pleased to report very high growth in China, with revenue increasing 60% each quarter in 2020. We're coming off a low base, but we have a solid foundation for growth. We count China's largest technology companies amongst our customers, as well as a number of autonomous vehicle companies, and health and education technology providers.

Our government team is in place, having navigated the turbulence of last year, and is focused on building our brand and pipeline.

Combined, our new customers and projects, higher committed revenue and growth in China, along with our existing customers and programs, improves our market position and provides a strong foundation for further growth in 2021.

2020 was not without its challenges however. We had a strong first half but a number of factors conspired to dampen our second half result.

The global shift to working from home due to the pandemic limited our B2B selling, resulting in fewer customer wins in Q2 and Q3, but sales bounced back in Q4 as we established new ways of working. Our customers' operations were similarly affected but the passage of time has and should continue to see more consistency.

The pandemic's effect on some business sectors, such as tourism, reduced online advertising mid-2020 and thus lowered our major customers' main source of revenue. Despite advertising bouncing back later in the year, we saw less spending on our advertising-related AI programs as well as a re-prioritisation of spend to new product development as our customers build less reliance on advertising. Fortunately, we're involved in many of these new projects, but they are earlier in their life cycle than the ad programs and hence our 2020 revenue was impacted overall. We expect the new projects to grow and complement our major programs through 2021.

A few of our customers deferred programs amidst the uncertainty of the pandemic, including some major projects late in the year, which also impacted our 2020 revenue. We have seen the majority of these programs return in 2021.

Our market is dynamic and we, along with our customers, are responding to important issues that include trust, safety and data privacy. This may impact us as well, but it could also give us opportunities to support our customers in this changing environment.

Our focus in 2021 remains firmly on our customers. Providing high-quality data and services for our existing and recently won customers sets us up for expansion opportunities. Our more experienced sales teams and healthy pipeline will enable further new customer acquisition. The pace of AI adoption and use case proliferation will also drive continuing demand for high-quality training data.

Our technology is at the forefront of our work in 2021. The growing feature set, scalability and security of our platform will help us to win more customers, and our annotation tools, including AI-enabled automatic labelling, will improve the speed and quality of data provision and yield greater productivity of our crowd.

We will continue to support and grow our crowd. They are essential and valuable contributors to our business, and we strive to lead the way on the ethical and fair treatment of crowd workers.

“ Our growth has been underpinned by the ongoing demand for high-quality training data for AI, principally from our major customers, the world's largest technology companies, but also from many new customers.”

Our customers highly value our deep expertise in the AI training data market. We are the largest provider of high-quality data at scale, and in 2021 we will reach our 25th year in operation. Our team of training data experts continues to deliver huge value to our customers.

We have new challenges to navigate in 2021, including a strong Australian dollar, the pace of the economic recovery post-COVID, the evolving regulatory environment facing our major customers and their transition into new products.

We remain very optimistic however, due to the strong tailwinds of the AI market, our position as the largest in our market, the strength of our capabilities and technology and our proven ability to evolve with our customers' needs.

I'd like to recognise all of my colleagues at Appen. Despite the many challenges of 2020, they were unwavering in their hard work and support of our customers, our mission and each other. They deserve our heartfelt thanks.

Thank you for your ongoing support. We look forward to a strong and successful 2021.

**Mark Brayan**  
CEO

# Our competitive advantage



## Industry-leading technology

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- Our platform and tools support data collection, annotation and testing, and cover all the main data modalities.
- AI-driven automation is used in the annotation process to increase speed, scale and productivity.
- Quality controls are built-in.
- Multiple security options are provided to protect customers' data, including secure work-from-home annotation technology.



## Crowd scale and flexibility

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- On-demand access to scalable and responsive crowd of 1 million+ crowd contractors.
- Diversity of crowd across 170+ countries and supporting 235 languages enables high-quality outcomes and edge-case projects, and reduces bias.
- Ability to recruit contributors with specialist expertise.
- On-site annotation in secure facilities for confidential data handling.



## Customer focused

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- Highly flexible offering – tailored to meet customer and project requirements.
- Pre-labelled datasets to jumpstart models and to supplement customers' data.
- Self-service options for customers with experience in data labelling.
- Fully managed services where our experts manage the annotation process.



## Deep expertise

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- 20+ years of experience as a pure-play training data provider.
- Dedicated teams of subject matter experts including linguists, quality experts, project managers and machine learning specialists.
- Broad and deep practical experience across data types and use cases.
- Involved in each stage of the training data process.



## Quality and reliability

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- Long-standing trusted relationships with the world's largest technology companies.
- Proven ability to scale to meet production needs and to achieve very high benchmarks for data quality.
- Strong track record of enabling successful AI deployment.



# Our strategic priorities

Our goals are to delight customers, have happy crowd contractors, make Appen a great place to work, be a responsible citizen and deliver strong performance for shareholders.

## Our focus areas

### Tech-enabled operations

#### Annotation technology

We are investing in engineering to ensure that our annotation platform and tools evolve to support a growing range of use cases and customers. A product-centric offering also enables us to increase our committed revenue.

#### Increased productivity

We continue to invest in technology that improves crowd productivity, training data quality and our unit economics. This includes machine learning assisted annotation and AI-driven predictive matching of skilled annotators to relevant projects.

### Delivering growth

#### New customers

We support the world's largest technology companies to build industry-leading AI applications. The AI market is also growing outside of this base and we are evolving our products, services, and commercial presence to support new customers on their AI journeys.

#### New markets

We have built dedicated operations and products to serve the high growth markets of China and Government. Our commercial teams are focused on other high-priority areas including autonomous vehicles, financial services, Europe and Asia-Pacific.

# How we create value

## Value drivers



### Global crowd

Our skilled and flexible crowd of 1 million+ contractors lives in 170+ countries and speaks 235 languages. ▶ [See page 22.](#)



### Appen employees

We have 1,125 experienced employees with deep industry expertise based in 14 locations globally. ▶ [See page 24.](#)



### Technology, processes, systems

Our industry-leading technology, processes and systems deliver high-quality outcomes for customers and drive business productivity. ▶ [See page 26.](#)



### Customer and brand

Over 20+ years we have built trusted relationships and a reputation for quality and service excellence. ▶ [See page 28.](#)



### Financial

Our financial performance supports strategic execution, shareholder returns and investment in growth. ▶ [See page 30.](#)



### Social and environment

We manage our social and environmental impacts and look for ways to make a positive contribution. ▶ [See page 32.](#)

## Market drivers, societal trends

Growth in AI investment and applications

Digital disruption, new digital business models

Growth in the freelance economy and remote work

Responsible labour practices

Supply chain management

Ethical AI

Data privacy and security

▶ [See pages 38-43.](#)



## The United Nations Sustainable Development Goals (SDGs) we contribute to:



## Business activities

Data collection, annotation and testing at scale

Technology and tools for data annotation

Crowd management

Managed services for customers

## Value created

### Crowd and employees

We provide flexible, work-from-home opportunities to our global crowd of 1 million+ contractors. We are committed to treating our crowd fairly in accordance with our Crowd Code of Ethics. We make Appen a great place to work for our 1,125 employees by providing opportunities for development and an inclusive environment.

### Customers

By providing high-quality training data at scale we help our customers to create and launch innovative products and services, accelerate their time to market, improve the user experience for their customers, and increase their productivity and efficiency.

### Shareholders

We continue to grow the business and to deliver increased revenue and earnings to support returns for shareholders. We are investing in new markets and technology to deliver additional growth and productivity. Our focus on our strategy and business value drivers underpins our strong financial performance and creates sustainable long-term value for shareholders.

### Society

By providing training data that is responsibly sourced from a diverse crowd of human annotators, we help to make AI ethical and fair to ensure that it delivers appropriate and equitable results for end users. We also play a role in enabling AI that delivers benefits to society, through innovative products and services and more efficient allocation of natural resources.



# Global crowd

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

## Engagement and productivity

Our crowd is most engaged and productive when doing interesting work that aligns with their skills. We have invested in AI-driven smart matching technology that connects crowd contractors with projects aligned with their personal attributes and with tasks they've completed successfully in the past. This supports higher satisfaction and productivity and better data quality. The improvements we have made to improve our crowd workers' experience are reflected in our Crowd Net Promoter Score (NPS) which has increased over the last two years.

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



## 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, when, where and as much as they choose. This year, we received a record number of new contractor applications as people sought to earn an income from home during COVID-related lockdowns. This has further added to the diversity of our crowd, and to the depth and breadth of our contractor skill base. To improve the onboarding experience we have been investing in our Appen Connect technology platform which enables recruitment and contractor management at scale.

## 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.



1m+

crowd contractors



70k+

crowd contractors paid each month

### 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.



## Crowd care

We are committed to the fair and ethical treatment of our contractors, and to their wellbeing. In addition to it being the right thing to do, we believe it is an important strategic differentiator for our business as our customers seek to ensure that their partners stand for responsible and sustainable labour and supply chain practices.

Our position is stated in our Crowd Code of Ethics. This 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.

Our Global Ethical Sourcing and Modern Slavery Policy outlines what we expect of our suppliers, and our contractors are also covered by our Whistleblower and Speak Up Policy.

This year, we established a new Crowd Care Team to improve the experience for our contributors. We listened to their feedback and analysed key crowd support performance metrics. In response, we have developed new crowd-focused policies and processes and improved our communication.

## 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 crowd's PII is trained on the proper handling of this information and the critical importance of adhering to our data protection processes.

## Outlook

In 2021, 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. Together with the work our Crowd Care team is doing to improve communications, we believe this will deliver increased productivity, engagement and satisfaction for our crowd.



Image courtesy of cLabs, Toca.

## Creating opportunities

Appen has partnered with cLabs, Kotani Pay, Mercy Corps and NairoBits to pilot a project that extends the economic benefits of digital microwork to low-income and unemployed young people in Kenya.

Over 200 participants are being trained to access digital microwork via the Toca mobile app. The project leverages digital stablecoins, mobile wallets, and the ubiquity of mobile phones.

## 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 consent.
- ▶ **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

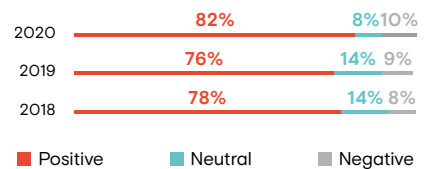
The Code of Ethics shows our dedication to the wellbeing of our crowd. The Statement is available at: [appen.com/crowd-wellness/](https://appen.com/crowd-wellness/)



# Appen employees

We have 1,125 employees with deep industry expertise based in 14 locations globally. Their experience and commitment to our customers, crowd, colleagues and values make Appen a great team.

## Employee engagement <sup>2</sup>



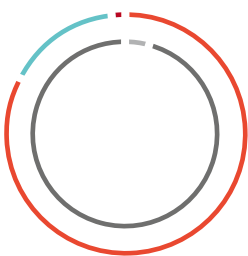
## Values and culture

As the company has grown significantly in recent years, both organically and through acquisitions, we have been focused on ensuring that all our employees understand our values. The feedback from our employee engagement survey indicates that our people feel that we live our mission, vision and values.



Our employees have, however, reported finding it difficult to achieve work-life balance when working from home due to COVID-19. To help alleviate these pressures we are adding resources in areas facing high workloads and investing in technology to improve internal processes and efficiency. We are also working on initiatives that will help our people thrive as we move to a hybrid home-office environment.

1,125 employees  
(+44% on 2019)



Permanent	938	Part time	47
Fixed term	180	Full time	1,078
Casual	7		

## Priority SDGs



## Making Appen a great place to work

We operate in a high growth and competitive market and we work with companies that are at the leading edge of AI innovation. This gives our people opportunities for challenging work in an environment that is conducive to professional and personal development.

Our goal is to make Appen a great place to work. We were therefore pleased to see a notable increase in employee engagement in 2020, despite the disruption caused by the pandemic. The overall engagement score was 82%, an increase of six percentage points on 2019.

81% of respondents also said they would recommend Appen as a great place to work, an increase of nine percentage points on 2019, and significantly higher than the industry benchmark of 70%.<sup>1</sup>

1 Aon Hewitt 2019.

2 Appen Employee Engagement Survey, November–December 2020.

## Diversity and inclusion

We employ a hugely diverse group of people across our global operations. Our inclusive practices are guided by our Diversity Policy which focuses on increasing gender and ethnic diversity amongst employees, in senior management and on the Board.

The Board has set a target of 30% female representation at all senior leadership levels. Management has implemented a range of 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	
	2020	2019
Total workforce	58	58
Board Director	43	33
Executive Team/SVP	13	13
Vice President	25	30
Senior Director	50	-
Director	60	66
Manager	61	68

This year, a Diversity and Inclusion Committee was established to foster 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 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.

## Outlook

In 2021, 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. Our Employee Ambassadors are also developing business unit specific plans.



## 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.



# 29,380

total training hours  
(1 February–31 December 2020)

## A safe place to work

This year, our top priority was to ensure that our employees were safe and well. We established a COVID-19 Response Team to put appropriate safety protocols and policies in place for all our workplaces and set up an online COVID-19 information and resource hub.

We also have a range of policies and processes in place to protect our employees' health and safety and to promote respectful conduct. These include our Work Health and Safety Policy, our Workplace Anti-Discrimination and Harassment Policy, our Code of Conduct and our Whistleblower and Speak Up Policy.

In 2020, we had 105 whistleblower and speak up cases from reporters including our crowd and employees. Four people had their employment terminated on the grounds of serious misconduct.

The lost time injury frequency rate for our Australian operations was zero.



Value drivers

# Technology, processes, systems

Our technology, processes and systems enable us to deliver high-quality outcomes for customers. Technology also supports crowd and employee satisfaction, product and revenue growth, as well as productivity and margin expansion.

Our workspace connects with customers' systems through application programming interfaces (APIs) and allows integration with their real-time data pipelines. In 2020, we released 'AI Workflow' which removes manual handling of data and enables sequencing of human and machine learning operations for complex use cases.

## Crowd management

We manage large scale, complex annotation and data collection programs for our customers, typically involving 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 contractors to jobs, and to track quality. In 2020, we added AI-driven predictive matching functionality that connects contractors to tasks according to their skills and expertise.

## Tech-led productivity

By applying machine learning based automation to our systems and processes, we can increase data output, achieve productivity gains for our customers and our business, and improve customer and crowd satisfaction. Our experience to-date shows that use of automation translates to efficiency gains of 88% in automatic speech recognition and 92% in semantic image segmentation. It can also result in 3-6x faster completion of LiDAR annotation and optical character recognition (OCR) for document transcription.

## Annotation platform and tools

Our platform and tools support at-scale data collection and annotation across data types including text, audio, image and video. They also support a broad range of use cases, from content relevance to computer vision and speech and language. Quality control and monitoring are built-in. In 2020, we added three-dimensional point cloud functionality to support light detection and ranging (LiDAR) annotation. We also added AI-assisted annotation for specific project types that greatly improves crowd productivity.

## Client workspace

Our self-service workspace is used by our customers' data scientists to design tasks and workflows. It allows them to interact with our crowd and manage data preparation and labelled training data.



99.98%

Annotation platform system availability in 2020

4 of 5

major global technology customers use our annotation platform

Priority SDG





## System and data security

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

Mandatory security awareness training is provided to employees and regular synthetic phishing tests are conducted to ensure they are aware of the threats and their responsibilities. The training is also being rolled out to independent contractors based on requirements.

We provide customers with a range of secure technology solutions. Our SaaS customers can keep 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.

Where customers have elevated data security requirements, they 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.

## Cyber security

Our cyber security risk management framework is based on internationally recognised 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 are ISO 27001 and SOC 2 certified.

## 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.

## Mobile app for anytime, anywhere

**We have launched a new mobile app that 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.

## 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.

In 2020, there was one data privacy incident relating to unauthorised access to Appen's systems. Appropriate measures were taken to quickly contain and report the incident and remedial actions have been taken to remove the root cause.<sup>1</sup> There was one privacy complaint that has been resolved.<sup>2</sup>

## Outlook

In 2021, we will continue to invest in machine learning and engineering to bring automation into our production environment. In addition to pursuing increased data output speeds and quality, we will be investing to enhance user experience, tool and platform functionality and project management productivity. We will also continue to improve our security profile and processes to ensure we maintain a robust security environment.

<sup>1</sup> 'Incident' means a known, material, and publicly reported privacy incident involving unauthorised access, disclosure, or loss of personal data in Appen's custody or control. See ASX Announcement, Appen Advises of IT Security Incident, 30 July 2020.

<sup>2</sup> 'Complaint' means a known formal complaint submitted to an applicable authority specifying Appen's alleged failure to comply with applicable data privacy laws.



# Customer and brand

Over 20+ years, we have built trusted relationships with our customers and a reputation for service excellence that we work hard to uphold. These relationships are founded on our ability to deliver high-quality training data at scale.

## Growing our customer base

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

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 organisations we are evolving our products, services and 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 two high-potential markets. We also have many commercial and enterprise customers around the world whom we serve through dedicated sales teams in the US, UK, mainland Europe, Japan and Australia.

In 2020, we worked with 136 new organisations from industries including financial services, automotive, e-commerce, healthcare, logistics, shipping, food and retail. This was driven by our investment in sales and marketing and demonstrates the applicability of our technology and crowd capabilities to a wide range of use cases.

We also now create and curate open source datasets and provide more than 250 licensable off-the-shelf datasets across 80 languages to support a wide variety of common AI use cases.

## Customers value our expertise

We have the leading position in AI training data due to the breadth of our services and the depth of our expertise. We provide customers with access to our 1 million+ crowd and our annotation platform. We support all data modalities and serve customers' data collection, annotation and relevance needs. We also have a long track record of helping our customers deploy AI in the real world.

We provide flexible services and cater to customers with different levels of requirements and experience. Where customers want end-to-end training data services we can manage the project and the crowd. Other customers with training data expertise can choose to administer jobs on our platform directly. As customers increasingly use our annotation platform we become an integral part of their workflow and increase our annual contract revenue.



136

new customers in 2020



931m

relevance judgements

2.9m

images and videos collected

Priority SDG





## 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 journey 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 2020, we held a 'Launching AI in the Real World' virtual roundtable series, featuring our internal subject matter experts together with customers and partners.

We also recently published the 'Embracing Responsible AI from Pilot to Production' e-book to help organisations understand the importance of high-quality and unbiased training data to the delivery of high-performing and responsible AI.



To access our AI Resource Centre see: [appen.com/resources](https://appen.com/resources)

## Brand and reputation

In 2020, we completed the integration of Figure Eight and relaunched a refreshed Appen brand that builds on the brand equity in both businesses.

In our recent survey of 200+ training data decision makers, we found that 90% of those who know us had a 'very favourable' opinion of Appen. They also strongly agreed with the following statements:

- Appen provides reliable training data
- Appen provides quality training data

Three-quarters of those who know Appen also said that the Crowd Code of Ethics is an important factor in considering our services and products.

## Contactless fast food with AI

**As a result of the pandemic, fast food restaurants have been looking for new ways to serve food in a way that is hygienic and safe for their customers and employees. This has accelerated demand for voice-enabled services that eliminate touchscreens and enable social distancing.**

To ensure their customers continue to receive great service, a global fast-food company has partnered with Appen to improve the Automatic Speech Recognition (ASR) technology used in their drive-through kiosks.

By providing large volumes of high-quality transcribed audio data, we have helped to train their ASR models to ignore the ambient noise associated with drive-throughs and to respond to customer requests in multiple languages. This has resulted in safe and streamlined ordering, faster delivery and improved service for customers.



## Outlook

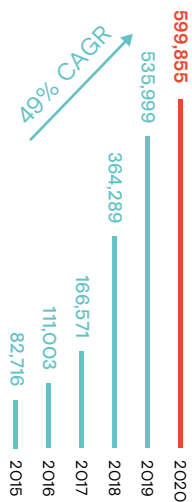
We will continue to leverage our sales and marketing capabilities to strengthen our relationships with existing customers and to grow our presence in new industries and markets. The importance of deep expertise to high-quality training data will be a major part of our 2021 go-to-market, highlighting our clear competitive advantage in this area.

# Financial

Revenue

**\$599.9m**

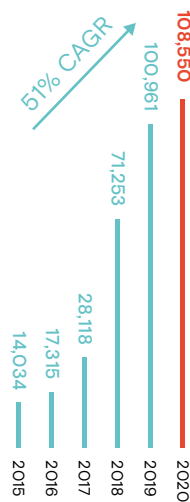
(A\$'000)



Underlying EBITDA<sup>1</sup>

**\$108.6m**

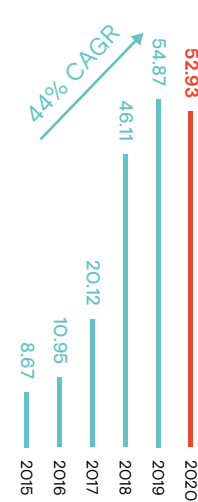
(A\$'000)



Underlying basic EPS<sup>1</sup>

**52.93¢**

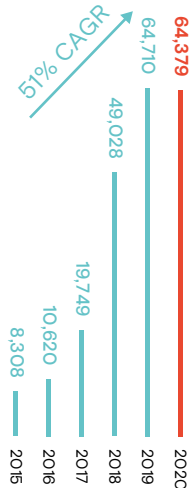
(A¢)



Underlying NPAT<sup>1</sup>

**\$64.4m**

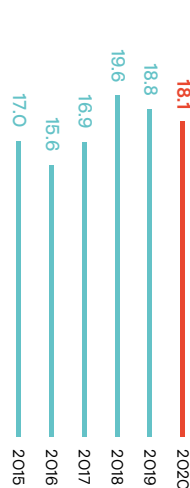
(A\$'000)



Underlying EBITDA margin<sup>1</sup>

**18.1%**

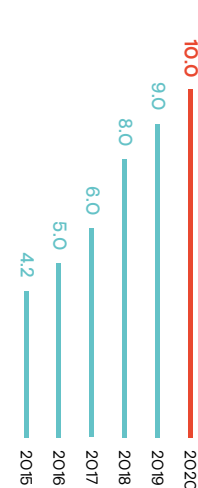
(%)



Dividend (full year)

**10.0¢**

(A¢)



<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, transaction costs and fair-value adjustments. Underlying NPAT and EPS also exclude deemed interest on acquisition related earn-out payments.





Our financial results reflect our continued growth and the strength and resilience of our customer relationships, crowd model and service delivery capabilities. Our balance sheet also continued to strengthen, and we ended the year well-positioned to pursue further growth and opportunities.

### Financial performance highlights

**Revenue and other income increased 12% to \$599.9 million.** Strong growth in the first half of the year was primarily driven by an increase in existing and new Relevance projects with existing customers. In the second half, revenue growth was impacted by changes in our major customers' activities and priorities in response to COVID-19. As most of our sales are in US dollars, the stronger Australian dollar in the second half impacted our AUD reported revenue.

Increasing annual contract value (ACV) is a key focus as we seek to increase revenue from our data annotation platform services for new and existing customers. Four of our five major customers use the platform for a variety of projects, and we believe the number and scope of projects will increase as the platform becomes integrated into customers' workflow. ACV as at 1 February 2021 was US\$124 million, up from US\$25 million at the end of 2019.

Revenue by operating division:

**Relevance** revenue was \$538.2 million, up 15%, as our customers continued to require high-quality annotated data to build, train and maintain the performance of their search engines, social media and e-commerce applications.

**Speech & Image** revenue was \$61.2 million, down 10%, as these activities are more dependent on customer timing and investment and product life cycles. The pandemic resulted in some projects being delayed or cancelled and it also impacted our ability to win new customers. Speech & Image includes products and services for AI-based voice interface, translation, text analysis, AR/VR, and image perception systems including LiDAR for autonomous vehicles.

**Underlying EBITDA increased 8% to \$108.6 million.** This reflected the significant investments made during the year to drive future growth – including

in sales and marketing, technology, and our China and Government businesses. Expenses were tightly managed, but margins ended slightly lower at 18.1%, down from 18.8%, as a result of the growth investments.

**Underlying NPAT was 1% lower at \$64.4 million.** Profit was impacted by the strategic growth investments and higher amortisation which reflects our continued investment in engineering and technology to drive growth and efficiency and to enhance our competitive positioning.

**The balance sheet continued to grow.** Net assets increased to \$485.9 million despite the strong exchange rate that applied at 31 December 2020. Cash on hand increased to \$78.4 million after the full repayment of debt, growth investments and increased dividend and tax payments.

**The full year dividend was 10 cents, up 11%.** Both the interim dividend of 4.5 cents per share and the final dividend of 5.5 cents were 50% franked.

**Cash flow remained strong.** Cash flow from operations increased 39% and cash conversion from EBITDA was 104%.

Share price appreciation since listing<sup>1</sup>

↑ 4,838%

Appen

↑ 21%

ASX 100

↑ 23%

ASX 200

<sup>1</sup> 7 January 2015 to 31 December 2020.

## Outlook

**Our financial performance continues to support execution of our strategy, investment in growth and shareholder returns.**

We are well-positioned to take advantage of the growing demand for high-quality training data as organisations globally increase their adoption of AI.

As economic recovery remains uncertain and uneven in 2021 we expect that customers will closely scrutinise their spending and investment plans. Changes to the regulatory environment may also see customers shift priorities into new product development areas that will take time to grow.

In 2021, we will leverage our investments in sales and marketing, technology, China and Government, as well as our customer relationships and deep expertise, to deliver more customer and project wins, higher ACV and greater productivity.

► For more detailed information on our financial performance see the Directors' report pages 51–54 and the Financial report pages 73–127.



# Social and environment

As a global company with an important role in the development of AI technology, we have a responsibility to manage our impacts on society and the environment. We also look for ways to make a positive contribution.

## Modern slavery and human rights

We consider the salient human rights and labour risks associated with our business and work to understand and manage the risks of modern slavery and human rights abuses in our supply chain. Our Global Ethical Sourcing and Modern Slavery Policy sets out our expectations of our suppliers including: no forced labour; fair employment, working hours and conditions; freedom of association; freedom from discrimination and harassment; and whistleblower protections.

## Achieving fair AI

When an AI product is deployed in the real world it must be effective and safe and deliver equitable results for all users. It requires that fairness and risks of bias are considered at all points of the development life cycle. This starts with having high-quality comprehensive AI training data. We help our customers to incorporate fairness and minimise bias by providing responsibly sourced training data from our diverse and skilled global crowd of data annotators.

## Creating responsible AI standards with the World Economic Forum

In August 2020, we announced our multi-year partnership with the World Economic Forum (WEF) to design standards and best practices for responsible training data when building machine learning and artificial intelligence applications.

The aim is to improve quality, efficiency, transparency and responsibility for AI projects while promoting inclusivity and collaboration. Adoption of these standards by the technology community will help to increase the community's trust in AI and the value of AI for businesses. We are also working with WEF to increase awareness of the importance of fair AI throughout the supply chain.



To learn more about our partnership with the World Economic Forum see: [appen.com/wef](https://www.appen.com/wef)

## Priority SDGs



### Good business practice

Doing business responsibly and sustainably is key to our ability to create value for our stakeholders over the long term.

Our Code of Conduct prescribes the standards of professionalism, integrity, honesty and ethical behaviour we expect in our business, of our people and in our interactions with all stakeholders. 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.

### Inclusive hiring practices

We are an active supporter of people with disabilities. During the year, we had 78 people with partial and hearing impairment supporting image annotation work in our facility in the Philippines. We have been recognised by The Philippine Council of Organizations on Disability and Empowerment for hiring and promoting diversity and inclusion in the workplace.

### Removing traditional barriers to work

Removing traditional barriers to work is a key differentiator of our business model. This has guided our membership of the Global Impact Sourcing Coalition which works to provide career development opportunities to people who otherwise have limited employment prospects.

By hiring crowd contractors from communities that lack employment options, our goal is to help them achieve self-sufficiency through income growth, skill development and professional advancement. This approach helps lift families and communities out of poverty and enables us to access more diverse pools of talent.



## Machine translation to help fight COVID-19

**In 2020, health organisations around the world needed to deliver urgent COVID-19 related health and safety guidelines to diverse populations in their native languages. To do that, they needed access to accurate and high-quality translations of COVID-19 related terminology.**

To make this information globally accessible and equitable, Appen joined with other large data companies like Amazon, Facebook, Google and Microsoft to work with Translators without Borders on sourcing and annotating relevant data for 38 languages. The focus was on under-resourced languages spoken in communities that are considered most susceptible to the spread of the virus.

As a result of the initiative, translated datasets of 70,000 key COVID-19 terms and phrases are being made publicly accessible for translation professionals and for training state-of-the-art machine translation models.

► To learn more about the Translation Initiative for COVID-19 see: [tico-19.github.io](https://tico-19.github.io)

### Recognition

Appen has received a Business Intelligence Group Innovation Award for our global crowd expertise and 2020 partnership with Translators without Borders on TICO-19



## Outlook

In 2021, we are scaling up our impact sourcing activities and will continue our work with the World Economic Forum on responsible AI. The steps we are taking to identify, manage and mitigate modern slavery risks and human rights abuses in our operations and supply chain will be included in our Modern Slavery Statement which will be released by June 2021 as required under the *Modern Slavery Act 2018* (Cth).

# Social and environment

Climate change poses major risks to our environment, society and economy. We are therefore committed to playing our part in limiting climate change in line with the goals of the Paris Agreement and supporting the transition to net zero emissions by 2050.

## Priority SDGs



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

### Governance

Our environmental and climate change commitments are outlined in our Environment Position Statement. The Board of Directors is responsible for considering the environmental impacts of our activities, setting standards, and monitoring compliance with our sustainability policies and practices. The Board also oversees the management of climate change related risks and opportunities and approves climate change related disclosures.

The Audit and Risk Management Committee is responsible for considering environmental and climate change risk, making recommendations to Board, and ensuring that management is effectively managing the risks.

### Strategy

In determining our strategic response to climate change, we have considered our environmental footprint and the physical and transition risks posed to our business, as well as the opportunities that the transition to a low carbon economy creates.

As our major global technology customers have committed to net zero emissions in their supply chains, taking a proactive and responsible approach on climate change is also strategically important to our business.



See our Environment Position Statement at: [appen.com/environment-social-and-governance/](https://appen.com/environment-social-and-governance/)

The Board and Audit and Risk Management Committee Charters are available at: [appen.com/corporate-governance/](https://appen.com/corporate-governance/)

### Environmental footprint

As our core business is data annotation, we have a relatively small environmental impact within our own operations. We are committed to 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

### Physical and transition risks

Our analysis indicates that we do not face material risks from the physical impacts of climate change, given the dispersed nature of our data annotation activities and operations. Where we have offices or facilities in areas that are subject to extreme weather events, such as the Philippines, we manage and will keep under review the potential risks in the context of our business continuity and disaster recovery plans. We also do not have material indirect exposure to physical risk through potential impacts to our customers or suppliers, due to the nature and diversity of their core businesses and their wide geographic distribution.

As a technology company, our primary transition risks relate to our reliance on electricity to power our operations and our customers' requirements for 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.

### Opportunities

We believe that 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.

### Risk management

We assess and manage 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

To more accurately measure and assess how we manage our environmental footprint, we are developing an environment management system (EMS) that formalises our processes and practices. We intend to use the EMS to further increase our operational efficiency by enabling us to measure our impact, set targets and report our progress.



## Keeping energy flowing

Early detection of solar panel defects keeps solar farms running efficiently. By applying computer vision to drone aerial imagery and by providing training data that enables machine learning models to identify defects, we help to maintain the supply of renewable energy.

# Identifying and managing risk

Comprehensive risk management is necessary for Appen to meet its strategic objectives. The main objective of our risk management framework is to provide a 'decision support' approach to ensure equal consideration of risk and opportunity.

## 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 regrouped our principal risks to better reflect changes in our risk priorities and focus areas – see [pages 38–43](#) for our key risks. Specifically, data management has now become a standalone category. Within these principal risks, the majority have increased during the year, primarily as a result of external factors such as the coronavirus pandemic and geopolitical instability in the markets Appen operates in.

## COVID-19 related risks

COVID-19 has had an impact across a number of our principal risks in the year, even though the resilience and flexibility of our work-from-home crowd model meant that our delivery of high-quality outcomes for our customers was not interrupted.

The ongoing uncertainty and threat to our employees required that we quickly develop new workplace practices. This included forming a COVID-19 Response Team with responsibility for overseeing our global response to the pandemic, monitoring the landscape and ensuring the safety of our staff. Response plans were put into place quickly and our business model and technology investments, such as the Secure Workspace, facilitated a smooth transition to at-home work for employees.

We continue to engage with our teams to ensure their ongoing health and safety and we have plans in place for phased returns to the office in a COVID-safe manner, once the risk to our employees is determined as sufficiently low.

## 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.

## ESG and climate change risks

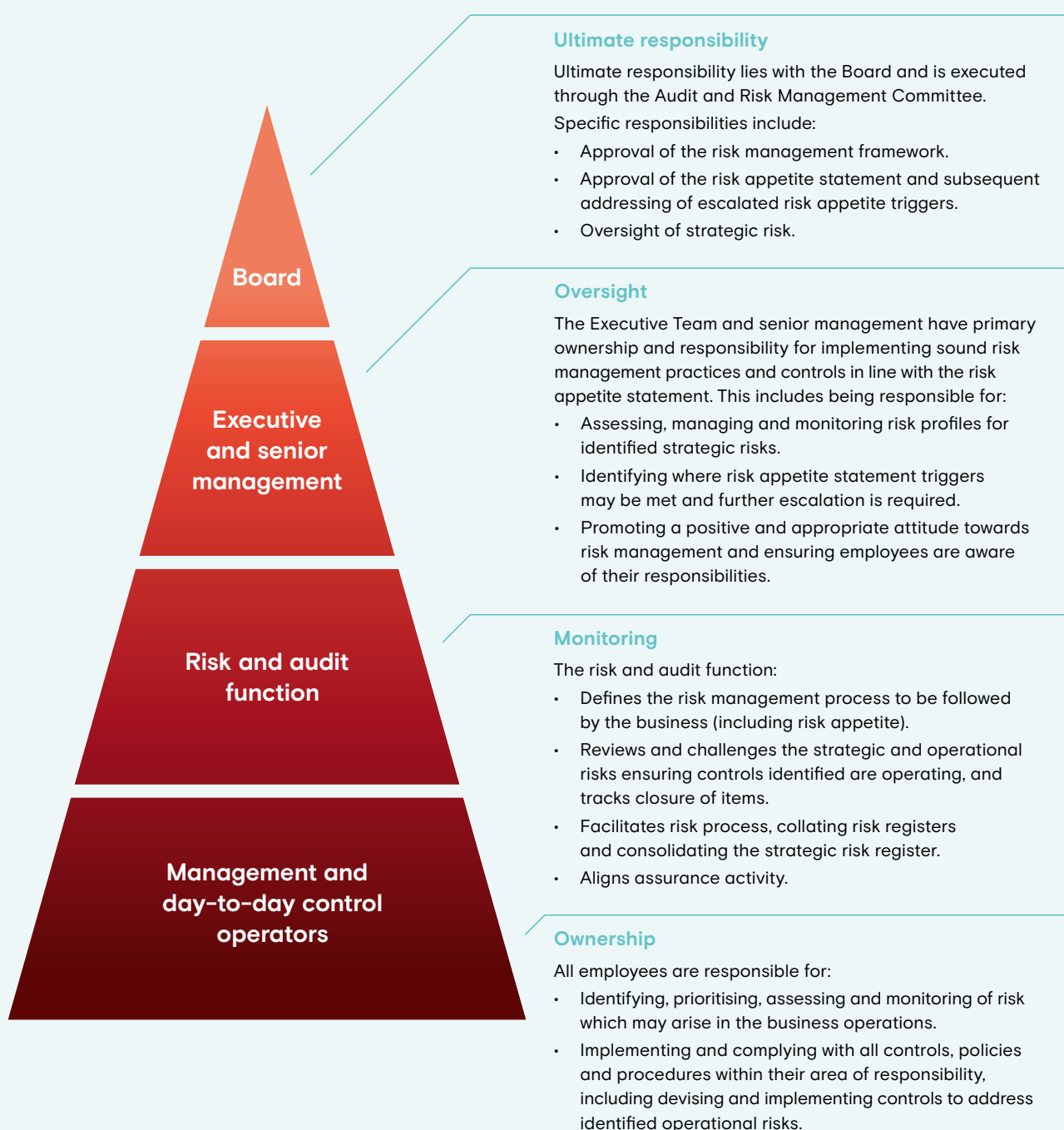
Environmental, social and governance (ESG) risks, including climate change, are not reported as a separate principal risk. Rather, specific ESG risks are considered within the operational risks that impact our reported principal risks.

Climate change risk is included in our risk analysis both from the perspective of the risks to our business and to our customers. We consider physical risks in the context of business continuity and disaster recovery risks where we have operations in areas that are subject to extreme weather events. We also consider the transition risks, including for our customers. Our approach is detailed in our Task Force on Climate-related Financial Disclosures on [page 34](#).

In addition, ESG risks are considered as part of our emerging risk analysis to ensure new ESG risks are captured.

## Risk management framework










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. Risk management is the responsibility of all employees and risk and control processes are integrated into day-to-day responsibilities.



# Identifying and managing risk

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 2020. 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	Change	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>▲ This risk has increased as a result of ongoing uncertainty in the wider geopolitical environment, particularly in the US and China.</p>	<ul style="list-style-type: none"> <li>• Macroeconomic and geopolitical risks, including consideration of potential political uncertainty in certain markets and geographies, are actively factored into our strategic planning processes and investment activity.</li> <li>• We undertake ongoing horizon scanning to monitor potential policy, legal and regulatory developments that may impact our ability to operate in particular jurisdictions.</li> </ul>	 <p><b>Customer and brand</b></p>  <p><b>Social and environment</b></p>
<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 can be lumpy, and is significantly larger than the revenue from other clients. Clients can also reprioritise their AI projects and training data spend.</p>	<p>▲ This risk has trended upwards due to the impact of changes in the competitive, economic and regulatory environment for our larger customers.</p>	<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.</li> <li>• We continually improve our products and services 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.</li> <li>• We continue to focus on increasing committed revenue and bundled services to reduce our reliance on project-based work. The acquisition of Figure Eight has increased our annual contract value which was US\$124 million as at 1 February 2021, up from \$0 at the end of 2018.</li> </ul>	 <p><b>Customer and brand</b></p>  <p><b>Global crowd</b></p>  <p><b>Technology, processes, systems</b></p>  <p><b>Financial</b></p>
<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>	<p>▬ This risk has remained stable over the past year as there has been no material change in the competitive environment.</p>	<ul style="list-style-type: none"> <li>• We monitor new investments in the data annotation sector closely.</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 are less amenable to replication by machines or insourcing as they require a large-scale diverse crowd performing subjective human judgements.</li> </ul>	 <p><b>Customer and brand</b></p>  <p><b>Technology, processes, systems</b></p>  <p><b>Financial</b></p>





Principal risk	Change	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>	<p>▲ This risk has increased in the past year due to the increasing frequency of cyber attacks, extreme weather events, and potential impact on key individuals as a result of the coronavirus pandemic.</p>	<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.</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 have implemented robust COVID-safe work practices for our employees.</li> </ul>	 <b>Customer and brand</b>   <b>Technology, processes, systems</b>   <b>Social and environment</b>

## People





Principal risk	Change	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 motivating our talent.</p>	<p>▲ The transition to a work-from-home model for our employees was made quickly and easily. However, fatigue related to the ongoing work-from-home requirements, as well as uncertainty in some locations due to social unrest, has been challenging for our staff, resulting in an increase in this risk.</p>	<ul style="list-style-type: none"> <li>• Our HR department works closely with the business to understand the skills and capabilities required to deliver our business objectives and to ensure those needs are met.</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> </ul>	 <b>Appen employees</b>   <b>Social and environment</b>

**Key:** ▲ Increase ▼ Decrease = Stable





# Identifying and managing risk

Principal risk	Change	Mitigation	Value driver
<p><b>Managing organisation culture and leadership through change</b></p> <p>We have undertaken a series of global acquisitions and expansions which are reliant on key individuals to ensure successful integration and change.</p>	<p>▼ This risk has decreased in the year due to the finalisation of the integration of Figure Eight.</p>	<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>Our integration team is responsible for planning, executing, co-ordinating and controlling activities related to acquisitions.</li> <li>Where change is dependent on talent, we implement programs to ensure key employees receive tailored incentives.</li> <li>We conduct post-integration assessments to understand what could have been done better to ensure appropriate cultural integration.</li> </ul>	<p> <b>Appen employees</b></p> <p> <b>Technology, processes, systems</b></p>

## Technology and innovation

Principal risk	Change	Mitigation	Value driver
<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>	<p>▬ This risk has remained stable in the current year as we continued to invest and expand our engineering and innovation teams.</p>	<ul style="list-style-type: none"> <li>We are investing in our transformation program to improve both customer and crowd experiences, and to 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>
<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>▬ 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>	<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> <b>Technology, processes, systems</b></p> <p> <b>Customer and brand</b></p>





## Crowd

Principal risk	Change	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>	<p>▬ This risk remained stable in the current year. We are seeing customers begin to scrutinise and enforce minimum standards within their supply chains, including regarding minimum wage and wellness. This additional visibility has opened up conversations with customers to meet our minimum standards in line with our Crowd Code of Ethics.</p>	<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 are developing programs for high performing contractors to expand their skills.</li> <li>• We are members of the Global Impact Sourcing Coalition to provide career development opportunities for people who otherwise have limited prospects for formal employment.</li> </ul>	<p> <b>Global crowd</b></p> <p> <b>Customer and brand</b></p>
<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>	<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>	<ul style="list-style-type: none"> <li>• We have improved our crowd management platform to increase the efficiency of our contractor recruitment processes and to reduce the time taken to fill projects. We continue to invest in projects that further enhance the contractor experience and subsequent retention.</li> <li>• We have partnerships with sourcing agencies to increase our reach into difficult markets and to stimulate applicant interest.</li> <li>• Flexjobs ranked Appen as the number one remote work provider for 2020.</li> </ul>	<p> <b>Global crowd</b></p> <p> <b>Customer and brand</b></p>



Key: ▲ Increase    ▼ Decrease    ▬ Stable

# Identifying and managing risk

## Data management

Principal risk	Change	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>	<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 process.</p>	<ul style="list-style-type: none"> <li>• We continue to integrate security and privacy requirements into our systems and offerings by increasing the collaboration between our 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 as well as HIPAA compliant.</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 a standing agenda item for our IT Governance Steering Group which reports 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 customer information, increasing our exposure and susceptibility to cyber attacks. Cyber threats could lead to a loss of data or service interruption impacting customers and our reputation.</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>	<ul style="list-style-type: none"> <li>• We have implemented a cyber security risk management framework across the organisation. It includes the deployment of physical and technological security measures to identify, protect, detect and respond to information and cyber security risks. We have ISO 27001 and SOC 2 certification.</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>

## Support

Principal risk	Change	Mitigation	Value driver
<p><b>Financial sustainability</b></p> <p>We operate globally and our business can be affected by foreign exchange, changes in debt markets and tax obligations. As a listed entity we also have an obligation to protect shareholders' capital.</p>	<p>▲ Economic uncertainty due to COVID-19, a strengthening of the Australian dollar and changes in the US political landscape have resulted in an increase in this risk in the year.</p>	<ul style="list-style-type: none"> <li>We naturally hedge foreign exchange risk by paying for associated services in the same currency we receive revenue.</li> <li>We have a formal hedging policy to provide protection where we make payments in Australian dollars with US funds.</li> <li>We have expanded our 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> </ul>	<p> <b>Financial</b></p> <p> <b>Appen employees</b></p>
<p><b>Compliance with legal, statutory and ethical obligations</b></p> <p>We are a global business and have a responsibility to deliver against our legal, statutory and ethical obligations across a number of jurisdictions.</p>	<p>▲ This risk has increased due to increasing governance and compliance expectations from stakeholders as an ASX 100 company.</p>	<ul style="list-style-type: none"> <li>We maintain appropriate controls, governance and oversight.</li> <li>We understand the local labour and human rights landscapes in the jurisdictions we operate in, and ensure we comply with modern slavery requirements.</li> <li>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>	<p> <b>Social and environment</b></p> <p> <b>Financial</b></p> <p> <b>Appen employees</b></p>

**Key:** ▲ Increase ▼ Decrease = Stable

# Our approach to governance

The Board and management team maintain high standards of corporate governance as part of our commitment to create value for our 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 in light of 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 Nomination and Remuneration Committee.

## 2020 Board and Committee priorities

Key areas of governance focus and key activities undertaken by the Board, its Committees and management during 2020 included:

### Strategic and financial performance

- The Board and management held a deep dive strategy session focused on existing and new market growth and internal and contributor productivity.
- Key customer metrics were reviewed regularly.

### Appen employees

- Established a COVID-19 Response Team to define safety protocols for all offices and established an online internal portal to provide continuous updates on impacts to colleagues, the status of each office, and policies related to the situation.

- Established a Diversity and Inclusion Committee comprising Appen employees.

### 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

- Continued to focus on material non-financial risks including those relating to our crowd and remote workforce.
- Updated our Diversity Policy and approved a new Environment Position Statement.
- Made further progress on integrated reporting and increased disclosure and transparency on key ESG issues.

### Governance

- Reviewed and updated relevant governance policies, Charters and practices to reflect the 4th edition of the ASX Corporate Governance Principles.
- Key internal audit program focus areas included: reviewing and assessing processes across key operational areas; baselining Global Cyber Security practices; and reviewing process and controls around payroll, including a review of pay to relevant awards.

### Board renewal

- Appointed Vanessa Liu as a non-executive director based in the US.



## 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/)



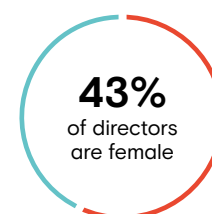
## Board skills and experience

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.	

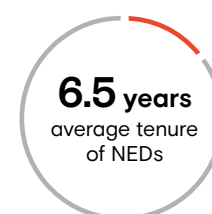
■ High competency and experience    ■ Medium competency and experience

### Board diversity



■ Male 57%  
■ Female 43%

### Director tenure



■ 0-1 year 14%  
■ 1-3 years 0%  
■ 3-5 years 0%  
■ 5+ years 86%

### International business experience



■ High competency and experience 6  
■ Medium competency and experience 1

### Director independence



■ Independent 5  
■ CEO 1  
■ Chairman 1

# Board of Directors



## Chris Vonwiller

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

### Non-Executive Chairman

**Appointed:** 14 August 2009

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

### Experience and expertise

Chris is the Non-Executive Chairman of Appen having formerly served as Appen CEO from 1999–2010. Prior to joining Appen, Chris 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.

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

Nil



## Mark Brayan

MBA, BSurv (Hons)

### Managing Director and 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 over thirty 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 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:** Member of the Nomination and Remuneration Committee

### Experience and expertise

Steve is currently President and CEO of Thomson Reuters, based in Toronto, Canada. Most recently, Steve 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 all of 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).





## 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 Nomination and Remuneration Committee

### Experience and expertise

Robin 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–present), IPH Limited (23 September 2014–present), Marley Spoon AG (29 January 2020–present).



## Vanessa Liu

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

### Independent Non-Executive Director

**Appointed:** 27 March 2020

**Board Committees:** Nil

### Experience and expertise

Vanessa has a deep understanding of emerging technology trends and enterprise uptake of artificial intelligence, especially in the US market. She is 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



## William Pulver

BCom (Marketing)

### Independent Non-Executive Director

**Appointed:** 19 April 2010

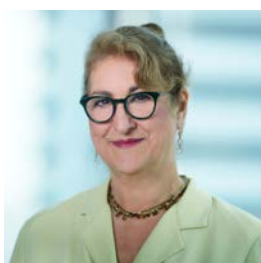
**Board Committees:** Chair of the Nomination and Remuneration Committee

### Experience and expertise

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.

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

Smartpay Holdings Limited (11 December 2018–present).



## 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, Chair of the Australian Broadband Advisory Council, and a Director of Infrastructure Australia.

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

Citadel Group (18 September 2014–31 January 2018), Chair of Marley Spoon AG (5 June 2018–present), Pro Medicus (1 August 2020–present).

# Executive Team

## Experience and expertise

### Mark Brayan



MBA, BSurv (Hons)

#### Managing Director & Chief Executive Officer

**Appointed:** July 2015

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

### Kevin Levine



BComm, BAcc

#### Chief Financial Officer

**Appointed:** January 2016

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.

### Jon Kondo



MBA, BA

#### SVP, Sales and Marketing

**Appointed:** July 2019

Jon's responsibilities include leading the global sales and marketing teams and ensuring strong alignment to deliver continued customer value and revenue performance. He has a strong background in data, technology, and customer-focused leadership and has over 30 years of sales and marketing experience with global big data companies and SaaS-based start-ups. Before joining Appen, Jon was co-founder and CEO of OpsPanda, a leading application for sales resource management that was acquired by Xactly. Additional leadership roles include Chief Revenue Officer at Replicon, CEO of Host Analytics, Group Vice President at Oracle and SVP & GM, Americas at Hyperion.

## Wilson Pang



MEng (ElecEng), BEng (ElecEng)

### Chief Technology Officer

**Appointed:** November 2018

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

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.

## Tom Sharkey



BSc (AeroEng)

### SVP, Client Services

**Appointed:** July 2018

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

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') 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 2020.

## Directors

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

Christopher Charles Vonwiller – Chairman

Mark Ronald Brayan – Managing Director and Chief Executive Officer

Stephen John Hasker

Vanessa Liu (appointed 27 March 2020)

Robin Jane Low

William Robert Pulver

Deena Robyn Shiff

## Principal activities

During the financial year the principal continuing activities of the Group consisted of the provision of quality data solutions and services for machine learning and artificial intelligence applications for global technology companies, auto manufacturers and government agencies.

Appen provides the following products and services:

- Relevance products and services provide annotated training data that is directly used as an input to improve the performance of the world's leading search engines, social media and e-commerce applications. Relevance training data relies heavily on our large-scale global crowd to deliver a workforce that is representative of our customers' global user base with the speed and volume of data to meet our customers' requirements.
- Speech & Image products and services provide training data that is used to build the world's leading AI-based voice interface, translation, text analysis, AR/VR and image perception systems (including LiDAR for autonomous vehicles). The combination of our leading data annotation platform, global crowd and deep functional expertise delivers high-quality training data at scale across a wide variety of industries and applications.

Supporting both products and services is a global on-demand crowd workforce providing customers with very flexible in-country linguistic and cultural expertise in support of 170+ global markets.

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

## Dividends

Dividends paid during the financial year to the shareholders of Appen Limited were as follows:

	Group	
	2020 \$'000	2019 \$'000
2019 final dividend of 5.0 cents per ordinary share (2019: 2018 final dividend of 4.0 cents)	6,082	4,264
2020 interim dividend of 4.5 cents per ordinary share (2019: 2019 interim dividend of 4.0 cents)	5,475	4,839
	11,557	9,103

## Dividend declared

On 24 February 2021, the Company declared a final dividend for the year ended 31 December 2020 of 5.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 2 March 2021 and the payment date is 19 March 2021. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2020 and will be recognised in subsequent financial periods.

## Operating and financial review

### Summary

2020 was another year of growth. Our financial performance, crowd model, major customers and service delivery capabilities remained resilient, despite the impacts of the COVID-19 pandemic and the strong Australian Dollar (AUD).

Total revenue and other income increased 12% to \$599,855,000 (2019: \$535,999,000). This comprised Relevance revenue of \$538,184,000, up 15% (2019: \$467,831,000) and Speech and Image revenue of \$61,193,000, down 10% (2019: \$67,683,000).

Revenue was impacted by the strong AUD in the second half of the financial year (H2 FY20) and by changes in our major customers' activities and priorities as a result of COVID-19 – covered below under 'Impact of the COVID-19 pandemic'. Converting H2 FY20 revenues at our forecast AUD/USD rate of 0.70 and the H1 FY20 actual rate of 0.6576, resulted in annual revenue growth of 14% and 17% respectively.

We are focused on growing the revenue we earn from our data annotation platform – acquired as part of the Figure Eight transaction in 2019 – as it enables us to increase annual contract value (ACV). Four of our five major customers use the platform for a variety of projects. Over time, we expect this will translate into new and expanded project wins across all data types, due to the platform's ability to streamline and automate the data collection and labelling process, whilst delivering scale and margin expansion. In 2020, we signed an enterprise-wide platform deal with one of our major customers for US\$80,000,000 which increased ACV to US\$98,700,000 as at 31 December 2020, up from US\$25,000,000 as at 31 December 2019. Due to the impact of COVID-19 on our smaller customers, ACV declined from the 30 June 2020 value of US\$103,000,000. However, we continue to gain good traction with larger customers and have renewed and expanded our major customer 2020 ACV contract, resulting in ACV of US\$124,400,000 as at 1 February 2021.

Cost of sales, composed mainly of payments to our crowd contractors, reduced as a percentage of revenue, as a result of customer and project mix, as well as efficiency benefits.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) (refer to the next page for the reconciliation of EBITDA to statutory profit) increased by 8% to \$108,550,000 (2019: \$100,961,000), which translated to a net margin of 18.1% (2019: 18.8%). Converting H2 FY20 underlying EBITDA at our forecast rate of AUD/USD of 0.70 and the H1 FY20 actual rate of 0.6576, resulted in annual growth of 10% and 15% respectively.

Our reduced margins were attributable to the significant incremental expenditure and resources deployed into key investment areas to drive future growth including:

- a 50% increase in sales and marketing investment in 2020 to expand our customer and project base beyond existing global technology customers into new industry verticals and regions; and
- a 117% increase in China investment to support growth in that market.

Our incremental investment in technology is normalising and was up 3% in 2020.

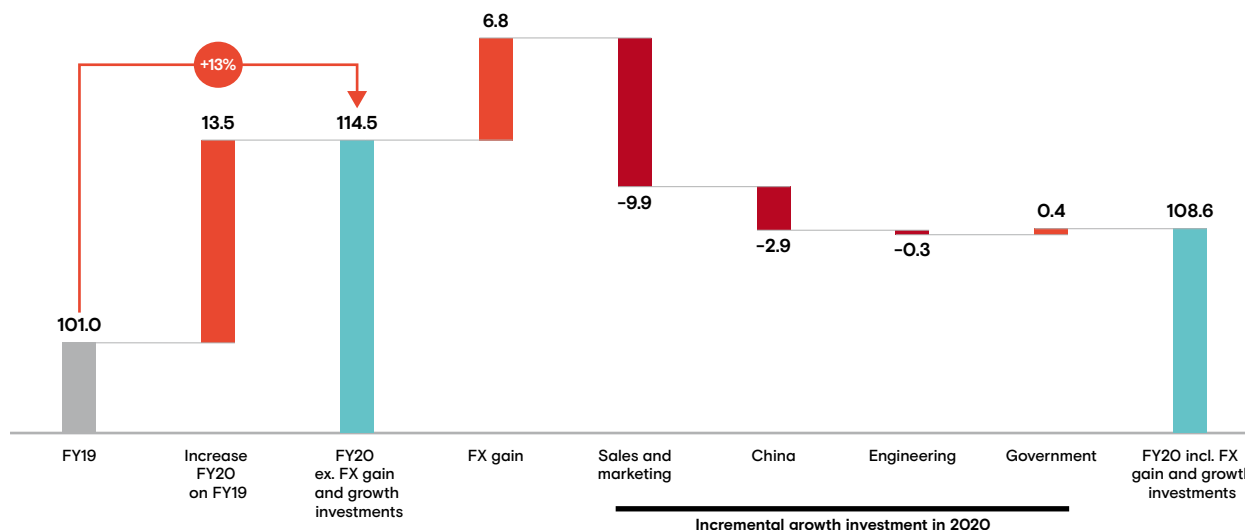
Underlying EBITDA included a foreign exchange (FX) gain of \$6,800,000, compared with a loss of \$100,000 in the prior year. The FX gain comprised a realised gain of \$4,700,000 on restatement of US dollar (US\$) denominated debt drawn to fund the Figure Eight earn-out payment (this accounted for most of the H1 FY20 FX gain of \$3,600,000), and a \$2,100,000 unrealised gain on restatement of the hedge book.

Excluding the impact of these incremental investments of \$12,700,000 and the FX gain, the core underlying EBITDA of \$114,500,000 was up 13% on the prior year.

Underlying net profit after tax (NPAT) was \$64,379,000 down 1% on the prior year, impacted by increased amortisation, as a result of continued investment in engineering and related developments to drive future growth and efficiency and to enhance competitive positioning.

The effective tax rate for FY20 was 20.5% mainly due to the tax effect relating to share based payments and the overseas tax rate differential.

### Underlying EBITDA (A\$m)



# Directors' report

for the year ended 31 December 2020

## Financial performance

The table below summarises the financial performance of the Group for the year.

	2020 \$'000	2019 \$'000	Change %	Percentage change constant currency %
Relevance	538,184	467,831	15%	14%
Speech & Image	61,193	67,683	(10%)	(11%)
Other	478	485		
<b>Total revenue and other income</b>	<b>599,855</b>	535,999	12%	11%
<b>Underlying net profit after tax (NPAT) <sup>1</sup></b>	<b>64,379</b>	64,710	(1%)	1%
<i>Add/(Less): underlying adjustments (net of tax)</i>				
Amortisation of acquisition related identifiable intangible assets	(11,449)	(10,174)		
Acquisition related share-based payments	(3,546)	(6,886)		
Deemed interest on earn out liability <sup>2</sup>	(975)	(2,426)		
Transaction costs	(818)	(5,453)		
Figure Eight earn out adjustment	2,923	1,840		
<b>Statutory NPAT</b>	<b>50,514</b>	41,611	21%	23%
Add: tax	13,016	13,444		
Add: deemed interest on earn out liability <sup>2</sup>	1,353	3,368		
Add: net interest expense	2,120	3,625		
<b>EBIT <sup>3</sup></b>	<b>67,003</b>	62,048	8%	9%
Add: depreciation and amortisation	40,908	25,864		
<b>Statutory EBITDA <sup>4</sup></b>	<b>107,911</b>	87,912	23%	23%
<i>Add/(less): underlying adjustments</i>				
Acquisition related share-based payments	3,546	8,156		
Figure Eight earn-out adjustment	(4,059)	(2,557)		
Transaction costs	1,152	7,450		
<b>Underlying EBITDA <sup>1</sup></b>	<b>108,550</b>	100,961	8%	8%
Statutory diluted earnings per share (cents)	40.85	34.60		
Underlying diluted earnings per share (cents)	52.06	53.80		
% Statutory EBITDA/Sales	18.0%	16.4%		
% Underlying EBITDA/Sales	18.1%	18.8%		
% Segment Profit/Sales:				
Relevance	20.9%	22.3%		
Speech & Image	20.3%	31.6%		

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.

2 Liability was settled during the year.

3 EBIT is defined as earnings before interest and tax.

4 EBITDA is EBIT before depreciation and amortisation.



# Directors' report

for the year ended 31 December 2020

Total revenue was up 12% to \$599,855,000 relative to the prior year. The Relevance division was the key driver, delivering revenue of \$538,184,000, up 15% on 2019, as Relevance benefited from increased demand for data annotation in existing and new projects. Our customers use annotated data to train, update and refresh their AI models, to ensure that their models remain relevant and free from bias. Normal historical revenue growth patterns were impacted by our major customers' response to COVID-19 and the changes to their activities and priorities (as covered on the next page).

Speech & Image (S&I) revenue of \$61,193,000 was down 10% on the prior year. This was due to projects undertaken in FY19 not yet returning to the investment phase of their life cycles, and due to project cancellations and project delays, primarily related to COVID-19. The pandemic also impacted our ability to win new customers and grow our project pipeline. This was partly offset by growth in our China business and continued growth in a large transcription project that started in 2019 and continued to ramp up in 2020. S&I projects are heavily dependent on customer timing, investment and product life cycles and, unlike Relevance projects, do not require as much ongoing data refresh.

The Relevance division reported EBITDA of \$112,662,000, up 8% (2019: \$104,195,000). This was driven by higher revenue, partly offset by the incremental investment in sales and marketing and China, and the impact of the strong AUD. Operating margins reduced from 22.3% to 20.9%.

EBITDA in the S&I division decreased by 42% to \$12,445,000 (2019: \$21,421,000). This was driven by lower revenue, the impact of incremental investment in sales and marketing and China, and no significant reduction in the core delivery structure. We continue to support the underlying operating structure, with appropriate adjustments, as the revenue impact has arisen from cyclical timing issues, COVID-19 related impacts and the strong AUD, rather than structural issues. Operating margins reduced from 31.6% to 20.3%.

Operating expenses (excluding services purchased, share-based payment expense, depreciation and amortisation, finance costs, transaction costs, deemed interest, Figure Eight purchase price adjustment and foreign exchange) comprised 22.6% of revenue compared with 20.9% for the previous year, because of the incremental investment in sales and marketing and China. Other expenses were 13.7% lower than 2019 and expenses were tightly managed and controlled, particularly in the second half of the year. Employee expenses increased 6.9% half-on-half compared with 37.9% growth for the full year. Management remains committed to prudent management of the cost-base and the prioritisation of investments that drive future growth and efficiency.

The balance sheet continues to grow with net assets increasing by \$4,090,000 to \$485,872,000. This was despite the fact that the balance sheet was converted at strong AUD rates at 31 December 2020. During the year, the Group fully repaid the Facility C debt (US\$24 million) relating to the Figure Eight earn-out payment, as disclosed in note 16. The Group was debt-free at 31 December 2020 and at the date of this report.

Cash on hand at the end of the year increased by \$3,163,000 to \$78,437,000. The cash balance was impacted by the year end conversion of cash held in USD at strong AUD levels, full repayment of debt, substantial investments in sales and marketing and China, and increased dividend and tax payments.

The decrease in trade receivables of \$51,670,000 should be viewed in conjunction with the increase in contract assets of \$32,994,000 as the relevant invoices in respect of completed work are pending satisfaction of the customer's billing milestones or billing period. The majority of contract assets were subsequently invoiced on 1 January 2021 and as at 16 February 2021, 80% of these invoices had been paid. Receivables also reduced due to delays experienced with customer receipts around the end of 2019 and subsequently received in early 2020.

Contract liabilities decreased \$12,447,000 as a result of the reduction in unearned revenue due to lower contract values and the reduction in customer deposits, due to more work being done by Appen (no deposit required) as opposed to Figure Eight legacy third party providers.

# Directors' report

for the year ended 31 December 2020

## Impact of the COVID-19 pandemic

In April 2020, we advised the market via an ASX announcement that COVID-19 may impact our earnings via a slowdown in digital advertising spending, a reduction in IT/digital spending, a reduction or cancellation of services from our smallest customers, interruptions to global hardware supply chains and the suspension of face-to-face projects such as audio data collection.

Subsequently, we experienced additional impacts, as COVID-19 disrupted and reshaped the priorities and activities of our customers, especially in California, the home of our biggest customers, where pandemic lockdowns had intensified.

The impact of our customers' re-allocation of resources in the second half of the year was exacerbated by the decline in both face-to-face sales and the level of customer engagement which impacted our work volumes and overall revenue for the fourth quarter of 2020 – a quarter where we typically see a surge in customer demand. This particularly impacted revenue that we expected to generate from our larger Relevance projects.

The pandemic did not, however, have a material impact on our operations. The resilience of our secure work-from-home delivery model meant that we continued to deliver high quality outcomes for customers without interruption. We were also able to move quickly to a remote working model for our staff as a result of consistent investment in our IT systems.

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

## Outlook

Our financial and operational performance in 2020 has laid a strong foundation for continued growth. Our investments in sales and marketing, technology and new markets have strengthened our competitive position and resulted in new customer wins. They have also positioned us well to take advantage of the growing demand for high-quality training data as organisations globally increase their adoption of AI and as the use cases for AI expand. Our priority in 2021 will be to ensure that the investments we have made continue to yield growth in our customer base, revenues and returns.

Uncertainties remain regarding the duration of the health crisis and the ongoing impact on economic and business activity. While online advertising – a key source of income for our major customers – has bounced back, and the shift to e-commerce has accelerated during the pandemic, our customers have called out the uncertainties that persist regarding the economic rebound. The evolving regulatory and product landscape will also likely see our customers reallocate resources into new product areas as they seek to diversify their revenue base.

In 2020, we saw a 34% increase in the number of new projects won with our major customers. While most of these projects are small and will take time to generate a significant revenue stream, this endorses our belief that we are well-positioned to support and benefit from our customers' reprioritisation and investment in new projects.

In 2021, our focus will remain firmly on our customers and continuing to leverage our leading position in Relevance to support their high-volume programs. We will also support our major customers and our enterprise and commercial customers with their new AI-programs, and we look forward to these products growing and complementing our major programs.

The Group has a strong balance sheet with cash, receivables and contract assets of \$185.0 million and no debt as at 31 December 2020. The business has minimal ongoing capital requirements and is therefore well-positioned to weather the continuing economic impact of the pandemic and to take advantage of future opportunities and industry growth trends.

- Further information and analysis on the strategic and financial performance of the Company is available on [pages 18–35](#). How we identify and manage risk is detailed on [pages 36–43](#).





# Directors' report

for the year ended 31 December 2020

## Significant changes in the state of affairs

As mentioned in the Operating and Financial Review, during 2020, the Group made the earn-out payment with respect to the Figure Eight Technologies, Inc. (Figure Eight) of \$39 million. The total acquisition cost was \$286.5 million. The full integration of the business is now complete.

## Matters subsequent to the end of the financial year

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

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2020 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.

## Likely developments and expected results of operations

The Group will continue to pursue its strategy to grow the business across a wider customer base.

## 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.

Our voluntary environmental reporting in line with the Task Force on Climate-related Financial Disclosures is provided on [page 34](#).

## 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. He is also a member of the California bar. He was an adjunct professor at Santa Clara University Law School where he taught internet, e-commerce and privacy law in the late nineties. He has worked in Australia and the United States and has held the position of General Counsel for various companies and was 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 2020, and the number of meetings attended by each director were:

	Scheduled Board meetings		Special Board meeting <sup>2</sup>		Audit and Risk Management Committee		Nomination and Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Chris Vonwiller	12	12	1	1	4	4	-	-
Mark Brayan	12	12	1	1	-	-	-	-
Steve Hasker	12	11	1	-	-	-	2	2
Vanessa Liu <sup>1</sup>	10	10	1	1	-	-	-	-
Robin Low	12	12	1	1	4	4	2	2
Bill Pulver	12	12	1	1	-	-	2	2
Deena Shiff	12	12	1	1	4	4	-	-

1 Appointed 27 March 2020.

2 Out of cycle Board meeting called at short notice.

# Directors' report

for the year ended 31 December 2020

## 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
2018	128,881
2018 Special	257,034
2019	892,927
<b>2020</b>	<b>1,040,894</b>
	<b>2,319,736</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 fulfilment of the performance conditions and service-based conditions specific to each grant.

## Shares issued on the exercise of performance rights

556,382 ordinary shares of the Company were issued on the exercise of performance rights during the year ended 31 December 2020 and up to the date of this report.

## Shares issued as a result of prior period acquisitions

681,468 ordinary shares of the Company were issued as contingent consideration for the acquisition of Leapforce, Inc. (Leapforce) and RaterLabs, Inc. (RaterLabs). This issue represented the third and final tranche of shares to be issued for these prior period acquisitions.

## 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.



# Directors' report

for the year ended 31 December 2020

## 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, has performed certain other services in addition to the audit and review of the financial statements. These relate to transfer pricing and other advisory services. Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 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* (Rounding Instrument), issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

# Remuneration report

Dear Shareholder

On behalf of Appen's  
Nomination and  
Remuneration Committee,  
I am pleased to present  
our audited Remuneration  
Report for the year ended  
31 December 2020.

Over the past year,  
we have listened to and  
valued shareholders'  
feedback on our  
remuneration framework  
and disclosures. In this  
report, we have provided  
additional transparency  
and sought to demonstrate  
how our remuneration  
framework and outcomes  
align with shareholders'  
long-term interests.

## 2020 business outcomes

2020 will be remembered as a uniquely challenging year for many companies. In Appen's case, our executive team continued to drive performance for shareholders with revenue up 11.9% and underlying EBITDA up 7.5% compared to 2019. The team also made progress on our long-term strategy, including expanding into new markets and delivering technology improvements to maintain and grow our competitive advantage.

Although our resilient work-from-home model ensured that we continued to deliver high quality outcomes for customers, we were not entirely immune from the impact of the COVID-19 pandemic. We did not see the surge in work volumes normally experienced at the end of our financial year, and late changes in customer priorities resulted in a reduction to our full year underlying EBITDA expectations. However, we won many new customers and projects and laid the foundations for further growth.

## 2020 remuneration outcomes

At Appen, executive compensation is heavily weighted towards performance and equity based pay.

In 2019, the Board set challenging short-term incentive (STI) targets for executives, with 2020 revenue, underlying EBITDA and gross margin targets set approximately 30% higher than the 2019 actuals. Stretch targets were also applied to the equity-based long-term incentive (LTI) plan, with the hurdle set at 20% growth in underlying basic earnings per share (UBEPS) each year for three consecutive years.

The Board decided to maintain these targets, despite the impact of the pandemic on business development which impacted growth.

In relation to STI, executives achieved 86% of the revenue target, 83% of the underlying EBITDA target and 79% of the gross margin target. When adjusted for the sliding scale that applies to these targets, the STI payment for executives will be between 68% and 71% of target – approximately \$542,000 lower in total than if the targets had been reached.

With respect to LTI, the 20% UBEPS growth hurdle was not achieved in 2020. Executives are now incentivised to work harder and must achieve cumulative UBEPS growth of 44% over two years or 73% over three years. This is because rights for which the performance conditions are not met can be carried over for a maximum of two years. They will only vest, however, if the equivalent compound annual growth rate is achieved and the executive meets the continuous employment condition.

## Looking ahead

We are delighted with the excellent returns that we have delivered for shareholders over the last six years. Since listing in January 2015, we have delivered share price growth of 4,838% for our shareholders, compared to a 21% increase in the ASX100. We also believe that the progress made by the executive team on our strategic growth priorities this year supports long-term sustainable performance. We will keep our remuneration approach under review to ensure that it continues to deliver value for shareholders as the Company grows and evolves over time.

I look forward to receiving your feedback.

Yours sincerely



**William Pulver**  
Chair of the Nomination and  
Remuneration Committee

## Our remuneration principles

Our goal is to ensure that the level and composition of remuneration aligns with the interests of shareholders and allows us to attract and retain high performing talent. The key objectives that underpin Appen's remuneration framework are as follows:



### Heavy weighting to performance-based pay

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



### Drive long-term sustainable outperformance

Incentivise the creation of shareholder value by setting challenging targets.



### Fair and competitive to attract and retain top talent

Independently benchmarked annually against industry and peers to ensure that remuneration is competitively positioned in each of the global markets that Appen operates.



### Reinforce responsible business practice

Board discretion on malus and award subject to continuing employment.



### Simple and clear

Transparency on metrics, targets, assessment and outcomes.

## Remuneration governance

The role of the Nomination and Remuneration Committee is to provide advice, recommendations and assistance to the Board in relation to compensation arrangements for Directors and executives. The members of the Nomination and Remuneration Committee during the reporting period were:

William Pulver, Committee Chair  
Robin Low  
Stephen Hasker

- The number of Committee meetings and attendance by members during the reporting period is set out in the 'Meetings of directors' section of the Directors' report.

### Board oversight of remuneration

The Board ensures variable rewards are only paid when a senior executive has met or exceeded their agreed individual work plan objectives, financial targets have been achieved, and value has been created for shareholders. The Board reviews the financial targets on an annual basis to ensure they are sufficiently challenging. 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').

## 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:

Chris Vonwiller	Non-Executive Chairman
Stephen Hasker	Independent Non-Executive Director
Vanessa Liu <sup>1</sup>	Independent Non-Executive Director
Robin Low	Independent Non-Executive Director
William Pulver	Independent Non-Executive Director
Deena Shiff	Independent Non-Executive Director

### Executive KMP:

Mark Brayan	Managing Director and Chief Executive Officer (CEO)
Kevin Levine	Chief Financial Officer (CFO)
Jon Kondo <sup>2</sup>	Senior Vice-President, Sales and Marketing
Tom Sharkey <sup>2</sup>	Senior Vice-President, Client Services

<sup>1</sup> Vanessa Liu was appointed 27 March 2020.

<sup>2</sup> US-based executive KMP.



### Corporate Governance Statement

Further information about the Nomination and Remuneration 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/)

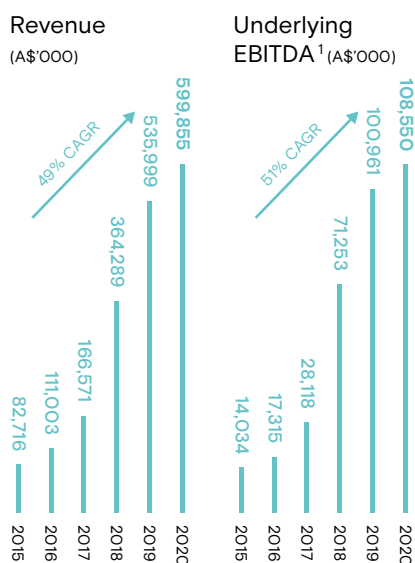
# 2020

## Remuneration overview

### How reward is linked to performance

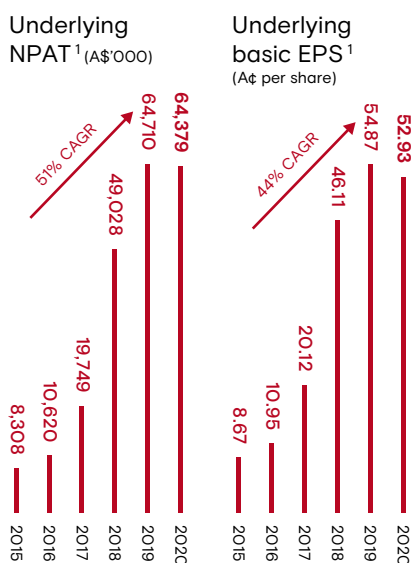
Incentives are linked to our key financial metrics to maintain alignment with pay-for-performance and shareholder value creation.

#### Short-term incentive measures



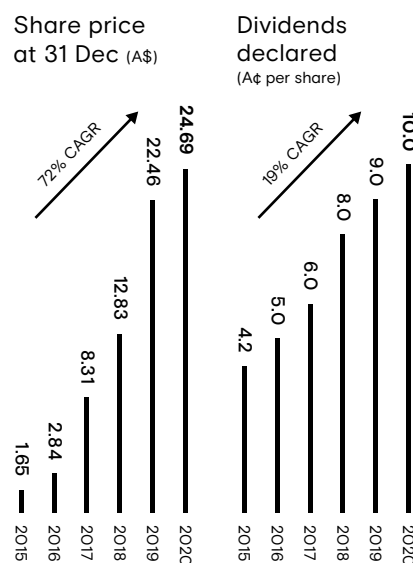
Short-term incentive payments are linked to revenue and underlying EBITDA for our Australian executives, and to revenue, underlying EBITDA and gross margin for our US-based executives.

#### Long-term incentive measures



Long-term incentive awards are linked to underlying basic earnings per share (UBEPS) growth.

#### Shareholder returns



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

### How is Appen's remuneration structure benchmarked?

Appen is a global business in a highly competitive sector. Our remuneration has to be structured in a way that helps us to attract and retain high performing and experienced global executives with technology expertise. Compensation practices in US technology and Australian public company markets vary substantially and need to be benchmarked against different reference and data points. The following sources were relied upon for the review of executive pay in 2020.

#### US technology market data<sup>2</sup>

Derived from a leading external specialist technology and life sciences compensation firm based in San Francisco using a peer group of ~60 public technology companies with median revenue of US\$400 million and median market capitalisation of US\$3 billion.

#### Australian data<sup>3</sup>

Derived from an independent global executive compensation consultant using remuneration data for ASX listed companies with market capitalisation of between 50% and 200% of Appen's market capitalisation.

<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, transaction costs and fair-value adjustments. Underlying NPAT and EPS also exclude deemed interest on acquisition related earn-out payments.

<sup>2</sup> Market data was compiled in October 2020.

<sup>3</sup> Market data was compiled in November 2020.

## Our remuneration framework

In 2020, executive remuneration comprised a mix of fixed and variable at-risk remuneration components through the STI and LTI plans.

### Total fixed remuneration

**Objective:**

Provide market competitive base salary and benefits commensurate with skills to attract high calibre talent.

**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.

**Approach:**

Fixed remuneration reflects:

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

Reference is made to industry benchmarks to ensure that base pay is aligned with market remuneration levels.

### Short-term incentive (STI)

**Objective:**

Deliver value creation for shareholders through the achievement of specific performance-related key financial metrics.

**Structure:**

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

**Approach:**

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

Sales and client service executives – performance against challenging revenue, underlying EBITDA and gross margin targets.

In 2020, the revenue, underlying EBITDA and gross margin targets were set approximately 30% above 2019 actuals.

Target opportunity of 0% to 150% of a fixed 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 and support the attraction and retention of high performing executives.

**Structure:**

Equity-based compensation through the granting and vesting of performance rights.

**Approach:**

**Australia-based executives:**

Performance rights have a dual vesting requirement of (i) hurdle rate of 20% underlying basic EPS (UBEPS) growth each year for three consecutive years which is tested annually; and (ii) continuous employment for the three-year vesting period.

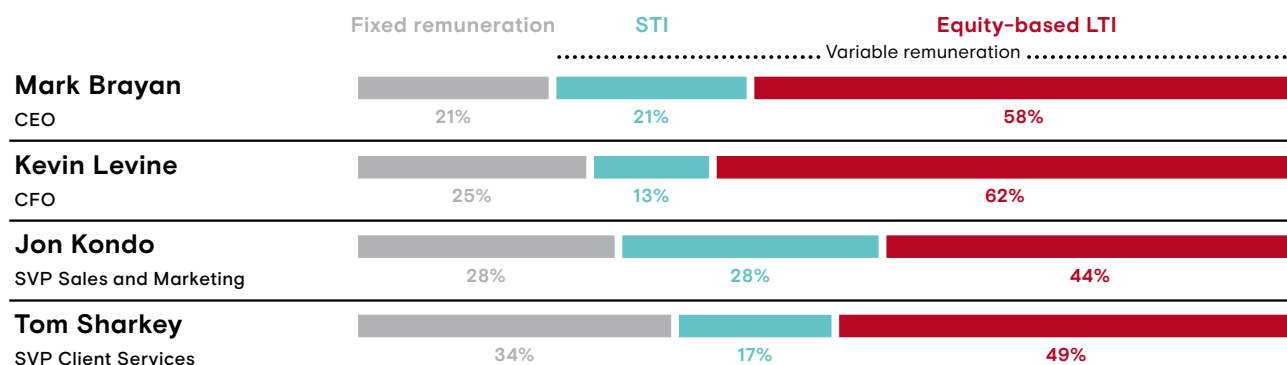
**US-based executives:**

Performance rights have a hurdle rate of 20% UBEPS over three years, however 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.

## Executive KMP remuneration mix

Executive remuneration is heavily weighted towards performance-based pay, including equity-based awards. The diagram below illustrates the remuneration mix at maximum potential for each executive.



## Executive KMP remuneration overview

### Statutory remuneration for executive KMP

The table below details the statutory accounting expense of all remuneration-related items for the executive KMP.

		Fixed				Variable		Total \$
		Cash salary \$	Super-annuation <sup>1</sup> \$	Leave entitlements \$	Termination payments \$	STI \$	LTI <sup>2,3</sup> \$	
Mark Brayen	<b>2020</b>	<b>728,652</b>	<b>21,348</b>	<b>80,279</b>	–	<b>531,760</b>	<b>1,751,721</b>	<b>3,113,760</b>
	2019	479,233	20,767	37,229	–	709,613	1,584,277	2,831,119
Kevin Levine	<b>2020</b>	<b>478,652</b>	<b>21,348</b>	<b>36,836</b>	–	<b>177,253</b>	<b>1,001,488</b>	<b>1,715,577</b>
	2019	379,233	20,767	20,436	–	283,845	917,710	1,621,991
Jon Kondo <sup>4</sup>	<b>2020</b>	<b>557,656</b>	<b>37,660</b>	<b>20,910</b>	–	<b>349,507</b>	<b>1,372,161</b>	<b>2,337,894</b>
	2019	218,770	6,739	17,276	–	339,500	750,708	1,332,993
Tom Sharkey	<b>2020</b>	<b>615,594</b>	<b>37,660</b>	<b>5,771</b>	–	<b>192,910</b>	<b>988,215</b>	<b>1,840,150</b>
	2019	584,080	35,943	21,170	–	378,964	773,092	1,793,249

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

2 The values for equity-settled remuneration were measured at grant date in accordance with AASB 2 Share-based Payments and represent the current year amortisation of the fair value of the rights over the vesting period.

3 Refer to [page 66](#) for the differences in LTI approach for Australia and US based executives.

4 Cash salary and superannuation increased in 2020 relative to 2019 because Jon Kondo commenced employment on 22 July 2019.

### Remuneration received by executive KMP

The table below details the actual remuneration that was received by current executive KMPs during the 2020 and 2019 years. This differs to the statutory remuneration table above which is prepared in accordance with accounting standards.

The STI amount 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 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 60](#).

		Fixed		STI	LTI value at vesting date <sup>1,2</sup>	Total value	LTI value at grant date
		Cash salary \$	Super-annuation \$	\$	\$	\$	\$
Mark Brayen	<b>2020</b>	<b>728,652</b>	<b>21,348</b>	<b>531,760</b>	<b>2,779,522</b>	<b>4,061,282</b>	<b>784,132</b>
	2019	479,233	20,767	709,613	3,581,188	4,790,801	542,204
Kevin Levine	<b>2020</b>	<b>478,652</b>	<b>21,348</b>	<b>177,253</b>	<b>1,736,217</b>	<b>2,413,470</b>	<b>355,717</b>
	2019	379,233	20,767	283,845	2,364,451	3,048,296	361,467
Jon Kondo <sup>3</sup>	<b>2020</b>	<b>557,656</b>	<b>37,660</b>	<b>349,507</b>	<b>381,000</b>	<b>1,325,823</b>	<b>446,993</b>
	2019	218,770	6,739	339,500	–	565,009	–
Tom Sharkey	<b>2020</b>	<b>615,594</b>	<b>37,660</b>	<b>192,910</b>	<b>762,000</b>	<b>1,608,164</b>	<b>633,202</b>
	2019	584,080	35,943	378,964	–	998,987	–

1 Value of LTI at vesting date is based on the market price of shares at the date that the LTIs vest. For Mark Brayen and Kevin Levine, the value of LTI was lower in 2020 relative to 2019 because more rights vested in 2019. For Jon Kondo and Tom Sharkey, no performance rights vested in 2019.

2 Refer to [page 66](#) for the differences in LTI approach for Australia and US based executives.

3 Cash salary and superannuation increased in 2020 relative to 2019 because Jon Kondo commenced employment on 22 July 2019.





# CEO remuneration overview

## Approach to CEO remuneration

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

- The Company's remuneration strategy.
- The Company's performance, which has delivered share price growth of 4,838% since listing in 2015 to 31 December 2020.
- The role and contribution of Mr Brayan in achieving the Company's objectives.
- 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 performance-based pay and equity-based compensation to ensure that the CEO thinks and acts like a long-term owner of the Company. In 2020, the CEO's target variable STI remuneration represented 21% of his total remuneration and his target LTI represented 58%, resulting in 79% of the CEO's total target remuneration being at risk.

## Why did the CEO's remuneration increase in 2020?

An independent market review of ASX listed companies with market capitalisation of between 50% and 200% of Appen's market capitalisation undertaken in 2019 identified the following:

- The CEO's fixed remuneration was well below market (7th percentile).
- The fixed remuneration plus STI was also well below market (18th percentile).
- Total remuneration (fixed remuneration, STI and LTI) was at the 82nd percentile, due to the high growth in Appen's share price. LTI represented 74% of total remuneration.

This review was supplemented by an independent analysis of the pay positioning for high growth specialist US technology firms. Taking these reviews into consideration, in 2019 the Board reassessed Mr Brayan's pay. The Board also took into account the growth in complexity of the business as a result of the acquisition of Figure Eight and the expansion into China and the Government sector. For these reasons, and as detailed in the Notice of Meeting for the 2019 financial year, the CEO's pay was revised for the 2020 year, as follows:

- Fixed remuneration increased to \$750,000 from \$500,000. This places total fixed remuneration in the 14th percentile of the peer group and remains well under market according to an updated Australian market review done in November 2020.
- The potential STI increased to \$750,000 (100% of fixed remuneration). Fixed remuneration plus STI received as cash in 2020 is in the 37th percentile. The actual STI payout for 2020, which will be received in the 2021 year, is \$531,760.
- An LTI grant of 78,125 performance rights was made in 2020 and will vest in 2023, subject to the achievement of annual performance targets for 2020, 2021 and 2022 and the CEO remaining employed. The value of the LTI was \$25.60 per share (grant date of 19 November 2019) which equates to \$2 million. The LTI grant of performance rights made in 2020 was approved by shareholders at the 2019 AGM.

When assessed against an updated independent analysis of high growth US specialist technology firms completed in October 2020, Mr Brayan's fixed remuneration and target total cash remuneration were both at the 50th percentile and the total target remuneration (including LTI granted) was at the 25th percentile.

A summary of Mr Brayan's remuneration and how this compares to the Australian market is shown in the table below.

Remuneration component	2019 pay		2020 pay	
	2019 \$	Benchmarked against Australian market data (percentile position)	2020 \$	Benchmarked against Australian market data (percentile position)
<b>Fixed remuneration</b>				
- Cash salary plus superannuation	500,000	7th	750,000	14th
<b>Cash remuneration received</b>				
- Fixed plus STI (2018 STI received in 2019 and 2019 STI received in 2020)	875,000	18th	1,459,613	37th
<b>Total remuneration</b>				
- Fixed plus STI received and LTI granted <sup>1</sup>	3,355,000	82nd	3,459,613	69th

Source: Independent global executive compensation consultant (2019 and 2020).

1 LTI has been calculated based on LTIs awarded. In 2020, the CEO's pay included an LTI award of 78,125 performance rights at a grant date value of \$25.60 per share, equivalent to an LTI award value of \$2,000,000. In 2019, the LTI award was 160,000 performance rights at a grant date value of \$15.50 per share, equivalent to \$2,480,000.

## Short-term incentives (STI)

### Approach to STI

STI are a performance-based incentive 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	2020 Weighting	2019 Weighting
Revenue (Mr Brayan, Mr Levine, Mr Kondo, Mr Sharkey)	33%	33%
Underlying EBITDA (Mr Brayan, Mr Levine)	67%	67%
Underlying EBITDA (Mr Kondo, Mr Sharkey)	33%	33%
Gross margin (Mr Kondo, Mr Sharkey)	33%	33%

Mr Kondo and Mr Sharkey are US-based executives with responsibility for sales and client services, respectively. They have an additional gross margin metric which is used as a measure of performance and success for the sales and client services teams.

The non-deferred STI cash payment ranges from 0% to 150% of a target percentage of the relevant executive's fixed remuneration (excluding retirement and insurance benefits for US-based executives). The actual STI payout percentage is capped at 150% for all executives and employees. No payment is made if the performance percentage achieved is less than 80% of the target.

The STI award is calculated based on the combined result of all the performance measures ('financial metric'). For example, if the Company achieves 70% of the revenue target and 100% of the EBITDA target, the overall score for the purposes of the calculation of any award that may be awarded would be 90% of Mr Brayan and Mr Levine's on-target award.

Actual awards are calculated on a sliding scale between 0% and 150% – for example:

% achievement against financial metric target	Potential payout – % of target payout
Below 80%	Nil
80%	64%
90%	81%
122.25% or more	150%



## Performance and 2020 STI outcomes

In 2019, the Board set challenging STI hurdles for the executive team, with 2020 revenue, underlying EBITDA and gross margin targets set approximately 30% higher than the 2019 actuals. In 2020, revenue was 86% of target, underlying EBITDA was 83% of target and gross margin was 79% of target.

The Nomination and Remuneration Committee reviewed this performance to determine the recommended STI payments. The recommendations were reviewed and approved by the Board.

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	% Applied	% Payout <sup>2</sup>
Revenue	<b>2020</b>	<b>\$699,891,845</b>	<b>\$599,376,860</b>	<b>86%</b>	<b>73%</b>	<b>73%</b>
	2019	\$443,738,011	\$497,635,668	112%	126%	126%
Underlying EBITDA	<b>2020</b>	<b>\$130,037,886</b>	<b>\$108,550,224</b>	<b>83%</b>	<b>70%</b>	<b>70%</b>
	2019	\$84,445,022	\$107,310,300	127%	161%	150%

1 Revenue comprises services revenue only – see note 3 in the financial report. 2019 excludes Figure Eight.

2 Payout capped at 150%.

In 2020, the weighted average STI payout was 71% for the Australia-based executives and 68% for the US-based executives, compared to 142% for all executives in 2019.

Executive		Currency	Fixed remuneration <sup>1</sup> \$	STI target <sup>2</sup> %	Performance payout % (max 150%) <sup>3</sup> %	Total STI payout \$	Total STI payout (AUD) \$
Mark Brayan	<b>2020</b>	<b>AUD</b>	<b>750,000</b>	<b>100%</b>	<b>71%</b>	<b>531,760</b>	<b>531,760</b>
	2019	AUD	500,000	100%	142%	709,613	709,613
Kevin Levine	<b>2020</b>	<b>AUD</b>	<b>500,000</b>	<b>50%</b>	<b>71%</b>	<b>177,253</b>	<b>177,253</b>
	2019	AUD	400,000	50%	142%	283,845	283,845
Jon Kondo <sup>4</sup>	<b>2020</b>	<b>USD</b>	<b>385,000</b>	<b>100%</b>	<b>68%</b>	<b>263,351</b>	<b>349,507</b>
	2019	USD	167,788	100%	142%	238,131	339,500
Tom Sharkey <sup>5</sup>	<b>2020</b>	<b>USD</b>	<b>425,000</b>	<b>50%</b>	<b>68%</b>	<b>145,356</b>	<b>192,910</b>
	2019	USD	406,250	50%	142%	265,811	378,964

1 Includes superannuation contributions for Australia-based executives.

2 Percentage of fixed remuneration (excluding retirement and insurance benefits for US-based executives).

3 Performance payout % varies because US-based executives have an additional financial metric of gross margin growth.

4 Jon Kondo commenced 22 July 2019.

5 Tom Sharkey's STI target increased from 40% to 50% effective 1 June 2019.

# Long-term incentives (LTI)

## Approach to LTI

LTI are a form of equity-based compensation that is awarded via the granting and vesting 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 by prescribing performance period and continuous employment requirements.

## LTI benchmarking

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 Nomination and Remuneration Committee undertakes regular reviews of the LTI practices in both these markets. Key differences are summarised in the table below.

The most significant differences are that performance hurdles are less commonly used and annual vesting is industry practice in the US. Our LTI scheme incorporates performance hurdles, but the performance rights for US-based executives may vest annually. This is critical to our ability to recruit and retain executives in the US where the market for talent with technology expertise is highly competitive.

### Key differences between Australian and United States LTI practices

Australia <sup>1</sup>	United States <sup>2</sup>
<ul style="list-style-type: none"><li>• Performance rights used by 70% of sample companies. Options used by 18%.</li><li>• 82% of companies operate one LTI plan, most commonly with two performance measures.</li><li>• Total Shareholder Return (TSR) used by 35% of companies, Earnings per Share (EPS) by 25%.</li><li>• Performance period is 3 years for 74% of companies, 22% use four years.</li><li>• No vesting before the end of the performance period.</li></ul>	<ul style="list-style-type: none"><li>• Time-based restricted stock units (RSUs) are used by more than 95% of companies.</li><li>• 50% of companies use performance-based RSUs (PSUs) and 40% use a mix of RSUs and PSUs.</li><li>• 40% of companies use stock options.</li><li>• Performance period is typically four years.</li><li>• Vesting includes 12 month 'cliff' followed by annual, quarterly or monthly vesting.</li></ul>

1 Independent analysis of ASX-listed companies with a market capitalisation of between 50% and 200% of Appen's market capitalisation.

2 Independent remuneration advisor analysis of US non-founder market data including ~60 public technology companies with median revenue of ~US\$400 million and median market capitalisation of ~US\$3 billion.

## LTI performance measures

The key components of the LTI scheme are:

- annual grants of performance rights (with quantum determined at Board discretion based on market remuneration analysis).
- 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 the achievement of the performance and employment hurdles for grants issued during the year.
- 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. 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. It also incentivises management to outperform in subsequent years if an annual target is not met.
- The number of performance rights granted is based on face value (actual share price) rather than a discounted fair value.
- No dividends are paid or accrue between the grant and vesting dates of the performance rights.
- 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.



## Performance and 2020 LTI outcomes

The following awards were granted to executive KMP for the 2020 year. The grant of performance rights to Mr Brayan was approved at the 2019 Annual General Meeting on 29 May 2020, in accordance with ASX Listing Rule 10.14. The current LTI performance target is set at 20% growth in underlying basic earnings per share (UBEPS) each year for three consecutive years. This hurdle was not met in 2020.

The performance rights for 2020 can now only vest if executives achieve 44% UBEPS growth over a two-year period or 73% over three years (i.e. the equivalent CAGR growth rate); and if they meet the continuous employment requirement.

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
2020 <sup>1</sup>	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 <sup>1</sup>	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 <sup>1</sup>	19 Dec 2019	N/A	N/A	3	UBEPS	20.0%	End 2022	Pending	Employed at 1 Jan 2023	Release of 2022 Annual results	\$23.37

<sup>1</sup> At the Board's discretion.

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 8 years from the grant date.

Target achievement table:

UBEPS target achieved	% performance rights allocated
100% or more of UBEPS target	100%
90-99% of UBEPS target <sup>1</sup>	50-80%
Less than 90%	Nil

<sup>1</sup> At the Board's discretion.

The number of unvested performance rights held by executive KMP are:

Plan	Mark Brayan	Kevin Levine	Jon Kondo	Tom Sharkey
2018	23,153	12,155	-	25,118
2018 Special <sup>1</sup>	150,000	100,000	-	-
2019	160,000	80,000	75,000	60,000
<b>2020</b>	78,125	48,828	35,000	35,000
<b>Total</b>	<b>411,278</b>	<b>240,983</b>	<b>110,000</b>	<b>120,118</b>

<sup>1</sup> Rights issued in 2018 with higher performance hurdles than the 2018 LTI plan.

## Long-term incentives (LTI) continued

### 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 2020	Granted during the year	Exercised during the year <sup>1</sup>	Forfeited during the year	Held at 31 December 2020	Vested during the year
Mark Brayan	2017	59,430	-	(59,430)	-	-	59,430
	2018	23,153	-	-	-	23,153	-
	2018 STI	50,000	-	(50,000)	-	-	50,000
	2018 Special	150,000	-	-	-	150,000	-
	2019 AU	160,000	-	-	-	160,000	-
	<b>2020 AU</b>	-	78,125	-	-	78,125	-
		<b>442,583</b>	<b>78,125</b>	<b>(109,430)</b>	-	<b>411,278</b>	<b>109,430</b>
Kevin Levine	2017	35,022	-	(35,022)	-	-	35,022
	2018	12,155	-	-	-	12,155	-
	2018 STI	33,333	-	(33,333)	-	-	33,333
	2018 Special	100,000	-	-	-	100,000	-
	2019 AU	80,000	-	-	-	80,000	-
	<b>2020 AU</b>	-	48,828	-	-	48,828	-
		<b>260,510</b>	<b>48,828</b>	<b>(68,355)</b>	-	<b>240,983</b>	<b>68,355</b>
Jon Kondo	2019 US	90,000	-	(15,000)	-	75,000	15,000
	<b>2020 US</b>	-	35,000	-	-	35,000	-
		<b>90,000</b>	<b>35,000</b>	<b>(15,000)</b>	-	<b>110,000</b>	<b>15,000</b>
Tom Sharkey	2018	8,518	16,600	-	-	25,118	-
	2019 US	90,000	-	(30,000)	-	60,000	30,000
	<b>2020 US</b>	-	35,000	-	-	35,000	-
		<b>98,518</b>	<b>51,600</b>	<b>(30,000)</b>	-	<b>120,118</b>	<b>30,000</b>

<sup>1</sup> Details of the performance rights exercised are provided in the table below.

### Performance rights exercised

Executive	Number of rights exercised	Value of rights at grant date	Value of rights at exercisable date
Mark Brayan	109,430	\$784,132	\$2,779,522
Kevin Levine	68,355	\$355,717	\$1,736,217
Jon Kondo	15,000	\$446,993	\$381,000
Tom Sharkey	30,000	\$663,202	\$762,000

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 60. 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.

# Executive KMP remuneration arrangements

## Executive KMP share ownership requirements

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. This post vesting holding requirement ensures that executives continue to think and act like owners of the business. Share transfers to affiliate or related entities or persons are permitted.

Executive	Number of performance rights currently held	Number of ordinary shares currently held (direct and indirect)
Mark Brayan	411,278	418,309
Kevin Levine	240,983	139,863
Jon Kondo	110,000	15,000
Tom Sharkey	120,118	30,000



Directors and KMP 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://www.appen.com/investors/corporate-governance/).

## 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	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
Jon Kondo	SVP, Sales and Marketing	No fixed term	1 March	90 days
Tom Sharkey	SVP, Client Services	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 strategy.

The Company aims to provide a level of remuneration for non-executive directors comparable with its general industry peer group. The most recent benchmarking from October 2019 considered the practices of ASX 200 companies (minus ASX 100 companies) as the 'primary peer group'; and incorporated a review against a 'secondary peer group' of ASX-listed technology companies with revenues between approximately 50% and 200% of Appen's revenue.

The results of this benchmarking showed that Appen's non-executive director remuneration was within the 25th percentile of the primary peer group and within the median of the secondary peer group.

## Non-executive director fee structure and components

Non-executive directors are remunerated from the maximum aggregate amount approved by shareholders. The current aggregate fee pool limit that can be paid in any one year is \$900,000.

Non-executive directors are remunerated by way of Board and Committee fees. These fees reflect the workload associated with a global business and the governance and oversight required of the Company's strategic growth areas including Government, China and M&A. The current fee structure for non-executive directors is as follows:

Role	Fee <sup>1</sup>
Board Chair	\$200,000
Non-Executive Director	\$105,000
Audit and Risk Management Committee Chair	\$15,000
Nomination and Remuneration Committee Chair	\$15,000

<sup>1</sup> All fees are inclusive of statutory superannuation.

## Amounts paid to non-executive directors

Details of fees paid to directors in 2020 and 2019 are outlined below:

Director	2020			2019		
	Fees \$	Super- annuation \$	Total \$	Fees \$	Super- annuation \$	Total \$
Chris Vonwiller	182,648	17,352	200,000	182,648	17,352	200,000
William Pulver	109,589	10,411	120,000	109,589	10,411	120,000
Robin Low	120,000	-	120,000	120,000	-	120,000
Deena Shiff	95,890	9,110	105,000	95,890	9,110	105,000
Stephen Hasker	105,000	-	105,000	105,000	-	105,000
Vanessa Liu <sup>1</sup>	79,962	-	79,962	-	-	-
	693,089	36,873	729,962	613,127	36,873	650,000

<sup>1</sup> Vanessa Liu was appointed 27 March 2020.



## 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.

Director	Number of shares			31 December 2020
	1 January 2020	Purchased/ exercised during the year	Sold during the year <sup>1</sup>	
Chris Vonwiller	11,060,286	–	(2,000,000)	9,060,286
William Pulver	607,384	–	(275,000)	332,384
Mark Brayan	404,414	109,430	(95,535)	418,309
Robin Low	172,946	–	–	172,946
Deena Shiff	50,432	–	–	50,432
Stephen Hasker	50,000	–	–	50,000
Vanessa Liu (appointed 27 March 2020)	–	1,000	–	1,000
	12,345,462	110,430	(2,370,535)	10,085,357

<sup>1</sup> The share sales were announced to the ASX on 4 June 2020 ([appen.com/investors/announcements/](http://appen.com/investors/announcements/)). Non-Executive Chairman, Chris Vonwiller, sold a proportion of his holding for a number of personal reasons, including philanthropic endeavours. Mr Vonwiller intends to remain a long-term shareholder of Appen. William Pulver, Non-Executive Director, sold shares to diversify personal investments. Mark Brayan, CEO and Managing Director of Appen, sold shares to satisfy tax obligations and diversify personal investments.

## Independent remuneration advisors

Where appropriate, the Board and the Nomination and Remuneration Committee engage external and independent remuneration advisors to provide industry benchmarks, peer comparison information and specific local knowledge of country-specific remuneration practices. In 2020, an independent global compensation consultant provided benchmarks for Australia-based executives and a US-based leading specialist technology and life sciences compensation firm provided benchmarks for US-based executives.

External advice is used as a guide only and is not a substitute for the Board and Nomination and Remuneration Committee's thorough consideration of the relevant remuneration matter.

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

**Christopher Vonwiller**  
Director

24 February 2021

Sydney

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

to the directors of Appen Limited



I declare that, to the best of my knowledge and belief, in relation to the audit of Appen Limited for the year ended 31 December 2020 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

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

KPMG

Cameron Slapp  
*Partner*

Sydney

24 February 2021



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# Financial report

# Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2020

	Note	Group	
		2020 \$'000	2019 \$'000
<b>Services revenue</b>	4	<b>599,377</b>	535,493
Other income		153	8
Interest income calculated using the effective interest method		325	498
Recovery of impairment of receivables	8	47	-
Net foreign exchange gain		6,804	-
<b>Expenses</b>			
Services purchased – data collection		(347,370)	(310,644)
Employee expenses	5	(104,091)	(75,474)
Share-based payments expense	5	(18,147)	(19,204)
Depreciation and amortisation expense	5	(40,908)	(25,864)
Impairment of receivables	8	-	(791)
Travel expense		(1,019)	(2,973)
Professional fees		(11,996)	(11,511)
Rent and occupancy expense		(98)	(698)
Communication expense		(1,210)	(1,074)
Transaction costs		(1,152)	(7,450)
Figure Eight earn-out adjustment	19	4,059	2,557
Deemed interest on earn-out liability	19	(1,353)	(3,368)
Net foreign exchange loss		-	(101)
Other expenses		(17,446)	(20,226)
Finance costs	5	(2,445)	(4,123)
<b>Profit before income tax expense</b>		<b>63,530</b>	55,055
Income tax expense	6	(13,016)	(13,444)
<b>Profit after income tax expense for the year attributable to the owners of Appen Limited</b>	22	<b>50,514</b>	41,611
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(52,729)	2,681
Other comprehensive income/(loss) for the year, net of tax		(52,729)	2,681
<b>Total comprehensive income/(loss) for the year attributable to the owners of Appen Limited</b>		<b>(2,215)</b>	44,292
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	34	<b>41.53</b>	35.28
Diluted earnings per share	34	<b>40.85</b>	34.60

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



# Consolidated statement of financial position

as at 31 December 2020

	Note	Group	
		2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	78,437	75,274
Trade and other receivables	8	65,650	116,336
Contract assets	9	40,880	7,886
Derivative financial instruments	10	1,918	314
Income tax refund due	6	10,752	-
Prepayments		3,142	2,829
<b>Total current assets</b>		<b>200,779</b>	202,639
<b>Non-current assets</b>			
Property, plant and equipment	11	5,149	5,577
Right-of-use assets	12	23,326	21,922
Intangibles	13	359,388	398,576
Deferred tax	6	10,686	3,979
Sundry receivables		1,038	1,444
<b>Total non-current assets</b>		<b>399,587</b>	431,498
<b>Total assets</b>		<b>600,366</b>	634,137
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	57,292	60,414
Contract liabilities	15	9,675	22,122
Lease liabilities	17	6,532	4,648
Income tax	6	-	1,424
Employee benefits	18	4,230	2,050
Other liabilities	19	100	38,143
<b>Total current liabilities</b>		<b>77,829</b>	128,801
<b>Non-current liabilities</b>			
Borrowings	16	-	-
Lease liabilities	17	18,705	18,043
Deferred tax	6	17,395	4,011
Employee benefits	18	565	431
Other liabilities	19	-	1,069
<b>Total non-current liabilities</b>		<b>36,665</b>	23,554
<b>Total liabilities</b>		<b>114,494</b>	152,355
<b>Net assets</b>		<b>485,872</b>	481,782
<b>Equity</b>			
Issued capital	20	362,138	362,138
Reserves	21	127,604	123,514
Accumulated losses	22	(3,870)	(3,870)
<b>Total equity</b>		<b>485,872</b>	481,782

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

# Consolidated statement of changes in equity

for the year ended 31 December 2020

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2020	362,138	123,514	(3,870)	481,782
Profit after income tax expense for the year	-	-	50,514	50,514
Other comprehensive loss for the year, net of tax	-	(52,729)	-	(52,729)
Total comprehensive income/(loss) for the year	-	(52,729)	50,514	(2,215)
Transfer between reserves	-	50,514	(50,514)	-
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	17,862	-	17,862
Dividends paid (note 23)	-	(11,557)	-	(11,557)
Balance at 31 December 2020	362,138	127,604	(3,870)	485,872

Group	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2019	69,602	73,668	(3,870)	139,400
Profit after income tax expense for the year	-	-	41,611	41,611
Other comprehensive income for the year, net of tax	-	2,681	-	2,681
Total comprehensive income for the year	-	2,681	41,611	44,292
Transfer between reserves	-	41,611	(41,611)	-
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary shares, net of transaction costs (note 20)	292,536	-	-	292,536
Share-based payments	-	14,657	-	14,657
Dividends paid (note 23)	-	(9,103)	-	(9,103)
Balance at 31 December 2019	362,138	123,514	(3,870)	481,782

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



# Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	Group	
		2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		597,784	488,584
Payments to suppliers and employees (inclusive of GST)		(485,108)	(405,831)
		112,676	82,753
Interest received		325	468
Interest paid		(1,912)	(2,413)
Income taxes paid		(17,516)	(13,506)
Net cash from operating activities	33	93,573	67,302
<b>Cash flows from investing activities</b>			
Payment for purchase of subsidiary, net of cash acquired	16	(39,040)	(233,835)
Transaction cost paid for acquisitions		(1,152)	(6,687)
Payments for property, plant and equipment	11	(2,433)	(3,113)
Payments for intangibles	13	(24,818)	(12,400)
Net cash used in investing activities		(67,443)	(256,035)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	20	-	292,536
Proceeds from borrowings		39,040	-
Repayment of borrowings	16	(34,129)	(57,028)
Payments for lease liabilities		(6,184)	(4,467)
Dividends paid	23	(11,557)	(9,103)
Net cash from/(used in) financing activities		(12,830)	221,938
Net increase in cash and cash equivalents		13,300	33,205
Cash and cash equivalents at the beginning of the financial year		75,274	40,045
Effects of exchange rate changes on cash and cash equivalents		(10,137)	2,024
Cash and cash equivalents at the end of the financial year	7	78,437	75,274

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

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 1. General information

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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 Australian dollars, which is Appen Limited's functional and 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 2021.

## 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 under the historical cost convention, except for, where applicable, the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, certain classes of property, plant and equipment, derivative financial instruments 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 assumptions and estimates are significant to the financial statements, are disclosed as relevant as part of 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.

### New, revised or amended accounting standards

The Group has adopted any new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. Below are the new standards adopted by the Group.

#### *AASB 2020-4 Amendment to Australian Accounting Standards – COVID-19-Related Rent Concessions*

The Group adopted the amendment to AASB 16 from 1 January 2019. During the year, only one landlord granted a COVID-19 rent concession for a limited period.

#### *Definition of a Business (Amendments to IFRS 3) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

The Group initially adopted these amendments from 1 January 2020. The Group applied *Definition of a Business (Amendments to IFRS 3)* to business combinations whose acquisition dates are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets.

A number of other new accounting standards and interpretations are effective from 1 January 2020, but these do not have any impact on the Group's financial statements.





# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 2. Basis of preparation (continued)

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### 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 in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 3. Operating segments

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### Identification of reportable operating segments

The Group is organised into two operating segments based on differences in products and services provided: Relevance and Speech & Image. These operating segments are based on the internal reports that are reviewed and used by the Group's Chief Executive Officer (CEO), who is identified as the Chief Operating Decision Maker, in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CEO reviews a set of financial reports which covers EBITDA (earnings before interest, tax, depreciation and amortisation), revenue and operating segment reports on a monthly basis. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

### Types of products and services

The principal products and services of each of these operating segments are as follows:

<b>Relevance</b>	Relevance products and services provide annotated training data that is directly used as an input to improve performance of the world's leading search engines, social media and e-commerce applications. Relevance training data relies heavily on our large-scale global crowd to deliver a workforce that is representative of our customers' global user base with the speed and volume of data to meet our customers' requirements.
<b>Speech &amp; Image</b>	Speech & Image products and services which provides training data that is used to build the world's leading AI-based voice interface, translation, text analysis, AR/VR and image perception systems (including LiDAR for autonomous vehicles). The combination of our leading data annotation platform, global crowd and deep functional expertise delivers high-quality training data at scale across a wide variety of industries and applications.

### Major customers

During the year ended 31 December 2020 approximately 88.9% (2019: 88.2%) of the Group's external revenue was derived from sales to five major customers.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 3. Operating segments (continued)

### Operating segment information

Group – 2020	Relevance \$'000	Speech & Image \$'000	Other segments \$'000	Total \$'000
<b>Revenue</b>				
Services revenue	538,184	61,193	–	599,377
Interest	–	–	325	325
Other income	–	–	153	153
<b>Total revenue and other income</b>	<b>538,184</b>	<b>61,193</b>	<b>478</b>	<b>599,855</b>
<b>Segment result</b>	<b>112,662</b>	<b>12,445</b>	<b>386</b>	<b>125,493</b>
Corporate overhead				(6,796)
Marketing expenses				(2,025)
Share-based payment – employees				(14,601)
Share-based payment – acquisition related				(3,546)
Transaction costs				(1,152)
Depreciation and amortisation				(40,908)
Foreign exchange gain <sup>1</sup>				6,804
Figure Eight earn out adjustment				4,059
Deemed interest on earn-out liability				(1,353)
Finance costs				(2,445)
<b>Profit before income tax expense</b>				<b>63,530</b>
Income tax expense				(13,016)
<b>Profit after income tax expense</b>				<b>50,514</b>

1 Mainly on repayment of borrowings (refer note 16).



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 3. Operating segments (continued)

Group – 2019	Relevance \$'000	Speech & Image \$'000	Other segments \$'000	Total \$'000
<b>Revenue</b>				
Services revenue	467,810	67,683	–	535,493
Interest	21	–	477	498
Other income	–	–	8	8
<b>Total revenue and other income</b>	<b>467,831</b>	<b>67,683</b>	<b>485</b>	<b>535,999</b>
<b>Segment result</b>	<b>104,195</b>	<b>21,421</b>	<b>8</b>	<b>125,624</b>
Corporate overhead				(10,816)
Marketing expenses				(2,200)
Share-based payment – employees				(11,048)
Share-based payment – acquisition related				(8,156)
Transaction costs				(7,450)
Depreciation and amortisation				(25,864)
Foreign exchange loss				(101)
Figure Eight earn-out adjustment				2,557
Deemed interest on earn-out liability				(3,368)
Finance costs				(4,123)
<b>Profit before income tax expense</b>				<b>55,055</b>
Income tax expense				(13,444)
<b>Profit after income tax expense</b>				<b>41,611</b>

## Geographical information

	Services revenue		Geographical non-current assets	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Australia	46,361	59,568	1,808	1,421
US	544,709	468,420	372,599	406,007
Other countries	8,307	7,505	13,705	15,052
	<b>599,377</b>	<b>535,493</b>	<b>388,112</b>	<b>422,480</b>

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 4. Services revenue

	Group	
	2020 \$'000	2019 \$'000
Services revenue	599,377	535,493

### Disaggregation of services revenue

Services revenue is disaggregated by type of service and primary geographical country as follows:

Group – 2020	Relevance \$'000	Speech & Image \$'000	Total \$'000
<b>Geographical regions</b>			
Australia	–	46,361	46,361
US	538,184	6,525	544,709
Other countries	–	8,307	8,307
	538,184	61,193	599,377

Group – 2019	Relevance \$'000	Speech & Image \$'000	Total \$'000
<b>Geographical regions</b>			
Australia	–	59,568	59,568
US	467,810	610	468,420
Other countries	–	7,505	7,505
	467,810	67,683	535,493



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 4. Services 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 sourcing a crowd for customers through multiple vendors.

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 sale of contract services or licence products and database. 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 Australian dollars using the exchange rates prevailing at the date of the transactions. 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 are recognised in profit or loss.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 5. Expenses

Profit before income tax includes the following specific expenses:

	Group	
	2020 \$'000	2019 \$'000
<b>Depreciation and amortisation</b>		
Depreciation:		
Leasehold improvements	913	647
Fixtures and fittings	172	353
Computer equipment	1,662	1,136
Audio equipment	35	20
Land and buildings – right-of-use assets	6,784	3,947
Total depreciation	9,566	6,103
Amortisation:		
Systems implementation	543	543
Platform development	13,682	5,299
Other intangibles	44	33
Amortisation sub-total	14,269	5,875
Amortisation – acquisition related:		
Platform development <sup>1</sup>	10,360	7,536
Customer relationships	6,204	5,951
Brand	436	327
Customer contracts	73	72
Amortisation – acquisition related sub-total	17,073	13,886
Total depreciation and amortisation	40,908	25,864

<sup>1</sup> The benefits associated with acquisition related platform development new feature enhancements are now fully integrated into the Group.

	Group	
	2020 \$'000	2019 \$'000
<b>Finance costs</b>		
Interest and finance charges paid/payable on borrowings	1,169	3,103
Interest and finance charges paid/payable on lease liabilities	1,276	1,020
Finance costs expensed	2,445	4,123



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 5. Expenses (continued)

	Group	
	2020 \$'000	2019 \$'000
<b>Share-based payments expense</b>		
Share-based payment in respect of Appen performance rights	14,601	11,048
Share-based payment in respect of Leapforce	1,668	1,668
Share-based payment in respect of Figure Eight	1,878	6,488
<b>Total share-based payments expense</b>	<b>18,147</b>	19,204

	Group	
	2020 \$'000	2019 \$'000
<b>Employee expenses</b>		
Defined contribution superannuation expense	5,702	3,285
Employee expenses	98,389	72,189
<b>Total employee expenses</b>	<b>104,091</b>	75,474

### 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.

#### 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 2020

## Note 6. Income tax

	Group	
	2020 \$'000	2019 \$'000
<b>Income tax expense</b>		
Current tax	(80)	15,377
Deferred tax – origination and reversal of temporary differences	15,211	(2,452)
Adjustment recognised for prior periods – current tax	5,766	519
Adjustment recognised for prior periods – deferred tax	(7,881)	–
<b>Income tax expense</b>	<b>13,016</b>	<b>13,444</b>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(7,374)	(2,914)
Increase in deferred tax liabilities	14,733	462
Deferred tax – origination and reversal of temporary differences	7,359	(2,452)
<b>Numerical reconciliation of income tax expense and tax at the statutory rate</b>		
Profit before income tax expense	63,530	55,055
Tax at the statutory tax rate of 30%	19,059	16,517
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	–	38
Share-based payments	(1,006)	(1,734)
Figure Eight earn-out payments adjustment	(662)	–
Non-deductible transaction cost related to acquisition	–	802
Exchange differences	(920)	–
Sundry items	(60)	–
	<b>16,411</b>	<b>15,623</b>
Adjustment recognised for prior periods	(2,115)	519
Difference in overseas tax rates	(1,280)	(2,698)
<b>Income tax expense</b>	<b>13,016</b>	<b>13,444</b>





# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 6. Income tax (continued)

	Group	
	2020 \$'000	2019 \$'000
<b>Deferred tax asset</b>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Allowance for expected credit losses	-	1
Property, plant and equipment	334	(258)
Employee benefits	7,095	1,093
Leases	-	303
Accrued expenses	309	1,463
Work-in-progress	-	(656)
Transaction costs	2,921	-
Foreign currency revaluation and other expense	27	2,033
Deferred tax asset	<b>10,686</b>	3,979
Movements:		
Opening balance	3,979	1,584
Credited to profit or loss	7,374	2,914
Additions through business combinations	-	(519)
Exchange differences	(667)	-
Closing balance	<b>10,686</b>	3,979

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 6. Income tax (continued)

	Group	
	2020 \$'000	2019 \$'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>1</sup>	(9,253)	(16,624)
Property, plant and equipment	-	134
Right-of-use office lease	-	(94)
Intangible assets	23,775	3,210
Employee benefits	-	(676)
Revenue received in advance	2,383	666
Platform development costs	-	2,331
Figure Eight earn-out liability adjustment	-	(1,066)
Initial Public Offering related transaction cost	-	(570)
Figure Eight identifiable intangibles	-	18,732
Foreign currency revaluation and other expense	490	(2,032)
Deferred tax liability	17,395	4,011
Movements:		
Opening balance	4,011	3,549
Charged to profit or loss	14,733	462
Exchange differences	(1,349)	-
Closing balance	17,395	4,011

1 Estimated tax losses relating to Figure Eight to be applied to future periods amounts to US\$43.5 million of which US\$28.5 million has been recognised as a deferred tax asset. This is subject to estimated maximum annual limitations as follows:  
 2021: US\$16.5 million  
 2022-2040: US\$0.7 million

	Group	
	2020 \$'000	2019 \$'000
Income tax refund due	10,752	-

	Group	
	2020 \$'000	2019 \$'000
Provision for income tax	-	1,424



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 6. Income tax (continued)

### Critical accounting judgements, estimates and assumptions

The Group is subject to income taxes in the jurisdictions in which it operates. 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.

#### 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 2020

## Note 7. Cash and cash equivalents

	Group	
	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Cash on hand	1	6
Cash at bank	78,436	75,268
	<b>78,437</b>	75,274

### 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	
	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Trade receivables	64,067	115,737
Less: Allowance for expected credit losses	(807)	(1,027)
	<b>63,260</b>	114,710
Other receivables	1,949	1,294
GST receivable	441	332
	<b>65,650</b>	116,336

The reduction in trade receivables relates to amounts, at 31 December 2020, being classed as 'contract assets' (refer note 9).

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

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

### Impairment and allowance for expected credit losses

At 31 December 2020, the Group has recognised a provision of \$807,211 (2019: \$1,027,000) in respect of the impairment of receivables.

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

Group	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2020 %	2019 %	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Not overdue	-	-	43,918	64,458	-	-
0 to 3 months overdue	-	-	15,865	50,040	-	-
3 to 6 months overdue	13%	-	4,002	-	525	1,027
Over 6 months overdue	100%	83%	282	1,239	282	-
			64,067	115,737	807	1,027

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

	Group	
	2020 \$'000	2019 \$'000
Opening balance	1,027	184
Additional provisions recognised	-	791
Foreign currency revaluation on opening balance	(97)	48
Amounts written off during the year as uncollectable	(76)	4
Unused amounts reversed	(47)	-
Closing balance	807	1,027

### Critical accounting judgements, estimates and assumptions

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue and makes assumptions to allocate an overall expected credit loss for each group. The assumptions include recent sales experience and historical collection rates and forward-looking information that is available.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

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

### 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.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

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

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

## Note 9. Contract assets

	Group	
	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Contract assets	40,880	7,886
<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:		
Balance at 1 January	7,886	10,354
Subsequently invoiced and transferred to receivables – reversal	(7,886)	(10,354)
Accrued revenue recognised – origination <sup>1</sup>	30,716	10,395
Balance at 30 June	30,716	10,395
Subsequently invoiced and transferred to receivables – reversal	(30,716)	(10,395)
Accrued revenue recognised – origination <sup>1</sup>	41,561	8,053
Revaluation	(681)	(167)
Balance at 31 December	40,880	7,886

<sup>1</sup> 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 majority of contract assets were subsequently invoiced on 1 January 2021 and as at 16 February 2021, 80% of these invoices had been paid.



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 10. Derivative financial instruments

	Group	
	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts – cash flow hedges	1,918	314

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.

### Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. Under AASB 139, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under AASB 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into initial carrying amounts of the non-financial assets.

## Note 11. Property, plant and equipment

	Group	
	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Leasehold improvements – at cost	4,989	4,510
Less: Accumulated depreciation	(2,923)	(2,164)
	2,066	2,346
Fixtures and fittings – at cost	1,553	1,571
Less: Accumulated depreciation	(985)	(887)
	568	684
Computer equipment – at cost	6,905	5,592
Less: Accumulated depreciation	(4,467)	(3,110)
	2,438	2,482
Audio equipment – at cost	244	198
Less: Accumulated depreciation	(167)	(133)
	77	65
	5,149	5,577

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 11. 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 improve- ments \$'000	Fixtures and fittings \$'000	Computer equipment \$'000	Audio equipment \$'000	Total \$'000
Balance at 1 January 2019	2,368	324	2,164	50	4,906
Additions	754	529	1,795	35	3,113
Additions through business combinations – Figure Eight	371	248	234	–	853
Disposals	(21)	(41)	(56)	–	(118)
Exchange differences	(479)	(23)	(519)	–	(1,021)
Depreciation expense	(647)	(353)	(1,136)	(20)	(2,156)
Balance at 31 December 2019	2,346	684	2,482	65	5,577
Additions	675	94	1,616	48	2,433
Disposals	–	–	(2)	–	(2)
Exchange differences	(42)	(38)	4	(1)	(77)
Depreciation expense	(913)	(172)	(1,662)	(35)	(2,782)
<b>Balance at 31 December 2020</b>	<b>2,066</b>	<b>568</b>	<b>2,438</b>	<b>77</b>	<b>5,149</b>

### Critical accounting judgements, estimates and assumptions

#### Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. 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 2020

## Note 12. Right-of-use assets

	Group	
	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Land and buildings – right-of-use	32,963	25,838
Less: Accumulated depreciation	(9,637)	(3,916)
	<b>23,326</b>	21,922

### 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 \$'000
Balance at 1 January 2019	11,820
Additions on adoption of AASB 16	14,018
Exchange differences	31
Depreciation expense	(3,947)
Balance at 31 December 2019	21,922
Additions	9,255
Disposals	(361)
Exchange differences	(706)
Depreciation expense	(6,784)
<b>Balance at 31 December 2020</b>	<b>23,326</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 at 31 December 2020;
- 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 2020

## Note 13. Intangibles

	Group	
	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Goodwill – at cost	262,802	288,772
Systems implementation – at cost	4,979	5,419
Less: Accumulated amortisation	(3,260)	(3,050)
	1,719	2,369
Platform development – at cost	104,163	87,772
Less: Accumulated amortisation	(35,314)	(15,007)
	68,849	72,765
Customer relationships – at cost	40,861	44,909
Less: Accumulated amortisation	(15,736)	(11,209)
	25,125	33,700
Brand – at cost	778	855
Less: Accumulated amortisation	(681)	(321)
	97	534
Customer contracts – at cost	3,077	3,369
Less: Accumulated amortisation	(3,008)	(3,223)
	69	146
Other intangibles – at cost	1,180	716
Less: Accumulated amortisation	(453)	(426)
	727	290
	<b>359,388</b>	398,576



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 13. Intangibles (continued)

### Reconciliations

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

Group	Goodwill \$'000	Systems implemen- tation \$'000	Platform develop- ment \$'000	Customer relation- ships \$'000	Brand \$'000	Customer contracts \$'000	Other intangibles \$'000	Total \$'000
Balance at 1 January 2019	81,055	2,786	3,245	31,709	-	211	138	119,144
Additions	-	104	12,109	-	-	-	187	12,400
Additions through business combinations	203,452	-	70,485	7,699	855	-	-	282,491
Exchange differences	4,265	22	(239)	243	6	7	(2)	4,302
Amortisation expense	-	(543)	(12,835)	(5,951)	(327)	(72)	(33)	(19,761)
Balance at 31 December 2019	288,772	2,369	72,765	33,700	534	146	290	398,576
Additions	-	49	24,274	-	-	-	495	24,818
Exchange differences	(25,970)	(156)	(4,148)	(2,371)	(1)	(4)	(14)	(32,664)
Amortisation expense	-	(543)	(24,042)	(6,204)	(436)	(73)	(44)	(31,342)
<b>Balance at 31 December 2020</b>	<b>262,802</b>	<b>1,719</b>	<b>68,849</b>	<b>25,125</b>	<b>97</b>	<b>69</b>	<b>727</b>	<b>359,388</b>

The at cost movement in goodwill, customer relationships, brand and customer contracts during the year relates to foreign exchange currency movements only.

The additions for systems implementation, platform development and other intangibles in 2020 relates to costs incurred in relation to development of the Group's platforms and databases. These strategic investments were made to enhance our comparative advantage and market leading position in product development, and were capitalised in accordance with the recognition criteria outlined in the Group's accounting policy (see next page).

### Impairment testing of intangible assets

At 31 December 2020, the recoverable amount, being the net amount of discounted future cash flows, materially exceeds the carrying value of assets in the Relevance and Speech & Image cash generating unit(s).

Goodwill relates to the acquisition of Butler Hill, Inc. (Butler Hill), Leapforce, RaterLabs and Figure Eight in the United States, and Mendip Media Group Limited (MMG) in the United Kingdom. The recoverable amount of this business, at balance date, was estimated based on its value in use.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 13. Intangibles (continued)

### Butler Hill, Leapforce, RaterLabs and Figure Eight

Value in use for the Relevance cash-generating unit (CGU) was determined by discounting the future cash flows to be generated from the Relevance division and is based on the following key assumptions:

- Cash flows were projected based on forecast operating results over a five-year period;
- Average annual revenue growth rates of 6.8% for 2021 to 2025 were used for revenue projections. This growth was referenced against the average annual historical growth rates over the past five years and the long-term growth rate of the industry. 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 rate of 3%; and
- A pre-tax discount of 14.2% based on the weighted average cost of capital.

The Goodwill carrying value of \$261,072,000 (2019: \$282,959,000) has been allocated to the Relevance CGU.

### Mendip Media Group Limited

Value in use for the Speech & Image CGU was determined by discounting the future cash flows to be generated from Speech & Image division and is based on the following key assumptions:

- Cash flows were projected based on forecast operating results over a five year period;
- Average annual revenue growth rates of 5% for 2021 to 2025 were used for revenue projections. This growth was referenced against average annual historical growth rates over the past five years and the long-term growth rate of the industry. 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 rate of 3%; and
- A pre-tax discount rate of 17.1% based on weighted average cost of capital.

The Goodwill carrying value of \$1,730,000 (2019: \$1,837,000) has been allocated to the Speech & Image CGU.

For both the Relevance and Speech & Image CGU, no reasonable possible change in key assumptions would result in impairment.

## Critical accounting judgements, estimates and assumptions

### Capitalisation of platform development costs

The Group uses a degree of judgement in order to determine if platform development costs satisfy the recognition and measurement criteria to be capitalised as an asset in accordance with AASB 138 *Intangible Assets*. This includes a review of project-plan related documentation and timesheets for engineering personnel.

### Goodwill and other indefinite life intangible assets

The Group tests annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discounted rates based on the current cost of capital and growth rates of the estimated future cash flows.

## Accounting policy

### General

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

Development costs (for example, platform 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 2020

## Note 13. 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.

#### Platform development

Platform 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 new feature or enhancement is activated and is used by both internal and external customers. The capitalised costs of platform enhancements include the direct costs of internal staff and any supporting software acquired from a third party.

#### Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of seven to 10 years.

#### Brand

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

Off-the-shelf databases are internally generated intangibles and are capitalised only if they meet all of the criteria stated above with respect to 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 2020

## Note 14. Trade and other payables

	Group	
	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Trade payables	28,284	24,974
Other payables and accrued expenses	29,008	35,440
	<b>57,292</b>	60,414

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 15. Contract liabilities

	Group	
	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Invoices issued/deposits received in advance	9,675	22,122
<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	22,122	1,535
Payments received in advance	18,760	21,870
Transfer from/(to) revenue	(28,876)	(1,234)
Revaluation	(2,331)	(49)
Closing balance	<b>9,675</b>	22,122

### 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 \$9,675,000 as at 31 December 2020 (\$22,122,000 as at 31 December 2019) and is expected to be recognised as revenue in future periods as follows:

	Group	
	2020 \$'000	2019 \$'000
Less than 3 months	2,211	314
Over 3 months	7,464	21,808
	<b>9,675</b>	22,122



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 15. Contract liabilities (continued)

### 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 goods or services to a customer.

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

## Note 16. Borrowings

	Group	
	2020 \$'000	2019 \$'000
<b>Non-current liabilities</b>		
Facility A (Senior debt)	-	-
Facility C (Acquisition funding)	-	-
	-	-
<b>Movements in borrowings</b>		
Movements in each class of borrowings during the current and previous financial year, are set out below:		
<b>Facility A (Senior debt)</b>		
Carrying amount at the start of the year	-	56,330
Amount borrowed	-	698
Less: amount repaid	-	(57,028)
Carrying amount at the end of the year	-	-
<b>Facility C (Acquisition funding)</b>		
Carrying amount at the start of the year	-	-
Amount borrowed	39,040	-
Revaluation	(3,945)	-
Less: amortised borrowing costs	(966)	-
Less: amount repaid	(34,129)	-
Carrying amount at the end of the year	-	-

Refer to note 24 for further information on financial instruments.

### 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.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 16. Borrowings (continued)

### Facility C

The facility was established in April 2019 with a 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 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.

On 4 August 2020, the Group repaid the full debt. There is no amount owing under Facility C as at 31 December 2020.

### Financing arrangements

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

	Group	
	2020 \$'000	2019 \$'000
Total facilities		
Facility A (Senior debt)	25,944	28,514
Facility B (Working capital)	20,000	20,000
Facility C (Acquisition funding)	31,310	128,312
	<b>77,254</b>	176,826
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)	25,944	28,514
Facility B (Working capital)	20,000	20,000
Facility C (Acquisition funding)	31,310	128,312
	<b>77,254</b>	176,826

### 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 2020

## Note 17. Lease liabilities

	Group	
	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Lease liability	6,532	4,648
<b>Non-current liabilities</b>		
Lease liability	18,705	18,043

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 2021.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 18. Employee benefits

	Group	
	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Annual leave	4,230	2,050
<b>Non-current liabilities</b>		
Long service leave	565	431

### 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. Other liabilities

	Group	
	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Earn-out liability in respect of Figure Eight acquisition	-	32,368
Earn-out adjustment in respect of Figure Eight employees	-	4,477
Other current liabilities	100	1,298
	100	38,143
<b>Non-current liabilities</b>		
Other non-current liabilities	-	1,069

During the year, \$39,040,000 was paid to settle the Figure Eight earn-out liability (refer note 16), with \$4,059,000 being released as a gain to the statement of profit or loss as Figure Eight earn-out adjustment and \$1,353,000 recognised as an expense in the statement of profit or loss as deemed interest on earn-out liability. See note 16 for further details.



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 20. Issued capital

	Group		2019 \$'000
	2020 Shares	2019 Shares	
Ordinary shares – fully paid	122,345,605	121,107,755	362,138

### Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 January 2019	106,599,647	69,602
Issue of shares on exercise of options	11 March 2019	40,900	20
Issue of shares on exercise of performance rights	11 March 2019	332,697	-
Issue of shares to fund acquisition of Figure Eight Technologies, Inc.	18 March 2019	13,255,814	285,000
Share issue transaction costs – Figure Eight acquisition	2 April 2019	-	(7,486)
Issue of shares under Share Purchase Plan to fund acquisition of Figure Eight Technologies, Inc.	10 April 2019	697,761	15,002
Issue of shares on exercise of performance rights	4 June 2019	50,000	-
Issue of shares on exercise of performance rights	29 August 2019	7,033	-
Issue of shares as contingent consideration on acquisition of Leapforce, Inc and RaterLabs, Inc.	9 December 2019	123,903	-
Balance	31 December 2019	121,107,755	362,138
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	-
<b>Balance</b>	31 December 2020	122,345,605	362,138

### 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.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 20. Issued capital (continued)

### 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 would raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 31 December 2019 Annual Report.

### 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	
	2020 \$'000	2019 \$'000
Common control reserve	(1,416)	(1,416)
Foreign currency translation reserve	(39,615)	13,114
Share-based payments reserve	38,515	20,653
Profits reserve	128,261	89,304
Other reserves	1,859	1,859
	<b>127,604</b>	<b>123,514</b>

### 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 Australian dollars. The movement during the 2020 year is mainly comprised of the exchange rate translation impact of US Dollar balances into Australian Dollars for US denominated intangibles (refer note 13) and intercompany balances (refer note 29 and note 32).

### Share-based payments reserve

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



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 21. Reserves (continued)

### Profits reserve

The Profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit so as to quarantine from being appropriated against prior year accumulated losses. Such profits are available to enable payment of franked dividends in the future should the directors declare so by resolution.

### Other reserves

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

### Movements in reserves

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

Group	Common control \$'000	Foreign currency translation \$'000	Share-based payments \$'000	Profits \$'000	Other \$'000	Total \$'000
Balance at 1 January 2019	(1,416)	10,433	5,996	56,796	1,859	73,668
Foreign currency translation	-	2,681	-	-	-	2,681
Share-based payments	-	-	14,657	-	-	14,657
Transfer from accumulated losses	-	-	-	41,611	-	41,611
Dividends paid	-	-	-	(9,103)	-	(9,103)
Balance at 31 December 2019	(1,416)	13,114	20,653	89,304	1,859	123,514
Foreign currency translation	-	(52,729)	-	-	-	(52,729)
Share-based payments	-	-	17,862	-	-	17,862
Transfer from accumulated losses	-	-	-	50,514	-	50,514
Dividends paid	-	-	-	(11,557)	-	(11,557)
<b>Balance at 31 December 2020</b>	<b>(1,416)</b>	<b>(39,615)</b>	<b>38,515</b>	<b>128,261</b>	<b>1,859</b>	<b>127,604</b>

### Accounting policy

#### Foreign currency translation reserve

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at reporting date. The revenues and expenses of foreign operations are translated into Australian 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. The Group's intangible assets and inter-company receivables held by the Australian entities, are both denominated in US Dollars and the AUD/USD exchange rate increased from 70 cents at 31 December 2019 to 77 cents at 31 December 2020. Refer note 24 for further information.

#### Share-based payments reserve

The Group had a number of share-based payment arrangements that were granted to employees during FY20 and earlier years. The fair value of these arrangements was deemed to be a function of the number of rights granted and the share price at grant date.

#### 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. Refer note 22 for further information.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 22. Accumulated losses

	Group	
	2020 \$'000	2019 \$'000
Accumulated losses at the beginning of the financial year	(3,870)	(3,870)
Profit after income tax expense for the year	50,514	41,611
Transfer to profits reserve	(50,514)	(41,611)
Accumulated losses at the end of the financial year	(3,870)	(3,870)

## Note 23. Dividends

### Dividends

Dividends paid during the financial year were as follows:

	Group	
	2020 \$'000	2019 \$'000
2019 final dividend of 5.0 cents per ordinary share (2019: 2018 final dividend of 4.0 cents)	6,082	4,264
2020 interim dividend of 4.5 cents per ordinary share (2019: 2019 interim dividend of 4.0 cents)	5,475	4,839
	11,557	9,103

### Dividend declared

On 24 February 2021, the Company declared a final dividend for the year ended 31 December 2020 of 5.5 cents per share, partially franked. The dividend is to be paid out of the profits reserve. The record date for determining entitlements to the dividend is 2 March 2021 and the payment date is 19 March 2021. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2020 and will be recognised in subsequent financial periods.

### Franking credits

	Group	
	2020 \$'000	2019 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	1,313	2,386

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

### 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 2020

## 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 senior finance executives (finance) 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. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

### Market risk

#### Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecast cash flows for the ensuing financial year. Appen's policy is to hedge at least 80% of its US denominated revenues generated by its Speech & Image division for the subsequent 12 months.

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:

	Sell Australian dollars		Forward exchange rates	
	2020 \$'000	2019 \$'000	2020	2019
<b>FX Forward Contract</b>				
<b>Sell United States dollars</b>				
Foreign exchange forward contract maturity:				
0–3 months	–	5,841	–	0.6848
3–6 months	–	5,412	–	0.6842
6–12 months	973	–	0.6952	–
<b>FX Option Contract</b>				
<b>Sell United States dollars</b>				
Foreign exchange forward contract maturity:				
0–3 months	13,140	–	0.6849	–
3–6 months	13,140	–	0.6849	–
6–12 months	13,140	–	0.6849	–

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## 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	
	2020	2019	2020	2019
<b>Australian dollars</b>				
United States Dollars	0.6944	0.6960	0.7709	0.7014
United Kingdom Pound Sterling	0.5380	0.5450	0.5648	0.5320
European Economic and Monetary Union Euro	0.6053	0.6220	0.6286	0.6254
Hong Kong Dollars	5.3835	5.4505	5.9752	5.4610
Philippine Pesos	34.3651	35.9756	37.0645	35.5986
Chinese Yuan	4.7816	4.7993	5.0399	4.8856

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	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
United States Dollars	135,297	182,652	32,967	27,226
United Kingdom Pound Sterling	736	1,194	353	116
European Economic and Monetary Union Euro	1,810	3,922	-	-
Hong Kong Dollars	1	-	-	-
Philippine Pesos	1,676	3,567	284	325
Chinese Yuan	2,292	242	72	534
	141,812	191,577	33,676	28,201

The Group had financial net assets denominated in foreign currencies of \$108,136,000 (2019: net assets of \$163,376,000). Financial net assets exclude intangibles and intercompany balances.

Based on this exposure, had the Australian dollar weakened by 10% or strengthened by 10% (2019: 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 purposes, and the Group's equity would have been lower or higher by the following:

Group – 2020	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax \$'000	Effect on equity \$'000	% change	Effect on profit before tax \$'000	Effect on equity \$'000
United States Dollars	10%	(1,844)	(10,092)	10%	1,844	10,092
United Kingdom Pound Sterling	10%	(22)	(24)	10%	22	24
European Economic and Monetary Union Euro	10%	(180)	(8)	10%	180	8
Philippine Pesos	10%	-	(156)	10%	-	156
Chinese Yuan	10%	-	(218)	10%	-	218
		(2,046)	(10,498)		2,046	10,498





# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 24. Financial instruments (continued)

Group – 2019	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax \$'000	Effect on equity \$'000	% change	Effect on profit before tax \$'000	Effect on equity \$'000
United States Dollars	10%	(1,224)	(15,308)	10%	1,224	15,308
United Kingdom Pound Sterling	10%	(10)	(98)	10%	10	98
European Economic and Monetary Union Euro	10%	(392)	–	10%	392	–
Philippine Pesos	10%	–	(324)	10%	–	324
Chinese Yuan	10%	–	30	10%	–	(30)
		(1,626)	(15,700)		1,626	15,700

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 is not exposed to any significant price risk.

### 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.

As at the reporting date, the Group had no borrowings.

### 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.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

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, no active enforcement activity 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.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 24. Financial instruments (continued)

### Financing arrangements

Unused borrowing facilities at the reporting date:

	Group	
	2020 \$'000	2019 \$'000
Facility A (Senior debt)	25,944	28,514
Facility B (Working capital)	20,000	20,000
Facility C (Acquisition funding)	31,310	128,312
	<b>77,254</b>	176,826

### 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 and therefore these totals may differ from their carrying amount in the statement of financial position.

Group – 2020	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<b>Non-interest bearing</b>						
Trade payables	-	28,284	-	-	-	28,284
Other payables	-	5,836	-	-	-	5,836
<b>Interest-bearing – fixed rate</b>						
Lease liability	4.30%	6,532	5,996	8,878	3,831	25,237
Total non-derivatives		40,652	5,996	8,878	3,831	59,357

Group – 2019	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<b>Non-interest bearing</b>						
Trade payables	-	24,974	-	-	-	24,974
Other payables	-	3,586	-	-	-	3,586
<b>Interest-bearing – fixed rate</b>						
Lease liability	4.90%	4,648	5,065	7,690	5,288	22,691
Total non-derivatives		33,208	5,065	7,690	5,288	51,251

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

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## 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 entity 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 – 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Forward foreign exchange contracts	-	1,918	-	1,918
Total assets	-	1,918	-	1,918
<b>Liabilities</b>				
Earn-out liability in respect of Figure Eight acquisition	-	-	-	-
Total liabilities	-	-	-	-

Group – 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Forward foreign exchange contracts	-	314	-	314
Total assets	-	314	-	314
<b>Liabilities</b>				
Earn-out liability in respect of Figure Eight acquisition	-	-	36,845	36,845
Total liabilities	-	-	36,845	36,845

There were no transfers between levels during the financial year.

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.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 25. Fair value measurement (continued)

### 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 \$'000
Balance at 1 January 2019	-
Additions	36,845
Balance at 31 December 2019	36,845
Additional interest	1,217
Figure Eight purchase price adjustment	(4,059)
Figure Eight earn-out liabilities paid out	(39,040)
Realised foreign exchange movement	5,037
<b>Balance at 31 December 2020</b>	<b>-</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.

## 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	
	2020 \$	2019 \$
Short-term employee benefits	4,325,073	3,986,365
Post-employment benefits	154,889	121,089
Long-term benefits	143,796	96,111
Share-based payments	5,113,585	4,025,787
	<b>9,737,343</b>	<b>8,229,352</b>

Detailed remuneration disclosures are contained in the remuneration report section of the director's report.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## 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.

Nature of service	Group	
	2020 \$	2019 \$
<b>Auditors of the Group – KPMG</b>		
Audit and review of the financial statements – Group	339,066	349,552
Audit of the financial statements – controlled entities	28,146	22,958
<b>Total audit services</b>	<b>367,212</b>	372,510
<b>Other services – KPMG</b>		
Transfer pricing services	122,474	148,825
Tax compliance services	–	52,002
Other compliance and assurance services	148,070	91,790
<b>Total other services</b>	<b>270,544</b>	292,617
<b>Total audit and other services</b>	<b>637,756</b>	665,127

## Note 28. Contingent liabilities

The Group has given bank guarantees as at 31 December 2020 of \$613,000 (2019: \$613,000) in satisfaction of its performance obligations with respect to rental premises.

## Note 29. Related party transactions

### Parent entity

Appen Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 31.

### 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, in prior years, associated with the raising of equity and associated movement of funds between the Australian and US entities in the Group in relation to the acquisition of Leapforce, RaterLabs and Figure Eight.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## 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	
	2020 \$'000	2019 \$'000
Profit after income tax	18,272	11,840
Total comprehensive income	18,272	11,840

### Statement of financial position

	Company	
	2020 \$'000	2019 \$'000
Total current assets	3,342	86
Total assets	416,198	393,729
Total current liabilities	1,452	4,713
Total liabilities	1,452	3,572
Net assets	414,746	390,157
Equity		
Issued capital	362,138	362,138
Share-based payments reserve	38,515	20,654
Profits reserve	17,839	11,111
Other reserves	1,859	1,859
Accumulated losses	(5,605)	(5,605)
Total equity	414,746	390,157

### 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 2020 and 31 December 2019.

### Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2020 and 31 December 2019.

### Capital commitments – Property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 31 December 2020 and 31 December 2019.

### 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.



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 31. 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	
		2020 %	2019 %
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%

Name	Principal place of business/ Country of incorporation	Ownership interest	
		2020 %	2019 %
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%

<sup>1</sup> 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 on which 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 2020

## Note 32. 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'.

	2020 \$'000	2019 \$'000
<b>Statement of profit or loss and other comprehensive income</b>		
Revenue	58,752	70,244
Services purchased – data collection	(2,599)	(6,308)
Employee expenses	(32,080)	(27,762)
Depreciation and amortisation expense	(3,502)	(2,770)
Travel expense	(264)	(1,153)
Professional fees	(2,358)	(2,893)
Rent and occupancy expense	(808)	(1,428)
Communication expense	(2,985)	(3,366)
Transaction costs	(36)	(3,210)
Net foreign exchange loss <sup>1</sup>	(23,051)	–
Other expenses	(4,766)	(3,519)
Finance costs	(1,622)	(3,548)
<b>Profit/(loss) before income tax (expense)/benefit</b>	<b>(15,319)</b>	14,287
Income tax (expense)/benefit	7,078	(3,150)
<b>Profit/(loss) after income tax (expense)/benefit</b>	<b>(8,241)</b>	11,137
<b>Other comprehensive income/(loss)</b>		
Foreign currency translation	(1,964)	5,476
Other comprehensive income/(loss) for the year, net of tax	(1,964)	5,476
<b>Total comprehensive income/(loss) for the year</b>	<b>(10,205)</b>	16,613

<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 2020

## Note 32. Deed of cross guarantee (continued)

Statement of financial position	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Cash and cash equivalents	20,551	18,616
Trade and other receivables	5,193	2,142
Contract assets	2,132	2,594
Derivative financial instruments	1,917	314
Income tax refund due	4,645	124
Prepayments	512	388
	34,950	24,178
<b>Non-current assets</b>		
Investments accounted for using the equity method	7,629	7,630
Property, plant and equipment	2,241	3,351
Right-of-use assets	7,200	8,168
Intangibles	1,821	168
Deferred tax	8,718	2,411
Intercompany loan	342,322	366,610
Prepayments	371	255
	370,302	388,593
<b>Total assets</b>	405,252	412,771
<b>Current liabilities</b>		
Trade and other payables	5,995	8,583
Contract liabilities	2,175	1,173
Income tax	-	1,584
Provisions	1,621	998
	9,791	12,338
<b>Non-current liabilities</b>		
Lease liabilities	7,834	8,546
Provisions	565	431
	8,399	8,977
<b>Total liabilities</b>	18,190	21,315
<b>Net assets</b>	387,062	391,456
<b>Equity</b>		
Issued capital	362,375	362,375
Reserves	24,687	29,081
<b>Total equity</b>	387,062	391,456

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 33. Cash flow information

### Reconciliation of profit after income tax to net cash from operating activities

	Group	
	2020 \$'000	2019 \$'000
Profit after income tax expense for the year	50,514	41,611
Adjustments for:		
Depreciation and amortisation	40,908	25,865
Net loss/(gain) on disposal of property, plant and equipment	(23)	30
Share-based payments	18,147	19,204
Foreign exchange differences	(10,137)	3,796
Impairment movement on trade receivables	220	-
Interest expense – deemed interest on earn-out	1,353	3,368
Interest expense – right-of-use assets	1,276	1,020
Transaction costs paid for acquisition	1,152	6,687
Figure Eight earn-out adjustment	(4,059)	(2,557)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	15,010	(48,508)
Increase/(decrease) in trade and other payables	(5,156)	4,803
Increase in employee benefits and provisions	2,314	8,494
Increase/(decrease) in contract liabilities	(12,447)	1,171
Increase/(decrease) in provision for income tax	(12,176)	4,251
Increase/(decrease) in deferred tax liabilities	6,677	(1,933)
Net cash from operating activities	93,573	67,302

#### 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 2020

## Note 34. Earnings per share

	Group	
	2020 \$'000	2019 \$'000
Profit after income tax attributable to the owners of Appen Limited	50,514	41,611
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	121,618,318	117,937,257
Adjustments for calculation of diluted earnings per share:		
Rights over ordinary shares	2,039,642	2,333,771
Weighted average number of ordinary shares used in calculating diluted earnings per share	123,657,960	120,271,028
	Cents	Cents
Basic earnings per share	41.53	35.28
Diluted earnings per share	40.85	34.60

### 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 2020

## Note 35. Share-based payments

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### Performance rights

#### Long-term incentive plan

The Company has developed a long term incentive plan (LTIP) which 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 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 payout ratio of 30%–46%, discounted at a discount rate of 0.75%.

An overview of all current performance rights plans and conditions in place for all employees, including executives, is disclosed in the following table.



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 35. 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
2017	1 Mar 2017	N/A	N/A	1	UBEPS	10.0%	End 2017	Yes	Employed at 1 Jan 2020	1 Jan 2020	\$2.58
2017	1 Mar 2017	N/A	N/A	2	UBEPS	10.0%	End 2018	Yes	Employed at 1 Jan 2020	1 Jan 2020	\$2.58
2017	1 Mar 2017	N/A	N/A	3	UBEPS	10.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	\$2.58
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 2019	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 2019	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

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 35. 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
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
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 23	\$23.37
2020	19 Dec 2019	N/A	N/A	2	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2023	1 Jan 23	\$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 23	\$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 23	\$18.28



# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 35. 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
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

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 <sup>3</sup>	50–80%
Less than 90%	Nil

3 At the board's discretion.

# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 35. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

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
	<b>1,877,415</b>	<b>1,155,555</b>	<b>(556,382)</b>	<b>(156,852)</b>	<b>2,319,736</b>

31 Dec 2019

Plan	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2016	303,273	-	(299,364)	(3,909)	-
2017	252,327	-	-	(20,811)	231,516
2018	134,840	-	-	(5,448)	129,392
2018 Special	443,792	-	-	(179,725)	264,067
2018 STI	-	166,666	(83,333)	-	83,333
2019	-	1,200,256	-	(31,149)	1,169,107
	<b>1,134,232</b>	<b>1,366,922</b>	<b>(382,697)</b>	<b>(241,042)</b>	<b>1,877,415</b>

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.17 years (2019: 1.17 years).

### Accounting policy

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is determined using 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.

If equity-settled awards are modified, an additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.





# Notes to the consolidated financial statements

for the year ended 31 December 2020

## Note 36. 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, supply chain, staffing and geographic regions in which the Group operates. The impact of the COVID-19 pandemic is addressed in the 'Operating and Financial Review' section of the Directors' report.

## Note 37. Events after the reporting period

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The impact of the COVID-19 pandemic is ongoing, and there remains uncertainty as to when the global economy will recover. The Group did not access any Government 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 2020 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 2020 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 32 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



**Christopher Vonwiller**

Director

24 February 2021

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 2020 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 2020
- 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
- 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 the Code.

# Independent auditor's report

to the shareholders of Appen Limited

## Key Audit Matter

The **Key Audit Matter** we identified was:

- Revenue recognition

**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.

## Revenue recognition (\$599.4m)

### Refer to Note 4 of the Financial Report

#### The key audit matter

A substantial amount of the Group's revenue relates to revenue from the rendering of services.

We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the varied service revenue streams in the Group.

Our audit attention focused on revenue recognition from the two largest service revenue streams:

- Revenue from the rendering of speech and image services; and
- Revenue from the rendering of relevance services.

It is the Group's policy to account for revenue generated from speech and image using contract accounting which is based on:

- The expected total time and costs to complete a customer project; and
- The percentage completion of the project, which is typically a count of the number of lines, utterances or images completed compared to the total number of lines, utterances or images for the project as a whole.

These contracts are mainly short term in nature and similar amongst customers.

A significant amount of contract assets related to revenue generated from speech and image and relevance are recognised on the balance sheet due to a high volume of projects spanning across year end where work has been performed but not yet invoiced to customer. Determining work completed required estimation, increasing the risk of revenue recognised in the incorrect period.

Revenue generated from relevance segment involves a high volume of transactions with customers. It is the Group's policy to account for this revenue as services are completed and approved by the customer. We focused on transactions, throughout the year and spanning across year end, which have a higher risk of revenue being recognised in the incorrect period.

Our audit effort reflects the volume of projects and transactions for these revenue streams.

#### How the matter was addressed in our audit

Our procedures included:

- We tested key controls in the Group's revenue process including, management review and approval of sales invoices and monthly project reporting; and
- We selected a statistical sample of speech and image projects in progress at year end. For the sample selected, we:
  - compared the total time and costs budgeted to complete a customer project against the customer contract and project details provided by project managers;
  - recalculated the percentage completion by checking the number of lines, utterances or images translated at year end to underlying project records and compared this to the total number of lines, utterances or images to be recognised as revenue for the project as a whole; and
  - checked the logged performance date of the above project work for allocation of work across financial years.
- We assessed the accuracy of contract assets and receivables related to revenue from speech and image and relevance recognised on the balance sheet. We did this by matching underlying documentation of a sample of transaction activity subsequent to year end, such as records of completion, customer acknowledgement and invoices raised, to relevant projects in contract assets and receivables at year end.
- We tested a statistical sample of transactions throughout the year and spanning across year end from both service revenue streams to underlying records such as sales invoices raised, records of completion and customer acknowledgements or cash receipts in the bank statement, to check revenue was recognised in the period the service was provided.



# Independent auditor's report

to the shareholders of Appen Limited

## Other Information

Other Information is financial and non-financial information in Appen Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

# Independent auditor's report

to the shareholders of Appen Limited

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Appen Limited for the year ended 31 December 2020, 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 58 to 71 of the Directors' report for the year ended 31 December 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Cameron Slapp  
*Partner*

Sydney

24 February 2021



## 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 29 January 2021.

### 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	41	84,593,229	69.14
10,001 to 100,000	323	6,857,081	5.60
5,001 to 10,000	649	4,598,033	3.76
1,001 to 5,000	7,100	15,158,340	12.39
1 to 1,000	40,175	11,138,922	9.10
<b>Total</b>	<b>48,288</b>	<b>122,345,605</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	1,019,879	43.97
10,001 to 100,000	29	650,068	28.02
5,001 to 10,000	39	269,434	11.61
1,001 to 5,000	130	336,613	14.51
1 to 1,000	89	43,742	1.89
<b>Total</b>	<b>292</b>	<b>2,319,736</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 no shareholders with unmarketable parcels.

## Additional information

### Twenty largest shareholders

The names of the twenty largest shareholders of quoted equity securities as at 29 January 2021 are as follows:

	Ordinary shares	
	Number held	% of issued capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,122,566	27.07
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	14,830,040	12.12
CITICORP NOMINEES PTY LIMITED	10,251,109	8.38
C & J VONWILLER PTY LTD	9,060,286	7.41
NATIONAL NOMINEES LIMITED	3,217,709	2.63
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,668,890	2.18
BNP PARIBAS NOMS PTY LTD <DRP>	1,797,647	1.47
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,451,737	1.19
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	1,442,390	1.18
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	634,109	0.52
PACIFIC CUSTODIANS PTY LIMITED	402,378	0.33
NETWEALTH INVESTMENTS LIMITED	385,350	0.31
CITICORP NOMINEES PTY LIMITED	364,881	0.30
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	356,013	0.29
GINGA PTY LTD	340,000	0.28
NEW GREENWICH PTY LTD	332,384	0.27
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	243,983	0.20
MR WILLIAM JOHN LAUKKA & MRS ELIZABETH ANNE LAUKKA	240,229	0.20
AMP LIFE LIMITED	232,196	0.19
SANDHURST TRUSTEES LTD	223,779	0.18
	<b>81,597,676</b>	<b>66.69</b>
Remaining quoted equity securities	<b>40,747,929</b>	<b>33.31</b>
<b>Total number of ordinary shares on issue</b>	<b>122,345,605</b>	<b>100.00</b>

### Unquoted equity securities

The Company had the following unquoted securities on issue as at 29 January 2021:

	Number on issue	Number of holders
Performance rights over ordinary shares	2,319,736	292





## Additional information

### Substantial shareholders

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The names of the Substantial Shareholders as disclosed in notices submitted to the ASX as at 29 January 2021 are:

Shareholder	Ordinary shares	
	Number held	% of issued capital
C & J Vonwiller Pty Limited	9,060,083	7.45
Vanguard Group	6,156,908	5.06

### Restricted securities

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The Company had the following restricted securities on issue as at 29 January 2021:

Class	Expiry date	Number of shares
Ordinary shares, in respect of the Figure Eight acquisition	2 April 2021	27,919

### 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://www.appen.com)