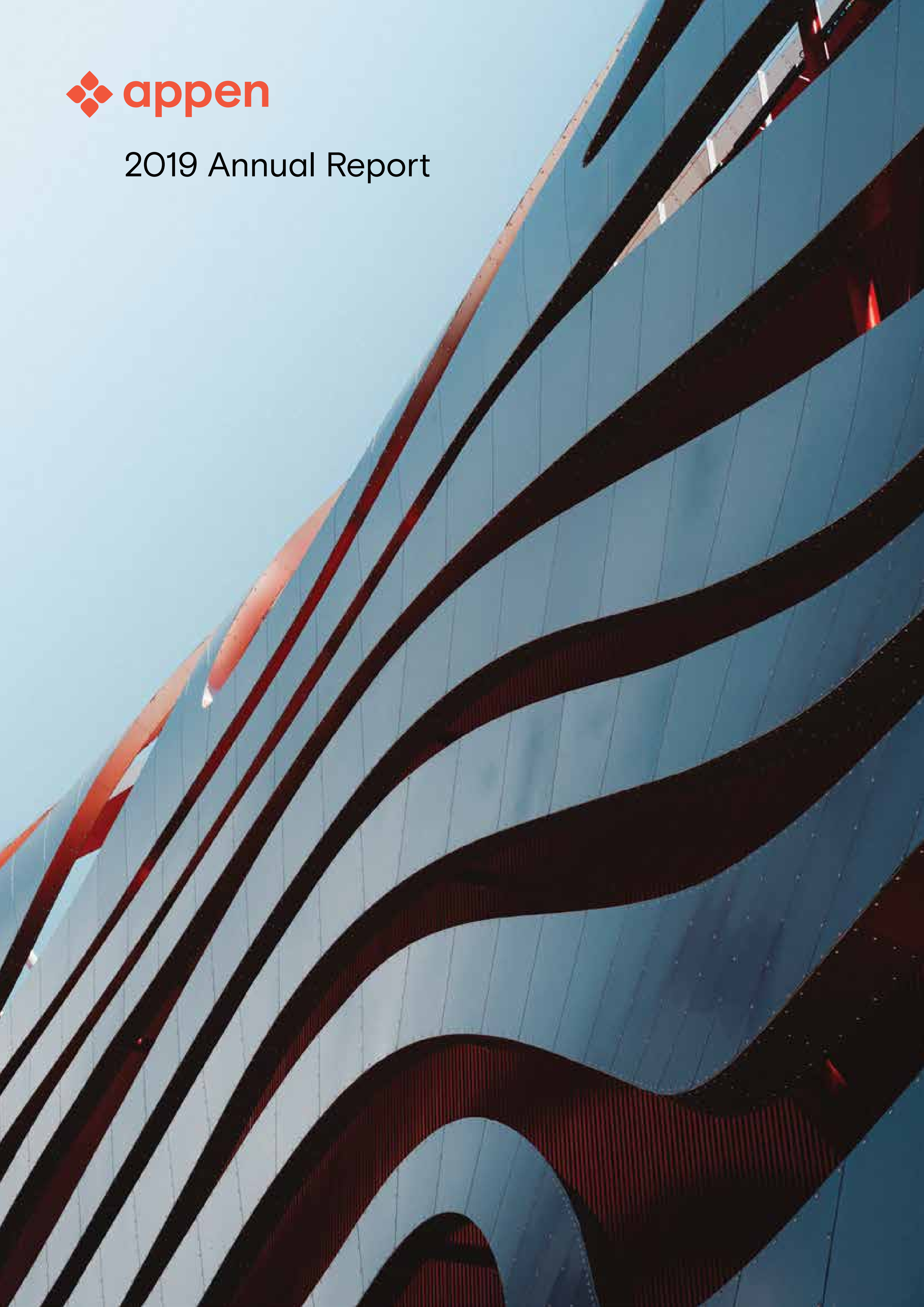
appen

2019 Annual Report



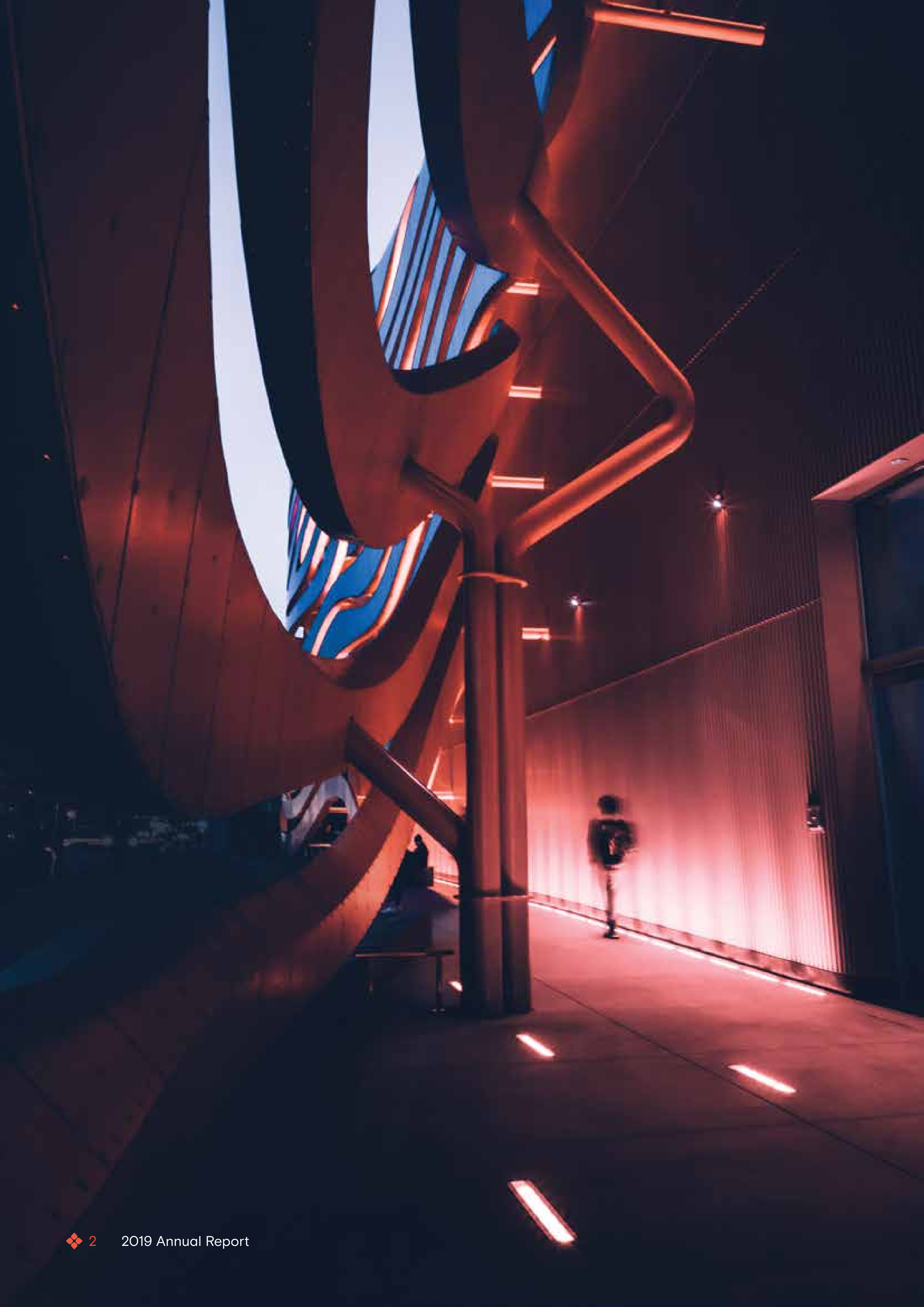
Appen is operating in an environment of extraordinary growth, innovation and disruption where change is the constant.

We collect, classify, translate, review and label large volumes of image, text, speech, audio, and video data used to build and improve artificial intelligence systems and machine learning.

Appen is an integral part of the supply chain and core service offering of our customers who include the world's largest technology companies. We expect our role to expand in breadth and depth and become a more critical component to the core offering and differentiation strategies of our clients.

We are committed to creating and delivering long-term value for Appen's shareholders, employees, crowd workforce, customers and ultimate end users. Part of creating value is articulating what we have done and what we plan to do in a way that resonates with everyone who is interested in our operations.

This report is the first step on our journey towards an integrated style of reporting. As part of our transition we are using the International Integrated Reporting Framework <IIRF> as a guide to outline our strategy, key resources and business activities to create sustained value. We have identified the key risks for our business and our risk mitigation strategies.



Overview and key highlights

Appen's mission, vision and values

Our **mission** is to help build better artificial intelligence (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.

At Appen, we value **performance**, **honesty**, **humility**, and **grit**. These values are central to our business.

Our values:

Grit

Honesty

Humility

Performance

Performance

Our brand promise is to achieve quality outcomes and exceed expectations. Our teams challenge themselves to deliver every day. It helps us remain agile through ongoing change.

Humility

We rely on teamwork to achieve our goals. We cannot do it individually. We give credit, show gratitude, seek diverse perspectives and ask for help.

Honesty

We work hard to improve the quality of our communication with each other, our crowd, and our clients. We are respectful, truth-telling and take accountability for our actions.

Grit

We take initiative and ownership. We have the courage to succeed. We prioritise projects and workload so that we stay balanced. We are resilient.

What is human-annotated training data?

Artificial Intelligence enables our interactions with applications and products every day in our homes, our cars and our workplaces. Whether we are searching on the internet, dictating an SMS to our smartphone, browsing a social media feed, asking our car for directions, or typing in a banking chatroom, the performance of AI determines our satisfaction level with the human to machine interaction.

AI does not learn by itself. Like humans, AI learns by observing large volumes and diverse sets of examples. These examples are called training data.

For training data to be useful in building AI, the data requires associated meaning. Much of the data in the world does not contain meaning from the perspective of a computer, it is called unstructured data. For example, a digital image is only a series of coloured pixels.

Similarly, an audio file of a person speaking is a series of bits and contains no detail on the words spoken. For unstructured data to be used to build AI that can replicate human intelligence, it requires humans to provide meaning to the data. We call this human annotation.

The performance of AI applications is directly linked to the quality, volume and variety of training data used. If training data is mislabelled, the AI applications will be learning from incorrect examples.

Appen at a glance

>1 mil Access to a curated crowd of over one million flexible contractors worldwide	130 Experience working in over 130 countries with a workforce of cultural and ethnic diversity	20 Over 20 years working with leading global technology companies
9 Nine offices around the globe	8/10 Engaged by eight out of the top 10 global technology companies	180 Expertise in over 180 languages and dialects

FY19 performance highlights

Total revenue $536 million, up 47% on FY2018

High performance

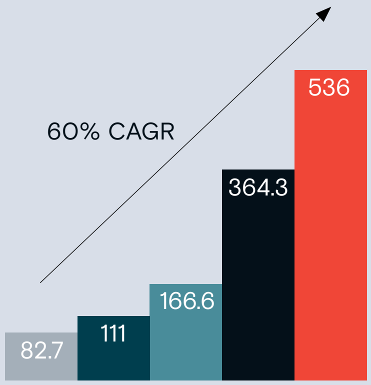
Speech & Image	$67.7M[1]	+32%
Relevance	$430M[1]	+37%
Figure Eight (ARR)	$33.7M[2]	56% CAGR[3]
Underlying EBITDA	$101M	+42%
Underlying EBITDA margin	18.8% vs. 19.6%	

Strong organic growth[1]

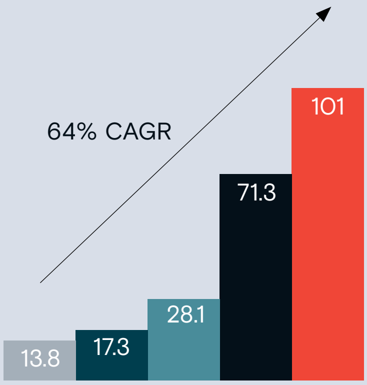
Organic Revenue	$498.1M	+37%
Organic Underlying EBITDA	$107.3M	+51%
Organic Underlying EBITDA margin	21.5% vs. 19.6%	

[1] Excludes Figure Eight
[2] Year end ARR. US$24.95M at A$1=US$0.74. Guidance range A$30M – A$35M at A$1=US$0.74
[3] 2015 to 2019.

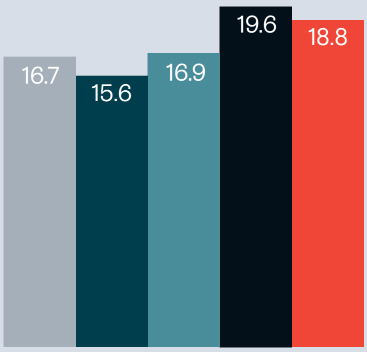
Appen has delivered continuous strong growth over the past 5 years



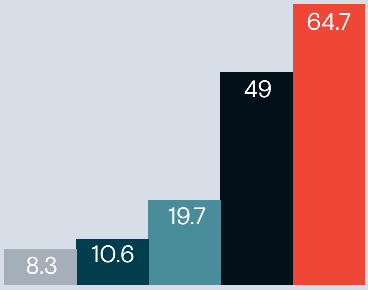
Revenue
(AU$m)



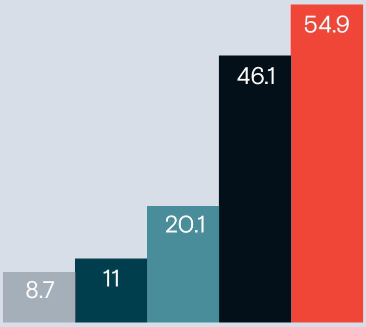
Underlying EBITDA[1]
(AU$m)



Underlying EBITDA margin[1]
(%)



Underlying Net Profit
After Tax[2] (AU$m)



Basic underlying earnings
per share[2] (cents per share)

[1] Earnings before interest, tax, depreciation, amortisation, change in fair value of contingent consideration, transaction costs and excise tax refund.

[2] Excludes after tax impact of items relating to acquisitions, including amortisation of identifiable assets, share based payment expenses, transaction costs and fair value adjustments.

About Appen

Appen is a global leader in the development of high-quality, human-annotated datasets for machine learning and artificial intelligence. Our human-annotated datasets are used by customers ranging from search engines and speech recognition systems to social media platforms and autonomous vehicles. We help organisations and businesses to improve the user experience for their customers, accelerate their time to market and drive efficiency.

Founded in 1996, Appen has global experience in capturing and enriching a wide variety of data types including speech, text, images and video. Our data has fuelled the growth and improvement of the world's most innovative artificial intelligence systems for more than 20 years.

We have deep expertise in more than 180 languages and dialects among our global crowd of more than one million skilled contractors located in over 130 countries. This enables us to help our customers develop, enhance and use products that rely on natural languages and machine learning.

Appen has two reporting lines: Relevance and Speech and Image.

Relevance (formerly Content Relevance) provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and ecommerce.

Speech and Image (formerly Language Resources) provides annotated speech, natural language and image data used in speech and image recognisers, machine translation, speech synthesisers and other machine learning technologies. These services result in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics.

Our customers and partners use the data to improve machine learning algorithms that drive their AI-based solutions. Examples include digital assistants and chatbots, recommenders on search engines and image recognition systems. We help our customers to respond better to human interaction.

In April 2019, Appen completed the acquisition of Figure Eight. The combination of Appen's skilled and diverse global workforce of contractors with Figure Eight's industry-leading data annotation platform creates a robust training data offering designed to enhance AI initiatives for a wide variety of uses. Figure Eight's offering will help us meet the increasing volume, quality and speed requirements for training data.

CASE STUDY

Artificial Intelligence revolutionises pesticide use

Blue River is a John Deere-owned company based in Silicon Valley that combines machine learning and smart equipment to modernise farming and make it both smarter and more sustainable. Blue River has been using Appen's technology to revolutionise the use of pesticides in farming in the US. Utilising Appen training data solutions, artificial intelligence can now identify if a plant is a weed or crop in a matter of milliseconds to enable precision pesticide spraying, treating only the weeds rather than the traditional broad-based spraying approach that covers whole crop.

This AI technology in farming could facilitate a dramatic reduction in pesticide use across our environment, reducing the level of harmful toxins in our water table, our soil and our whole food supply chain. For more information see: **https://www.figure-eight.com/success-stories/blue-river-technology/**

Precision based spraying enabled by artificial intelligence has led to:

90%

reduction in pesticide spend

50%

reduction in seed costs by switching from GMO to conventional seeds

Increased ability to fight herbicide resistant weeds

Appen has six business value drivers that are critical to our ability to create long-term value and sustainable outcomes for our customers, shareholders and the community.

Business value drivers

Global crowd

Our skilled, flexible workforce of over one million contractors, who live in 130 countries and speak 180 languages and dialects, is at the core of our business.

Technology, Processes and Systems

Our processes, knowledge and systems – including crowd management, data annotation and client workspace software – support our customers, deliver high-quality outcomes, and enhance business productivity.

Social & Environment

We place high importance on managing our workforce wellness (including our crowd), our social responsibility, and our environmental footprint.

Appen employees

The combination of expertise and experience, commitment and behaviours, together make Appen employees a great team.

Customer & Brand

Over 20 years we have built trust in our relationships with customers and a reputation in the market and community that we work hard to uphold.

Financial

Our financial performance facilitates our strategy execution, day-to-day operations and ability to invest in growth.

Chairman's and CEO's reports

Chairman's Letter to Shareholders 2019

Dear Shareholders

In 2019 we completed another year of profitable growth and strategic development for our company. Appen has strengthened its leadership position in the rapidly developing and exciting field of machine learning and artificial intelligence. We are committed to maintaining our leadership and expanding our participation.

We operate in a dynamic industry which presents massive opportunities, and some challenges. We are investing to capitalise on the unique position which Appen has built in this most exciting sunrise industry.

Financial Performance

Our financial results for 2019 were strong. This performance reflects the benefits of scale, technology investment and productivity improvements which we have driven in our processes. The 2019 results incorporate the Figure Eight acquisition which was completed on 2nd April.

Here is a summary, together with the relative change from FY2018:

- Revenue grew to $536.0 million, an increase of 47%.
- Underlying EBITDA was $101.0 million, up 42%.
- Statutory EBITDA of $87.9 million (up 29%) reflects the impact of the transaction costs relating to Figure Eight transaction.
- We maintained our strong profitability on sales, with an underlying margin in FY2019 of 18.8%, a slight decrease on 19.6% in FY2018 due to the impact of Figure Eight losses. Underlying margin without Figure Eight was 21.5%.
- Underlying NPAT was $64.7 million, up 32%.

The board has declared a final dividend of 5 cents per share, to be paid on 20 March. Together with the interim dividend of 4 cents per share paid last September, the total dividend payment for 2019 is 9 cents.

Strategy and Outlook

Appen's strategy continues to be focused on the priorities outlined in previous reports to shareholders. First, we are achieving scale in the global crowd-based workforce and the volume of data generated. We are arguably the largest global provider of high-quality data for machine learning. Second, through technology and innovation, we are relentlessly on a path to driving efficiency, lower unit costs, and responsiveness.

“We are determined to maintain our leadership position in one of the fastest growing fields of technology.

“During 2019 we launched an initiative to develop future leaders to improve gender balance in our senior ranks.

Finally, we are strengthening our revenue base – broadening the range of customers, expanding in new geographies and increasing the component of recurring revenue.

Figure Eight is being integrated with the Appen structure in 2020 and is delivering on the strategy underpinning the acquisition. New clients using the Figure Eight platform have expanded our traditional customer base and are generating high quality recurring revenue.

We are determined to maintain our leadership position in one of the fastest growing fields of technology. The acquisitions of Leapforce in 2018 and Figure Eight in 2019 have contributed efficiency and revenue diversity and strengthened our technology resources. In 2019, we continued to build our technology development teams in Silicon Valley and in Shanghai, China.

As our CEO Mark Brayan explains in his letter, the outlook for Appen remains positive. The AI market is growing at 28%.[1] Applications being developed on deep learning techniques require training data, and fundamentally the more data the better the outcome. We support all active modalities – relevance, speech and language, and image/video.

[1] IDC Worldwide Artificial Intelligence Systems Spending Guide, September 2019.

Our priority is to accelerate growth in new industry sectors beyond our traditional tech sector customers, for example government, and in new geographies including China.

Environmental and Social responsibility

Appen is a truly global company and we celebrate our diversity, as do our customers who value this as a core differentiator. Our work-from-home model provides a source of income to individuals that may otherwise find obtaining work difficult, including the disabled.

During 2019 we launched an initiative to develop future leaders to improve gender balance in our senior ranks. The board is committed to this initiative and diversity in general.

An important emerging characteristic of our industry is the societal impact of artificial intelligence, including ethical implications and privacy issues. We launched our Crowd Code of Ethics in 2019 to ensure fair pay and treatment for our at-home workers. We are also working with our customers to understand and address ethical issues around the development and deployment of AI, including the need for unbiased datasets.

The nature of our knowledge-based business results in a relatively low environmental footprint. The work-from-home model for our crowd workers reduces carbon impact, and we seek to use video- and phone conferencing to minimise travel. We are buying carbon credits to offset the impact of our air travel in 2019 and looking for other ways to reduce our carbon footprint in 2020.

Management and Employees

The exciting challenges of the AI/machine learning industry place enormous pressures on Appen's management. Our customers are sophisticated and demanding, and the pace of change is intense. Our management team, under Mark Brayan's leadership, continue to meet these challenges daily and maintain Appen's position at the front of the growth curve. At the end of 2019 we had 781 employees, up 52% from the previous year. On behalf of the board, I thank our management group and all our staff for their contributions.

We made two senior appointments during 2019. Dr Roc Tian has been appointed as Senior Vice President leading our China operations. Roc is based in Shanghai and his team have made impressive progress in building a pipeline of work with leading Chinese tech companies. Jon Kondo has joined Appen as our Senior Vice President, Sales and Marketing. Jon is leading and expanding our global sales and marketing functions and is building a platform to support sustainable revenue growth into the future.

Our global workforce of more than one million skilled contractors is a key differentiator for Appen. They live in over 130 countries and speak over 180 languages, with cultural and ethnic diversity. They underpin our success.

We launched our Crowd Code of Ethics in 2019 to improve the conditions and engagement of our global crowd workers.

As a truly global company, we need to compete for talent in a highly competitive industry sector. We seek to remunerate managers fairly, with short-term and long-term incentive schemes aligned with long-term shareholder wealth.

The Appen board has a busy agenda and is engaged in all aspects of Appen's business. Directors make themselves available to travel to engage with customers and staff. I thank my fellow directors for their contribution and am grateful for their support and commitment.

Thank you for your loyalty and support as shareholders. We value this highly and give you assurance of our continuing efforts to make our company even more successful.

Sincerely

Chris Vonwiller

Christopher Vonwiller

CEO's Letter to Shareholders 2019

Dear Shareholders

It's my pleasure to report another year of strong revenue and earnings growth for Appen.

Revenue growth of 47% to $536.0M and underlying EBITDA growth of 42% to $101.0M were the result of strong contributions across our business.

Organic growth[2] of 37% in revenue and 51% of underlying EBITDA demonstrate the strength of our core business and improvements to operating leverage from scale and technology.

Speech and Image (formerly Language Resources)[2] delivered unprecedented revenue growth in 2019. Revenue of $67.7M was 32% higher than 2018, compared to a historic growth rate of 17.9%[3]. This was achieved through the continuation of our sales expansion strategy to increase market share in the tech sector, albeit with some gross margin trade-off, and expansion beyond speech and language into other data types, such as image and video, fuelled by the growing demand for high quality training data for a richer set of AI applications.

[2] Excluding Figure Eight

[3] Revenue CAGR 2015 to 2018

Relevance (formerly Content Relevance)[2] maintained its role as the company's growth engine. 2019 revenue of $430.0M was up 37% on last year. Our major customers continue to underpin our Relevance revenue, but we also won new customers in 2019. Investments in technology and the growing scale of our business have combined to improve Relevance EBITDA margins to 25.7%, up from 21.3% in 2018.

Figure Eight rebounded from the second quarter to post a good result in the second half and return to high growth. ARR at 31st December 2019 was $33.7M[4], resulting in growth of 56% since 2015[5]. Second half ARR benefited from new and expansion sales, an increase in the number of larger customers, as well as lower churn.

The Figure Eight earnout payment will be made in March. The estimated payment is $36.8M bringing the total acquisition cost to $287.6M, or 5.8x 2019 Revenue.

We have commenced integrating Figure Eight into Appen. We are simplifying and unifying our product offerings, going to market with a single sales team, refreshing our messaging and visual identity, consolidating our crowds and combining teams, culture and back office operations. We expect the major integration elements to be complete by the end of 2020.

[4] US$24.9M converted at A$1=US$0.74. A$35.6M at A$1=US$0.70

[5] Revenue CAGR 2015 to 2019

We are also pleased with progress in our new growth markets.

The setup of our US government operations is on-track. This is a rigorous process that takes time but when completed will enable greater participation in government contracts and add a strong capability to our business.

In the meantime, we continue to win government work through partners, including a new project in disaster relief.

Our work in China is going ahead at speed. We have 53 full time employees in China and over 150 data labellers on customer projects in our facility in Wuxi. We are winning projects, mostly with Chinese technology players, and revenue is starting to ramp, albeit off a low base.

The outbreak of the Coronavirus sees our employees working from home with little impact on customer projects thus far. Our operations in China are young and our 2020

"Appen is ideally placed to fulfil the high demand for large volumes of quality training data.

targets are modest. We expect a negligible impact on group revenue and earnings from the effects of the Coronavirus outbreak on currently available information.

In addition to growth in these markets we are continuing to focus on expanding our customer base over the next few years and will make significant investments in sales and marketing in 2020. This will result in softer margins for the first half of FY20. Jon Kondo, our head of sales and marketing, commenced with us mid-year and is focused on maintaining relationships and growth in our largest customers while adding new customers in the US, Europe and Asia.

Our investments in technology are laying the foundation for improving medium and longer term productivity, growth and margin expansion. We're incorporating machine learning into our platform to improve processes such as applicant checking and skills matching. Our applicant checking process is thorough to ensure the integrity of our crowd on behalf of our customers. It can take up to 20 hours to fully screen an applicant manually, but we've reduced that to a few minutes through machine learning-based automation. This increases applicant engagement and has resulted in an uptick of qualified workers.

We're also adding automation with machine learning to our annotation toolsets. Initial tests show material efficiency gains through higher data labels per hour. These tools will, improve crowd worker experience and productivity when fully deployed.

We've significantly enhanced our capabilities in the high-growth autonomous vehicle market with the first release of our LIDAR annotation tool. LIDAR produces three dimensional datasets that are complex to label. Our tool uses machine learning to automate much of the workflow for higher throughput and greater accuracy. We have a number of pilot projects underway.

The development of artificial intelligence (AI) continues to rely on very large volumes of high-quality training data. But the availability and supply of training data is identified as one of the biggest challenges when building AI-based products[5]. And this challenge is exacerbated by the high growth rates of the AI market. Technology firms and enterprises will rely on specialist providers like Appen in order to keep up and/or stay ahead of their competitors.

Appen is ideally placed to fulfil the high demand for large volumes of quality training data. Our global crowd of over one million workers, which will increase when we integrate the Figure Eight crowd, and our investments in technology have arguably made us the global leader in our space.

This leadership hasn't been lightly won. Our 781 employees around the world are dedicated to our customers and our mission and I thank them for their hard work and team spirit.

We appreciate your support as our shareholders and we're looking forward to another successful year in 2020.

Sincerely,

Mark Brayan
Managing Director and
Chief Executive Officer

[5] O'Reilly - Artificial Intelligence Adoption in the Enterprise, 2019

Strategy and risk management

Summary of our strategy

Our strategy is focussed on delivering to the quality, speed, scale and security requirements of our customers in an ethical and sustainable way, while continuing to capture growth in the AI training data market. There are three core elements to delivering against our strategy:

01

The size and breadth of our crowd workforce is a core differentiator. We continue to focus on the sustainability of our crowd workforce through our crowd code of ethics, setting our standard for fair pay, inclusion, feedback, privacy and confidentiality, communication and well-being.

02

Technology and innovation are critical to our ability to deliver to the evolving needs of our customers. We continue to invest in technology, with a focus to:

- Create efficiencies in how we manage our crowd (Crowd Management)
- Develop stronger ties to our customers' operations (Client Workspace)
- Improve the productivity of our crowd workforce (Annotation Tools).

03

Investing in Sales and marketing will enable us to grow with our existing customers while also supporting the next wave of organisations as they incorporate AI into their operations.

Identifying and managing risk

Comprehensive risk management is necessary for Appen to meet its strategic objectives. We have a 'decision support' approach to ensure equal consideration of risk and opportunity. This ensures innovation and new possibilities are embraced with a comprehensive analysis of the potential risks and identification of the accompanying risk mitigation strategies.

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

A summary of our principal risks, uncertainties, mitigation strategies and related trends are detailed below and reflect those identified by the Board for the year ended 31 December 2019. We appreciate the risk register and associated strategies are not exhaustive and may change during the next financial year, as the risk landscape evolves. The risk landscape is continually evolving and we continue to 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.

The framework that Appen has adopted is designed to:

1. Embed risk management into everyday decisions, developing a 'risk aware' culture.
2. Identify in a timely manner any potential risk and opportunity impacts on Appen.
3. Enable consistent management of risk, while balancing potential opportunity impacts, within the defined risk appetite, providing balanced analysis for decision making.

Risk management is the responsibility of all staff.

Principal Risk	Why is the risk important?	Affected business value	Our mitigation strategies
Crowd conditions	Independent contractors are critical to our business. Attraction and retention of skilled contractors enables our competitive advantage.		• Our Crowd Code of Ethics establishes the minimum conditions that we will adhere to, above that of the minimum legal requirements. • We are developing programs for high performing contractors to expand their skills.
Strategic positioning of global operations	Changes to global economic and political conditions can impact the group including whether we continue to operate in each of our geographical areas.		• Our global investment activity is driven by a portfolio strategy with a clear, defined evaluation process. • We undertake comprehensive business reviews including pre and post investment due-diligence.
Alignment of customers, products and services to strategic objectives	The machine learning data market is dominated by a few large players on an individual project basis. The revenue from these clients are lumpy, and significantly larger than other clients.		• We embrace continuous improvement of our products and services through regular customer feedback, root cause analysis, and process enhancement ensuring sustained quality of outcomes. • We acquired Figure Eight to increase our subscription revenue and offer best-in-class annotation capabilities.
Market competition changes	We face competition from low cost providers or from clients taking machine learning requirements in-house.		• We continue to develop and invest in technology, allowing us to increase quality of deliverables and deploy new capabilities.
Market disruption	Changes in the AI market and regulatory environment could impact our business model and / or decisions across markets.		• We monitor market and customer trends to inform our strategy. • We translate emerging trends into new offerings and associated technologies
Investment in technology innovation and transformation	Technology innovation is key to improving our capabilities, increasing efficiency and keeping pace with customer expectations.		• A technology transformation program is ongoing, supported by project governance principles, to improve customer experience. • We continue to invest in technology to enable growth.
Variations in workforce strategy affecting key staff capability and capacity	Our business is reliant on specialised skills. Our ability to maintain and grow is dependent on attracting, developing and motivating our talent.		• Management review HR data including employment trends, including comparisons on retention, attrition and annual employee engagement survey results to understand trends and identify actions. • Programs exist to attract and retain talent and provide staff with a progression path.

Global crowd

Technology, Processes and Systems

Social & Environment

Appen employees

Customer & Brand

Financial

Principal Risk	Why is the risk important?	Affected business value	Our mitigation strategies
Managing organisation culture and leadership through change	We have undertaken a series of global acquisitions and expansions which are reliant on key individuals to ensure successful integration and change.		• Our integration team is responsible for planning, executing, co-ordinating and controlling activities related to acquisitions. • Where change is dependent on talent we implement programs to ensure key staff receive tailored incentives.
Emerging cyber security issues	We manage sensitive customer information, increasing our exposure and susceptibility to cyber-attacks. Cyber threats could lead to a loss of data or service interruption impacting customers and our reputation.		• We deploy physical and technological security measures to identify, protect, detect and respond to information and cyber security risks including, ISO27001 and SOC 2 certification. • We have policies, procedures and training to ensure staff are aware of obligations in protecting Appen against cyber threats.
Resilience following disaster, crisis or events impacting business continuity	The loss of data or a physical site could result in a major impact to our customers, revenues and reputation.		• We store data in cloud-based servers which are duplicated to minimise disruption. • Our engineering team continuously improves our offerings, with focus on resilience to mitigate risk of material or sustained disruption. • We have insurance to provide access to additional facilities and infrastructure in the event of a disruptive incident.
Crowd supply meets demand of customers	Our business model relies on independent contractors which is designed to provide our customers with access to a breadth of global skills and provide our crowd access to skilled remote work.		• We continue to invest in technology to improve the efficiency of our contractor recruitment processes. • We have partnerships with sourcing agencies to increase our reach into difficult markets and stimulate applicant interest.
Compliance with legal and statutory obligations	We have a responsibility to deliver against our legal, statutory and ethical obligations. Operating across a number of jurisdictions means we must comply with a multitude of local and international laws.		• We maintain appropriate governance and oversight. This is achieved through policies, procedures and training on compliance topics such as anti-bribery, data protection and privacy. • We maintain an in-house legal counsel with access to external expertise as needed.
Financial viability	We operate globally and our operations 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 investments.		• We naturally hedge foreign exchange risk by paying for associated services in the same currency we receive revenue. • We retain external tax experts who monitor developments in international tax and assess the impact of changes.

CASE STUDY

Improving geo-location accuracy for local business

A leading multilingual search engine and mobile app provider has users across the world who rely on its data to find local business information, including addresses, phone numbers, hours of operation, maps, and directions. Accurate local listings are of critical importance to retaining the search engine's local site traffic and users.

Based on the company's specific needs, Appen developed an approach to ensure that business listings were as accurate and relevant as possible for its customers all over the world. In-market evaluators were hired and qualified to review, verify, clean, and label all types of data. The project started with ten evaluators in one market working on a single task. Within two years it had ramped up to over 400 evaluators across 31 markets, working on eight different tasks. Appen's in-market crowd researched, called, or visited local businesses to verify and correct the accuracy of the listings—at first just name, address, and phone number were reviewed, but later other attributes such as hours of operation, geolocation, website, and business category were added.

Businesses that did not have a verifiable web presence required a phone call or in-person visit to verify, so having evaluators located in the local market was crucial to the project's success.

Through its partnership with Appen, the business has greatly improved its local search listings. In two years Appen verified and corrected data for more than 750,000 of the client's business listings, improving the overall user experience. Our Local Search Content Evaluation team has exceeded expectations by quickly evaluating search engine queries, business listings, duplicate results, and business classifications.

The use of Appen's global, in-market crowd greatly reduced the potential data noise generated from time-zone differences, language barriers, and cultural and geographical considerations. Our proprietary quality and performance measurement systems enabled the delivery of the highest quality data back to its client, quickly and clearly. We have consistently provided data to meet client needs to identify root causes, adjust algorithms, and confidently deliver local listings to its users.

Appen developed an approach to ensure that business listings were as accurate and relevant as possible for its customers all over the world. Within two years it had ramped up:

400

more than 400 evaluators

31

31 markets

8

working on eight different tasks

Performance and outlook

Update on our performance and future focus

This section of the annual report provides an update on our performance and future focus through the prism of our six key business value drivers.

Global Crowd

Overview

Our skilled global crowd of over one million work at home contractors are engaged, typically on a part-time flexible basis, to collect and label data that is used by our customers to train AI applications. Due to the size and breadth of our crowd, we are able to serve customers that require large-scale, high-quality data annotation.

Our crowd is a key differentiator for Appen. They live in over 130 countries, speak 180 languages and dialects, and comprise a workforce with extensive cultural and ethnic diversity. Over several years we have developed best practices and policies that support and promote contractor wellness. In October 2019 we formalised our commitment to contractor well-being by launching a Crowd Code of Ethics which is built on a foundation of fair pay, inclusion and privacy and confidentiality.

In addition to our work-from-home crowd, we have three secure facilities that are designed to meet the different data security requirements of our customers. These facilities are located in Cavite, Philippines, Exeter, UK, and Wuxi, China. In 2019 Appen's 1000-seat facility in Cavite achieved ISO/IEC 27001:2013, the global standard accreditation for secure collection and annotation of artificial intelligence datasets. Our Exeter facility in England is a high-security data transcription facility that provides fast and accurate services for public and private sector clients across the UK. To cater for the rapid growth in China's artificial intelligence market, Appen also established a labelling facility in Wuxi which is developing strong relationships with local technology companies.

Future focus

An ongoing focus on the wellness of our crowd and adherence to our new Crowd Code of Ethics is one of our highest priorities. We will continue to develop technologies and processes that improve the experience of our crowd workforce. In Q2 2020 we will open an additional US secure facility in Dallas.

Appen employees

Overview

We operate in a highly specialised part of a high-growth competitive market, working with companies that are building world-leading artificial intelligence solutions, where data quality is of the utmost importance. Parts of our workforce have deep domain expertise that is required to deliver to the high standards of our customers. We have linguists for speech and language related work, machine learning experts to improve the automation in our data annotation software and project managers that are highly experienced in delivering data collection and annotation projects. Our offices around the world enable us to stay close to our customers. As a global company that needs to compete for talent we seek to remunerate managers fairly, with short-term and long-term incentive schemes aligned with long-term shareholder wealth.

At the end of 2019, Appen had 781 employees, an increase of 52% on the previous year's total of 513. Two senior appointments were made to the executive team in 2019. Dr Roc Tian was appointed as Senior Vice President leading our China operation. Mr Jon Kondo joined Appen as our Senior Vice President, Sales and Marketing.

Future focus

The launch of our new Mission, Vision and Values in early 2020 will give our workforce a clear focus on delivering value in a sustainable way. The integration of Figure Eight and the evolution to one Appen team will be a major focus for 2020. Both gender diversity and upskilling our workforce through training are important areas of ongoing focus.

Technology, processes & systems

Overview

Technology, processes and systems are core to our operations. We manage large scale and complex annotation and data collection programs for our customers, typically involving thousands of crowd workers. Our ability to deliver this work with required quality, speed, scale and security is underpinned by a sophisticated set of technology in three areas.

Crowd management: Our crowd management platform 'Appen Connect' supports our ability to recruit, onboard, allocate work, and pay our crowd workers. We obtained the core components of the platform by acquiring Leapforce in 2017 and have continued to evolve the capabilities of the platform. Appen Connect is the primary interface for our crowd workers, supporting initial applications, signing up for jobs, interfacing with Appen for support and payments. It also used by our internal recruiters and project managers to process job applications, match crowd workers to job types and track quality.

Client workspace: This is the self-service platform where our customers can design annotation tasks specific to their needs and interface with our crowd. It also provides an interface between our customers' systems and the platform through application programming interfaces (APIs), supporting a seamless operational environment.

Annotation Tools: We have a suite of annotation tools that are used by our crowd workers to complete their annotation tasks including text, audio image and video data. We continue to build new annotation tools to support our customers. As an example, in 2019 we released a tool to support annotation of LIDAR datasets for AI used in autonomous vehicles.

Future focus

We will continue to invest in technology across all three platforms to enable medium- and longer-term productivity, growth and margin expansion. An ongoing focus will be the use of machine learning to automate both internal processes, largely related to crowd management, and annotation tools to deliver more data labels per hour.

Customer & brand

Overview

Our customers include the world's leading technology companies who rely on us to deliver high-quality training data, at scale in a timely manner. Our track record of repeat business is evidence that we continue to deliver service to these standards. We have a truly global footprint and are deepening our ability to service customers in target areas with the establishment of dedicated business units for China and Government.

Appen's customer relationships remain strong and revenue from our installed customer base continues to grow. In acquiring Figure Eight we diversified our customer base by adding ~200 customers, spanning large tech companies, government agencies, financial services, and smaller high-growth AI start-ups.

Future focus

In 2020 we will increase our investment in sales and marketing to lay a foundation for growth. We will leverage the combination of Figure Eight's strong brand equity in the AI market and Appen's longstanding position in Content Relevance and Language Services in our rebranding efforts during 2020.

Social & Environment

Overview

Appen is in a privileged position where we possess the ability to have a positive social impact on a global level through the interactions with our crowd workforce. In 2019 we stepped up our efforts by codifying our values-based approach to our crowd through our Crowd Code of Ethics. We also became a member of the Global Impact Sourcing Coalition (GISC) – a group that is encourages delivery of high-quality outsourced labour with a positive impact on society. We will work closely with the GISC and our customers to evolve our impact sourcing work in 2020.

Ethical AI is another area where we have a keen focus. Through our crowd ethics and impact sourcing work we have a direct impact on the human labour element of Ethical AI. The diversity of our crowd can also be beneficial to reducing bias in AI applications. It is a rapidly evolving area of research. We will partner with customers and appropriate thought leaders in the space to ensure that we are at the forefront of this topic.

Appen's environment footprint is small, mostly from air travel, and will seek to reduce and offset it in 2020 through the increased use of video conferencing and the purchase of carbon credits.

Crowd Code of Ethics

We launched our Crowd Code of Ethics in 2019 to ensure that our crowd is treated equitably around the world. This codifies a long-standing set of values in the organisation regarding the ethical treatment and sustainability of our crowd. The Crowd Code of Ethics comprises six principles and applies to all Appen crowd workers.

- **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. Appen takes precautions to protect that information and does 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.
- **Well-being:** Appen promotes wellness, community, and connections through online forums and best practices.

Impact Sourcing

Our work from home model provides a source of income to individuals that may otherwise find this difficult, including people with disabilities. In our Philippines operations we recruited over 200 people with partial or full hearing impairment to support image annotation work. In 2019 we joined the Global Impact Sourcing Coalition (GISC), whose mission is to 'build more inclusive global supply chains through advancing wide-scale adoption of Impact Sourcing'. The alignment between Appen's Code of Ethics and GISC's mission creates a strong partnership in the effort to provide opportunities and fair working conditions for individuals around the world.

AI ethics

We are working with customers to understand and address the emerging societal impact of artificial intelligence, including ethical implications and privacy issues. We are particularly interested in how we continue to build sustainable practices in the use of labour to support AI advancements in an ethical approach.

Our Crowd Code of Ethics will evolve to support this focus. Another area of AI ethics where we can participate is the reduction of bias in AI applications. Bias can be created in AI applications when the training data set is not representative of the real-world environment. Through the use of our global diverse crowd we are in a unique position where we can source to highly specific demographic requirements that can be used to reduce gender and racial bias in AI applications. AI Ethics is a fast-moving field of research and we anticipate it will continue to evolve. We will partner with customers and thought leaders to support the development of approaches to ensure that we play a role in delivering ethical AI.

Environment

Appen is a professional, knowledge-based workplace that encourages thoughtful use of resources and recycling and consequently has a relatively low environmental footprint. Our crowd workforce typically works from their own home, therefore we do not have a carbon impact from commuting that would be required in many other jobs.

Appen has a low carbon footprint except for air travel, which is necessary for some executives given the global nature of our business. Appen uses video and phone conferencing to reduce the extent of travel, and the travel budget is managed and monitored. Appen is buying carbon credits to offset the impact of our air travel. Each of Appen's offices includes recycling facilities and the Company encourages thoughtful use of resources.

Financial

Please refer to the review of operations in the Directors' Report.

Governance

The Board of Directors of Appen is committed to ensuring that its Corporate Governance framework meets and exceeds the requirements set out in the ASX Corporate Governance Council's Principles and Recommendations 3rd Edition (Governance Principles).

Our Corporate Governance Statement and other Board-endorsed policies that include the company's Code of Conduct, Diversity Policy and Modern Slavery Act Policy are available on our website appen.com

The key activities of the Appen Board in the past year have focused on active corporate governance, the company's strategy and performance. In particular, the Board has focused on value-creating growth investments and activities and ensuring the company's structure is best placed to encourage the generation of long-term value for shareholders.

The acquisition of Figure Eight delivered on our strategy to extend our technology leadership capabilities and strengthen our revenue base by broadening our customer range. Our senior management team was also strengthened in the past year with two key appointments to drive our China operations and our global Sales and Marketing.

Appen has a diverse employee base, employing people in the USA, Australia, UK and The Philippines, and engages with a diverse set of people with different languages, ethnicity, gender and age. Diversity is considered to be a core strength of the organisation. The Company has adopted a Diversity Policy, a copy of which is available on the website.

58% of Appen's employees in 2019 are female, down slightly from 61.8% in 2018.

The board has established a goal of achieving a target of 30% females at the senior executive level of the organisation and of retaining female director representation above 30%. Management has introduced policies to accelerate the achievement of gender representation at the senior executive level and the senior leadership level, and has developed a timeline and roadmap to achieve this targeted gender diversity and a long-term program plan to sustain gender representation.

The company has implemented measurable objectives that are both externally and internally facing to achieve gender diversity goals.

Externally, we now require all search partners to present gender balanced short-lists of candidates for consideration before any offers can be made for a senior leadership position or above 100% of the time. This was achieved for all leadership recruitment in 2019.

Internally, we have added the level of Senior Director to the career ladder to create additional opportunities to obtain skills to ready employees for executive roles, the goal is to have 30% representation of females at this level. Promotions to this position in 2019 reduced female representation at the Director level.

Appen's High Potential Leadership Program was introduced in 2019 to identify and invest in employees for senior leadership positions. The program requires that at least 30% of all participants be female to counter the in-market bias to male candidates. The goals of =>30% of females at the Senior Director Level and participating in the High Potential program were both achieved in 2019.

The Company already recruits on the basis of no bias and has a culture that supports workplace diversity, however the board believes that the introduction of this measurable target will enhance focus on sourcing and putting forward well qualified female candidates, along with using other avenues to source female talent.

In addition to gender, the Company's Diversity Policy supports the Company's stance of a policy of nondiscrimination that ensures all employees and contractors are treated fairly.

As at 31 December 2019, the following gender diversity levels were evidenced in the Company:

	2018	2019
Board Director	33%	33%
Senior Vice President	16.7%	12.5%
Vice President	33.3%	30.0%
Senior Director	–	100.0%
Director	72.7%	65.5%
Manager	72.5%	67.5%

Appen undertakes a zero tolerance approach to any form of modern slavery within our business and supply chains. As required by the Modern Slavery Act 2015 (UK) for commercial organisations operating in the UK, the Board introduced a Modern Slavery Act Policy that commits the company to acting ethically and with integrity and transparency on this issue. It makes an annual statement to that effect.

On 1 January 2019 the Modern Slavery Act 2018 (Cth) (Commonwealth Act) was introduced for larger companies operating in Australia. Our reporting obligations in relation to that Act will require Appen to make a statement in 2021 in relation to the risk of modern slavery in our operations and supply chain as well as any steps taken to respond to the risks identified.

In the past year the Board and the Board Audit and Risk Committee spent time on Environmental, Social and Governance issues that include employee and crowd pay rates, privacy, community projects and, generally, the sustainability of the Appen businesses and business model. Appen has an active corporate social responsibility (CSR) program that supports those in need in the countries in which we operate.

The Crowd Code of Ethics, introduced in 2019, is a significant initiative for the well-being of our global team.

The Board of Directors is committed to ensuring that the company acts in a principled manner at all times and is accountable for its decision-making. Appen endeavours to be recognised as an organisation committed to the highest ethical standards in business.

Our Code of Conduct requires that personnel of the company and its subsidiaries will act honestly and with high standards of personal integrity in all their dealings for the company. The code also commits the company to fair competition and trading in all markets in which it operates.

Directors' Report

for the year ended 31 December 2019

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 2019.

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:

Christopher Charles Vonwiller – Chairman

Mark Ronald Brayan – Managing Director and Chief Executive Officer

Stephen John Hasker

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 operates through two operating divisions:

- Relevance (formerly Content Relevance) which provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and e-commerce; and
- Speech & Image (formerly Language Resources) which provides annotated speech and image data used in speech and image recognisers, machine translation, speech synthesisers and other machine-learning technologies resulting in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics.

Supporting both divisions is a global on-demand crowd workforce providing customers with very flexible in-country linguistic and cultural expertise in support of 130 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	
	2019 $'000	2018 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2018 of 4.0 cents per ordinary share (2018: 31 December 2017 of 3.0 cents)	4,264	3,174
Interim dividend paid out of the profits reserve for the year ended 31 December 2019 of 4.0 cents per ordinary share (2018: 31 December 2018 of 4.0 cents)	4,839	4,258
	9,103	**7,432**

Dividend declared

On 25 February 2020, the Company declared a final dividend for the year ended 31 December 2019 of 5.0 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 2020. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2019 and will be recognised in subsequent financial periods.

Review of operations

The profit for the Group after providing for income tax amounted to $41,611k (31 December 2018: $41,728k).

Financial performance

	2019 $'000	2018 $'000	Change %	Percentage change constant currency %
Relevance (formerly Content Relevance)*	467,831	312,846	32%	24%
Speech & Image (formerly Language Resources)	67,683	51,361	50%	39%
Other	485	82	–	–
Total revenue from principal activities	**535,999**	**364,289**	**47%**	**37%**
Underlying net profit after tax ('NPAT')	**64,710**	**49,028**	**32%**	**20%**
Less: underlying adjustments (net of tax)				
Transaction costs	(5,453)	(1,055)		
Acquisition related share-based payments	(6,886)	(1,666)		
Amortisation of acquisition related identifiable intangible assets	(10,174)	(4,579)		
Figure Eight earn out adjustment	1,840	–		
Deemed interest on earn out liability	(2,426)	–		
Statutory NPAT	**41,611**	**41,728**	**–%**	**(10%)**
Add: tax	13,444	14,226		
Add: deemed interest on earn out liability	3,368	–		
Add: net interest expense/(income)	3,625	3,185		
EBIT**	**62,048**	**59,139**	**5%**	**(3%)**
Add: depreciation and amortisation	25,864	8,941		
Statutory EBITDA***	**87,912**	**68,080**	**29%**	**20%**
Add: underlying adjustments				
Transaction costs	7,450	1,507		
Figure Eight earn out adjustment	(2,557)	–		
Acquisition related share-based payments	8,156	1,666		
Underlying EBITDA	**100,961**	**71,253**	**42%**	**31%**
Statutory diluted earnings per share (cents)	34.60	38.55		
Underlying diluted earnings per share (cents)	53.80	45.29		
% Statutory EBITDA/Sales	16.4%	18.7%		
% Underlying EBITDA/Sales	18.8%	19.6%		
% Segment Profit/Sales:				
Relevance (formerly Content Relevance)*	22.3%	21.3%		
Speech & Image (formerly Language Resources)	31.6%	37.6%		

* Including Figure Eight
** EBIT is defined as earnings before interest and tax
*** EBITDA is EBIT before depreciation and amortisation

Directors' Report

continued

Total revenue for the financial year 31 December 2019 was up 47% to $535,999k compared to prior period revenue of $364,289k. On a constant currency basis, the revenue growth was 37%. Excluding Figure Eight revenue for the period of $37,857k, revenue was $498,142k, representing organic revenue growth of 37%. The drivers behind this change in revenue were:

- The Speech & Image (formerly Language Resources) division recorded a 32% (constant currency:24%) increase in revenue over the prior year, driven by increased demand, particularly in the first half, for data collection and speech and image annotation services mainly from technology customers; and
- The Relevance (formerly Content Relevance) division (including Figure Eight) delivered a 50% (constant currency:39%) increase in revenue over the prior year. This was driven by growth in demand for human annotated data, mainly from existing customers. Excluding Figure Eight, revenue was $429,974k representing organic revenue growth of 37% for the year ended 31 December 2019.

The Company reported statutory EBITDA of $87,912k for the year to 31 December 2019, representing a 29% increase over the prior corresponding period. After adding back adjustments for transaction costs, share based payments in respect of acquisitions, amortisation of acquisition related identifiable intangible assets, and deemed interest and fair value adjustments on the Figure Eight earn out liability, underlying EBITDA was $100,961k representing a 42% increase over the prior year. This resulted from strong revenue increase in both Speech & Image and Relevance, together with improved operating margins and benefits from scale and technology. EBITDA return of 18.8% down from 19.6% in the prior comparative period, was impacted by expected losses from Figure Eight. Excluding Figure Eight, EBITDA margins increased to 21.5%.

Figure Eight reported an EBITDA loss for the 9 months post acquisition of $6,348k due to improved second half performance and tight cost control over non-essential overheads. The Relevance division (excluding Figure Eight) reported EBITDA of $110,500k representing a significant organic increase in EBITDA of 66% for the year, driven by higher revenue and better operating margins achieved through efficiencies from the Leapforce acquisition as well as scale and improved process and technology efficiencies. Relevance operating margins excluding Figure Eight increased to 25.7% from 21.3%.

EBITDA in the Speech & Image division increased by 11% to $21,421k from $19,293k driven by strong demand, particularly in the first half, from the technology sector as a result of the continued strategic focus on building this vertical, albeit with some gross margin trade off. As a result, operating margins reduced from 37.6% to 31.6%.

Operating expenses (expenses excluding services purchased, share based payment expense, depreciation, transaction costs, finance costs, earn out adjustment, deemed interest and foreign exchange) for the year comprised 21.1% of revenue as compared to 17.1% for the prior corresponding period due to the acquisition of Figure Eight and investment mainly in engineering.

The balance sheet continues to grow with receivables increasing in response to increased volumes. Goodwill and identifiable intangible assets increased significantly with the acquisition of Figure Eight, to $288,800k and $109,800k respectively. Of these totals, Figure Eight contributed $202,625k to goodwill and $79,040k to identifiable intangible assets.

The Company is debt free at 31 December 2019, compared to prior year borrowings of $56,300k. Borrowings of $57,000k were repaid during the year, with $35,000k coming from internal cash reserves and $22,000k sourced from fundraising associated with the Figure Eight acquisition.

The total earn out liability in respect of the Figure Eight acquisition has been estimated at $36,800k and is to be paid in March 2020.

Cash on hand at the end of the year increased $35,300k to $75,300k. Cash was used to pay borrowings, dividends, capex and transaction costs during the year. Cash conversion from EBITDA remains strong at 88%, however would have been higher as some year-end customer receipt timing delays were experienced. These delays have been subsequently resolved.

Directors' Report

continued

Significant changes in the state of affairs

On 11 March 2019, Appen entered into an agreement to acquire Figure Eight Technologies, Inc. for US$175m in upfront payment and an earn-out of up to a maximum of US$125m based on Figure Eight's achievement of incremental FY19 subscription software revenue targets, payable in March 2020.

Figure Eight, headquartered in San Francisco with ~107 employees, is a best in class machine learning software platform which uses highly automated annotation tools to transform unstructured text, image, audio and video data into customised high-quality AI training data.

The upfront consideration of US$175m was funded through a fully underwritten equity placement of A$285m at $21.50 per share. Appen also conducted a non-underwritten Share Purchase Plan to raise additional funds of A$15m. In addition, arrangements for up to US$125m of new debt facilities are available for draw down in March 2020 for the earn-out payment. The transaction was completed on 2 April 2019.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2019 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 profitability in Relevance and Speech & Image 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.

Information on directors

Name:	**Christopher Charles Vonwiller**
Title:	Non-Executive Chairman
Qualifications:	BSc, BE (Hons), MBA, FIE (Aust.), FTSE
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. Chris holds degrees in science and engineering, with honours, from The University of Sydney and an MBA from Macquarie University. He was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2007.
Special responsibilities:	Chair of the Board
Interests in shares:	11,060,286 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None

Directors' Report

continued

Name:	**Mark Ronald Brayan**
Title:	Managing Director and Chief Executive Officer
Qualifications:	MBA, BSurv (Hons)
Experience and expertise:	Mark joined Appen in July 2015 as CEO and is responsible for the company's leadership, strategy and culture. Mark has over twenty-five 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 Stock 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. Mark has an MBA from the Australian Graduate School of Management and Bachelor of Surveying with 1st Class Honours from the University of NSW.
Special responsibilities:	None
Interests in shares:	404,414 ordinary shares (directly/indirectly)
Interests in options:	None
Interests in rights:	442,583 performance rights

Name:	**William Robert Pulver**
Title:	Independent Non-Executive Director
Qualifications:	BCom (Marketing)
Experience and expertise:	William (Bill) has been a non-executive director of Appen since 31 January 2013. He is also a non-executive director of Smartpay Holdings Limited (ASX: SMP). Bill was the CEO of the Australian Rugby Union from 2013-2018 having formerly served as Appen CEO from 2010-2013. Previously he was the President and CEO of NetRatings, Inc., a NASDAQ-listed company (NTRT), specializing in Internet media and market research. Prior to this Bill held leadership roles at ACNielsen with eRatings.com, Pacific region and Australia. Bill holds a Bachelor of Commerce degree, with a major in marketing, from the University of New South Wales, Australia.
Special responsibilities:	Chair of Nominations and Remuneration Committee
Interests in shares:	607,384 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None

Name:	**Robin Jane Low**
Title:	Independent Non-Executive Director
Qualifications:	BCom, FCA, GAICD
Experience and expertise:	Robin has been a non-executive director of Appen since 30 October 2014. Her other listed company directorships include AUB Group Limited (ASX: AUB), IPH Limited (ASX: IPH) and Marley Spoon AG (ASX: MMM). She was previously a director of CSG Limited (ASX: CSV). Previously Robin had a 28 year career at PricewaterhouseCoopers where she was a partner specialising in assurance and risk. Robin is also involved with not-for-profit organizations and serves on the boards of Guide Dogs NSW/ACT, Public Education Foundation and Primary Ethics. Robin is a past Deputy Chairman of the Auditing and Assurance Standards Board. Robin has a Bachelor of Commerce from the University of New South Wales and is a Fellow of the Institute of Chartered Accountants Australia and New Zealand.
Special responsibilities:	Chair of the Audit and Risk Committee
Interests in shares:	172,946 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None

Name:	**Stephen John Hasker**
Title:	Independent Non-Executive Director
Qualifications:	B.Com, MBA, MIA, ACAA
Experience and expertise:	Steve has been a non-executive director of Appen since 7 April 2015. Steve is a Senior Advisor to TPG Capital. Most recently Steve was Chief Executive Officer of Creative Artists Agency Global, based in Los Angeles where he oversaw CAA’s commercial activities. Prior to joining CAA in January 2019, 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 holds an undergraduate economics degree from the University of Melbourne and has an MBA and a Master in International Affairs, both with honours, from Columbia University. He is also a non-executive director of Global Eagle, and is a member of Institute of Chartered Accountants Australia and New Zealand.
Special responsibilities:	None
Interests in shares:	50,000 ordinary shares
Interests in options:	None
Interests in rights:	None

Name:	**Deena Robyn Shiff**
Title:	Independent Non-Executive Director
Qualifications:	B.Sc. (Econ); B.A. (Law)
Experience and expertise:	Deena has been a Non-Executive Director since May 2015. Deena has enjoyed a distinguished business career covering senior roles in the legal profession and in corporate positions. She was a partner in the leading law firm Mallesons Stephen Jaques before rejoining Telstra Corporation where she rose to Group Managing Director. She holds several other non-executive director roles, including Chair of Marley Spoon AG (ASX: MMM), Chair of BAI Communications and director on the board of Infrastructure Australia. She was previously a director of the Citadel Group Limited (ASX:CGL). Deena holds a degree in law from Cambridge University and a degree in economics from the London School of Economics, both with honours. She is a Fellow of the Australian Institute of Company Directors.
Special responsibilities:	None
Interests in shares:	50,432 ordinary shares (indirectly)
Interests in options:	None
Interests in rights:	None

Company secretary

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

Leanne Ralph resigned as Company Secretary on 8 February 2019.

Directors' Report

continued

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 2019, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Management Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Christopher Vonwiller	13	13	4	4	–	–
Mark Brayan	13	13	–	–	–	–
Stephen Hasker	13	13	–	–	3	3
Robin Low	13	13	4	4	3	3
William Pulver	13	13	–	–	3	3
Deena Shiff	13	13	4	4	–	–

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Shares under option

There were no unissued ordinary shares of Appen Limited under option outstanding at the date of this report.

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
2017	231,516
2018	129,392
2018 Special	264,067
2018 STI	83,333
2019	1,169,107
	1,877,415

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

During the year, 40,900 ordinary shares of the Company were issued and fully paid for on the exercise of options during the year ended 31 December 2019 and up to the date of this Remuneration Report as outlined below (there are no amounts unpaid on the shares issued).

Shares issued on the exercise of performance rights

During the year, 389,730 ordinary shares of the Company were issued on the exercise of performance rights during the year ended 31 December 2019 and up to the date of this Remuneration Report.

Indemnity and insurance of officers

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

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Auditor independence and non-audit services

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

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. These relate to transfer pricing and taxation 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 33 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*.

Auditor

KPMG continues in office in accordance with section 327 of 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 (audited)

This report outlines the remuneration arrangements in place for key management personnel ('KMP') of the Company in connection with the management of the affairs of the entity and its subsidiaries during the year to 31 December 2019 ('Remuneration Report').

KMP have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including Directors of the Company and other executives. KMP comprise the Directors of the Company and executives of the Company and the Group.

This Remuneration Report has been audited and an opinion provided as required by section 308(3C) of the *Corporations Act 2001* (Cth).

The Remuneration Report is set out under the following main headings:

1. Remuneration Philosophy – Governance & Principles
2. Nomination and Remuneration Committee
3. Audit and Risk Management Committee
4. Non-Executive Director Remuneration and Shareholding
5. Executive Remuneration
6. Executive Shareholdings and Performance Rights

The figures are in Australian Dollars unless otherwise noted.

Details of KMP for 2019

C Vonwiller	Non-Executive Chairman
S Hasker	Independent Non-Executive Director
R Low	Independent Non-Executive Director
W Pulver	Independent Non-Executive Director
D Shiff	Independent Non-Executive Director
And the following persons:	
M Brayan	Managing Director and Chief Executive Officer
K Levine	Chief Financial Officer
J Kondo	Senior Vice-President, Sales and Marketing
T Sharkey	Senior Vice-President, Client Services

1. Remuneration Philosophy – Governance & Principles

The Company's objective is to provide the maximum benefit to shareholders. The Board believes that the Company will achieve this objective by retaining a high quality Board and executive team remunerated fairly and appropriately.

The Company's remuneration philosophy is to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration should be linked to performance and appropriate for the results delivered. The Company's policies are designed to attract and maintain talented and motivated Directors and employees, thereby raising the level of performance of the Company and enhancing shareholder value.

The Company's remuneration policy is to:

- implement remuneration structures designed to attract and retain high quality directors and be globally competitive and continually benchmarked to attract, retain and motivate senior executives with the expertise to enhance the performance and growth of the Company and create value for shareholders;
- ensure that:
  - executive directors and senior executives are encouraged to pursue the growth and success of the Company (both in the short-term and over the longer term), without taking undue risks; and
  - non-executive directors' remuneration is consistent with their obligation to bring an independent judgement to matters before the Board;

– review the employment conditions of Appen's employees on an ongoing basis to ensure the Company remains competitive in terms of remuneration and other incentives;
– review employee incentive plans from time to time with a view to further aligning management and employees' interests with those of the Company and shareholders; and
– support the Company's focus on ethical and sustainable operations including interactions with the crowd, employees , customers and the environment.

In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

2. Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee, which provides advice, recommendations and assistance to the Board in relation to compensation arrangements for Directors and executives.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and executive team. It is intended that any schemes or other structures chosen will be optimal for the recipient without creating undue cost for the Company.

The members of the Nomination and Remuneration Committee during the reporting period were:

William Pulver, Committee Chair;
Robin Low; and
Stephen Hasker.

The number of meetings of the Nomination and Remuneration Committee held during the reporting period, and attendance by the Nomination and Remuneration Committee members, is set out in the 'Meetings of directors' section of the Directors' Report.

Further information about the Nomination and Remuneration Committee is set out in the Company's Corporate Governance Statement, which is available at https://appen.com/investors/corporate-governance/.

3. Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee to assist the Board in fulfilling its statutory, corporate governance, risk management and compliance practices and responsibilities.

The Audit and Risk Management Committee monitors and reviews the integrity of the Company's internal financial reporting and external financial statements, the effectiveness of internal financial controls, the independence, objectivity and performance of external auditors, the policies on risk oversight and management and makes recommendations to the Board in relation to the appointment of external auditors and approves the remuneration and terms of their engagement.

The members of the Audit and Risk Management Committee during the reporting period were:

Robin Low, Committee Chair;
Chris Vonwiller; and
Deena Shiff.

The number of meetings of the Audit and Risk Committee held during the reporting period, and attendance by the Nomination and Remuneration Committee members, is set out in the 'Meetings of directors' section of the Directors' Report.

Further information about the Audit and Risk Management Committee is set out in the Company's Corporate Governance Statement, which is available at https://appen.com/investors/corporate-governance/.

4. Non-Executive Director Remuneration and Shareholdings

Remuneration

Non-Executive Directors are remunerated by way of Board and Committee fees. The current fee structure for Non-Executive Directors (effective 1 January 2019) is as follows:

Role	Fee*
Board Chair	$200,000
Non-Executive Director	$105,000
Audit and Risk Committee Chair	$15,000
Nomination and Remuneration Committee Chair	$15,000

* All fees are inclusive of statutory superannuation.

The Non-Executive Directors are remunerated from the maximum aggregate amount approved by shareholders. The current fee pool limit of $800,000 was approved by shareholders at the annual general meeting in 2018. Details of fees paid to directors in 2019 and 2018 are outlined below:

The increase in fees payable to Non-Executive Directors follows an external benchmarking exercise conducted in early 2019 by Willis Towers Watson. For this review, benchmarking was done comparing to the following peer groups:

- a general industry peer group consisting of ASX 200 companies minus the ASX100 (excluding two companies with fees well in excess of market standards). The market data for this peer group was similar to that for a peer group consisting of companies with market capitalisation between 50% and 200% of Appen's then market capitalisation. In relation to this peer group, Appen was positioned at the 55th percentile in terms of market capitalisation, and at the 31st percentile in terms of revenue.
- as a check on this primary peer group, a secondary a peer group of ASX-listed Technology companies with revenues between approximately 50% and 200% of Appen's forecast FY19 revenues was developed. Of the twelve companies in this peer group, four had a market capitalisation within a range of 50% to 200% of Appen's then market capitalisation. In relation to this peer group, Appen was positioned at the 42nd percentile in terms of market capitalisation and positioned at the 82nd percentile in terms of revenue.

The results of the benchmarking showed that the fees were around the 10th percentile of the primary peer group and around the 25th percentile of the secondary peer group. The increased fees align with the 25th percentile of the primary peer group and with the median of the secondary peer group.

Amounts paid to Non-Executive Directors

	2019			2018		
Director	Fees $	Superannuation $	Total $	Fees $	Superannuation $	Total $
C Vonwiller	182,648	17,352	200,000	113,333	2,969	116,302
W Pulver	109,589	10,411	120,000	82,002	7,790	89,792
R Low	120,000	–	120,000	87,563	3,687	91,250
D Shiff	95,890	9,110	105,000	69,635	6,615	76,250
S Hasker	105,000	–	105,000	76,250	–	76,250
	613,127	**36,873**	**650,000**	**428,783**	**21,061**	**449,844**

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned among Directors will be reviewed annually. The Board seeks to set aggregate Director remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, while incurring a cost that is acceptable to shareholders. The Board will consider fees paid to Non-Executive Directors of comparable companies when undertaking the annual review, as well as any additional time commitment of Directors who serve on one or more Committees, and any other assistance to the Company in respect of specific projects or transactions.

The remuneration packages of Non-Executive Directors are fee-based. Non-Executive Directors do not participate in the schemes designed for the remuneration of executives, or performance-based schemes or awards such as options or bonus payments. Non-Executive Directors are not entitled to any retirement benefits other than statutory superannuation.

Non-Executive Director Shareholdings

To align the interests of non-executive Directors with those of our shareholders, non-executive Directors are required to hold Appen shares to the value of at least 100 per cent of the annual non-executive pre-tax Director 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 this hurdle has been met, directors are considered compliant with this policy in the event the share price changes. Directors are considered to be compliant with this policy 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 have met this minimum holding requirement.

As at the date of this Remuneration Report the Directors held the following shareholdings in the Company:

	Number of shares			
Director	1 January 2019 No.	Purchased/ vested during the year No.	Sold during the year No.	31 December 2019 No.
C Vonwiller	11,060,083	203	–	11,060,286
W Pulver	1,000,000	203	(392,819)	607,384
M Brayan	358,676	145,738	(100,000)	404,414
R Low	172,743	203	–	172,946
D Shiff	50,229	203	–	50,432
S Hasker	50,000	–	–	50,000
	12,691,731	**146,550**	**(492,819)**	**12,345,462**

5. Executive Remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives by reference to both company and individual performance;
- align the interests of executives with those of shareholders;
- encourage retention of executives and other employees;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Directors' Report

continued

In considering the Group's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee considered the following metrics over the last five years:

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Net profit after tax	41,611	41,728	14,282	10,489	8,308
Underlying net profit after tax*	64,710	49,028	19,749	10,620	8,308
Underlying EBITDA**	100,961	71,253	28,118	17,312	13,822
Dividends	9,103	7,432	5,861	4,851	1,155
Basic earnings per share – cents per share	35.28	39.25	14.55	10.81	8.67
Basic underlying earnings per share – cents per share*	54.87	46.11	20.12	10.95	8.67

* Excludes after tax impact of items relating to acquisitions, including amortisation of identifiable assets, share based payment expenses, transaction costs and fair value adjustments (interest unwind and consideration adjustments) for the Figure Eight earn out liability.

** Earnings before interest, tax, depreciation, amortisation, change in fair value of contingent consideration, transaction costs and excise tax refund.

Executive remuneration comprises of:

- fixed remuneration;
- short term incentives; and
- long-term incentives through equity based compensation.

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.

Details of other key terms are summarised below:

Executive	Role	Contract Term	Annual Salary Review	Notice Period by either party
M Brayan (Australia)	Managing Director and CEO	No fixed term	1 March	6 months
K Levine (Australia)	CFO	No fixed term	1 March	3 months
J Kondo (United States)	SVP, Sales and Marketing	No fixed term	1 March	90 days
T Sharkey (United States)	SVP, Client Services	No fixed term	1 March	90 days

Fixed Remuneration

Fixed remuneration consists of base pay, superannuation and other non-monetary benefits and is designed to reward for:

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

Executives are offered a competitive base pay. Reference is made to industry benchmarks to ensure that the base pay is set to reflect the market for a comparable role. Base pay is reviewed annually by reference to both the individual's and the Group's performance, and alignment with market remuneration levels. There are no guaranteed base pay increases included in any executive contracts.

Compensation practices in the US technology and Australian public company markets vary considerably and require different reference points, expertise and data sources. The following sources were relied upon for the review of executive pay in 2019:

- US technology market data, derived from a leading external specialist technology and life sciences compensation firm based in San Francisco, using a peer group of 72 public software companies with median revenue of US $255M and median market cap of US $1.3BN
- Australian data, derived form a leading external global service provider, using a peer group comprised of the smaller half of the ASX 200 (that is, the ASX 200 less the ASX 100) of 94 firms, the ASX 'second 100'.
- The analysis relied on the specialist technology firm's target pay positioning for high growth companies:
  - Target cash (Base plus STI) at the 50th percentile
  - Target equity (LTI) between the 50th and 75th percentile
  - Target total pay between the 50th and 75th percentile

The review highlighted the following in respect of the Managing Director remuneration:

- The base salary is well below market at the 8th percentile.
- STI is also under market at the 33rd percentile.
- The LTI is slightly above market at the 80th percentile ('on-market' is the 75th percentile for high growth companies).

Following the review, the Managing Director's pay was reviewed as follows:

- Base salary to remain at $500k (AUD) per annum. This is in the 8th percentile of the peer group and well under market but in balance, considering the variable components, especially the LTI.
- STI increased to $500K per annum (100% of base salary), taking it from the 33rd to 60th percentile.
- The increase in STI increases total cash from the 14th to 34th percentile.
- LTI grant of 160K rights to be provided in 2019 and vest in 2022 subject to achieving annual performance targets in 2020, 2021 and 2022. The value of the LTI at $10.96 (20 day VWAP from date of review being 25 November 2018) per share equates to $1.75 million.
- The Managing Director's remuneration remains heavily skewed to variable compensation (81% of total compensation).
- This provides for total remuneration in 2022 (upon vesting) at the upper end of the third quartile or the lower end of the fourth quartile. The Remuneration Committee believes this is a fair a competitive package for the compensation of the Managing Director.

Directors' Report

continued

Short Term Incentives

Executive service contracts recognise the potential for the award of short term incentives linked to specific performance criteria.

The Company operates an executive bonus plan that entitles certain executives of the Company to a cash bonus ranging from 0% to 150% of a target bonus, which is typically a percentage of the relevant executive's annual salary.

Key performance measures for payment of a bonus and the typical percentage weighting for each measure are as follows:

Performance Measure	2019 Weighting	2018 Weighting
Revenue	33%	33%
EBITDA	67%	67%

Tom Sharkey and Jon Kondo have an additional gross margin metric in addition to the metrics detailed above. Their weighting is split evenly over the three metrics.

The bonus is calculated based on the combined result of all the performance measures.

Therefore, if the Company achieves 80% of the revenue target and 100% of the EBITDA target, the overall score for the purposes of the calculation of any bonus ('Financial Metric') that may be awarded would be 93.3% of the relevant executive's on-target bonus.

Any actual bonus that may be awarded is calculated on a sliding scale between 0% and 150% – for example:

Financial Metric % Achievement against Target	Potential Bonus payout – % of Target Bonus
Below 80%	Nil
80%	64%
90%	81%
122.25% or more	150%

Using the performance measures and personal performance objectives assessed against key performance indicators ('KPIs'), the Company ensures variable rewards are only paid when the relevant KMP have met or exceeded their agreed individual work plan objectives, financial metrics have been achieved and value has been created for shareholders.

The actual bonus payout % is capped at 150% of Target Bonus for all Executives and employees.

The Board reviews the Financial Metric on an annual basis. Any bonus payment is at the discretion of the Board and is subject to Board approval.

Performance and Remuneration Outcomes

At the end of the financial year, the Remuneration and Nomination Committee reviewed the performance against each of the metrics to determine a recommended short term incentive ('STI') payment for the relevant executive KMPs. This recommendation was subsequently reviewed and approved by the Board. The tables below outline the performance results against these metrics and the final STI payment made to the executives.

Directors' Report

continued

2019 Results and STI Payments

	Target	Actual	% Actual/ Target	% Applied	% Payout **
Revenue*	$443,738,011	$497,635,668	112%	126%	126%
Underlying EBITDA*	$84,445,022	$107,310,300	127%	161%	150%

* Excludes Figure Eight
** Payout capped at 150%

Weighted average performance payout is 142%.

Executive	Currency	Fixed remuneration* $	STI Target %	Performance Payout % (max 150%) %	Total STI Payout $	Total STI Payout (AUD) $
M Brayan	AUD	500,000	100%	142.0%	709,613	709,613
K Levine	AUD	400,000	50%	142.0%	283,845	283,845
J Kondo[(a)]	USD	167,788	100%	142.0%	238,131	339,500
T Sharkey	USD	406,250	50%[(b)]	142.0%	265,811	378,964

* Includes superannuation contributions for Australian based executives.
(a) Commenced 22 July 2019
(b) Increased from 40% to 50% effective 1 June 2019

2018 Results and STI Payments

	Target	Actual	% Actual/ Target	% Applied	% Payout*
Revenue	$274,933,515	$364,207,316	132%	174%	150%
Underlying EBITDA	$51,553,054	$71,253,243	138%	190%	150%

* Payout capped at 150%

Weighted average performance payout is 150%.

Executive	Currency	Fixed remuneration* $	STI Target %	Performance Payout % (max 150%) %	Total STI Payout $	Total STI Payout (AUD) $
M Brayan	AUD	500,000	50%	150.0%	375,000	375,000
K Levine	AUD	350,000	30%	150.0%	157,500	157,500
P Hall[(a)]	AUD	67,798	30%	–	–	–
T Garves[(b)]	USD	107,003	30%	–	–	–
T Sharkey[(c)]	USD	167,346	40%	150.0%	100,408	134,193

* Includes superannuation contributions for Australian based executives.
(a) Retired 29 March 2018
(b) Exited 4 May 2018
(c) Commenced 9 July 2018

Long-Term Incentives

Long-term incentives ('LTI') to the Managing Director, other executive KMP and employees are provided by the Company's long-term incentive plan, which is designed to align the interests of management and shareholders and assist the Company in the attraction, motivation and retention of executives.

The Appen Long Term Incentive Plan ('LTIP') is intended as the primary vehicle for aligning the interests of the Company's senior management and shareholders, and for the retention of key executives. It is intended that the LTIP will be used to deliver awards to employees in all countries, subject to variations to meet specific legal or tax requirements.

Market LTI Practices

Appen is a global business with executives operating in Australia and the United States (USA). The LTI practices in these countries vary significantly, with notably the biggest difference being that performance hurdles are rarely used in the USA. The main differences are highlighted in the table below:

Australia*	United States**
– Performance rights used as LTI by 70% of sample companies. Options by 18% – 82% of companies operate one LTI plan, most commonly with two performance measures – Total Shareholder Return (TSR) used by 35% of companies to measure performance, Earnings per Share (EPS) by 25% – Performance period is 3 years for 74% of companies, 22% use four years – No vesting before the end of the period – Vesting at board discretion favoured upon change of control	– Time-based restricted stock units (RSU), with no performance requirement, used by 90% of companies – For the remainder, 50% of these companies include a mix of performance-based RSU's (typically 50/50 with time-based) for C-level roles – 35% of companies use options – Performance period is typically four years – Vesting includes 12 month 'cliff' followed by annual, quarterly or monthly vesting – LTI vests automatically upon change of control subject to 'double trigger' – LTI extends deeper into US companies

* Willis Towers Watson. Executive Remuneration Review for Appen Limited. 8 Nov 2019 Analysis is based on market data for ASX-listed companies with market capitalisation between 50% and 200% of Appen's market capitalization. Data has been obtained from companies' most recent annual reports. For companies that had not yet released their FY19 annual report by 31 October 2019, data has been sourced from their FY18 annual report.

** Compensia. Executive Compensation Review for Appen Limited. October 2019 US non-founder market data from Compensia's proprietary database includes ~80 public technology companies with median revenue of ~$325M and median market cap of $~2.3BN.

Appen Performance Rights Plan

The Board's objective is to achieve a long term incentive plan that:

- Aligns shareholder objectives with senior management being incentivised to achieve long-term sustainable growth the value;
- Supports the Company's focus on ethical and sustainable operations, including interactions with the crowd, employees, customers and the environment; and
- Provides for renumeration packages that are competitively positioned, in each of the markets in which Appen operates, to attract and retain staff with the necessary skillsets to achieve the short, medium and long-term strategic objectives of the Company and increase shareholder value.

In order to meet the above objectives, the Board has taken a blended approach to the Australian and US practices. The key components of the LTI scheme are as follows:

- Annual grants of performance rights (with quantum determined at Board discretion)
- Vesting conditions of:
  1) an underlying basic EPS ("UBEPS") growth test over 3 consecutive years, tested annually (with 100% vesting where the UBEPS target is achieved, 50-80% vesting for 90-99% achievement 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
- '3-year' performance periods, with grants consisting of 3 equal tranches each tested over a single 12-month period. Vesting for US employees is different to Australian employees
- Rights for which the performance condition is not satisfied in the annual testing are carried over to subsequent years and may vest if the equivalent compound annual growth rate (CAGR) is achieved

And this is applied as follows:

Australian Executives	United States Executives
– Performance rights-based plan – 3-year plan – Performance hurdle of 20% UBEPS growth, year on year over the 3-year period, subject to Board discretion – Rights vest at end of 3-year period subject to performance and employment hurdle achievement – Performance hurdle re-testing permitted as long as equivalent CAGR achieved	– Performance rights-based plan – 3-year plan – Performance hurdle of 20% UBEPS growth, year on year over the 3-year period, subject to Board discretion – Rights vest annually subject to performance and employment hurdle achievement – Performance hurdle re-testing permitted as long as equivalent CAGR achieved – Partial tranche may vest subject to performance and employment hurdle achievement for grants issued during the year

Directors' Report

continued

Overview of Current Performance Rights and Conditions

Plan	Grant date	Expiry date[1]	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved[2]	Vesting condition	Vesting date	Value per right at grant date
2016	1 Mar 2016	N/A	N/A	1	UBEPS	10.0%	End 2016	Yes	Employed at 1 Jan 2019	1 Jan 2019	$1.41
2016	1 Mar 2016	N/A	N/A	2	UBEPS	10.0%	End 2017	Yes	Employed at 1 Jan 2019	1 Jan 2019	$1.41
2016	1 Mar 2016	N/A	N/A	3	UBEPS	10.0%	End 2018	Yes	Employed at 1 Jan 2019	25 Feb 2019	$1.41
2017	1 Mar 2017	N/A	N/A	1	UBEPS	10.0%	End 2018	Yes	Employed at 1 Jan 2020	1 Jan 2020	$2.58
2017	1 Mar 2017	N/A	N/A	2	UBEPS	10.0%	End 2019	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	Pending	Employed at 1 Jan 2020	25 Feb 2020	$2.58
2018	20 Feb 2018	N/A	N/A	1	UBEPS	10.0%	End 2019	Yes	Employed at 1 Jan 2021	1 Jan 2021	$8.15
2018	20 Feb 2018	N/A	N/A	2	UBEPS	10.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	$8.15
2018	20 Feb 2018	N/A	N/A	3	UBEPS	10.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$8.15
2018 STI	30 Aug 2018[3]	N/A	N/A	2	Relevance EBITDA and EBITDA margin	N/A	End 2018	Yes	N/A	25 Feb 2019	$12.37
2018 STI	20 Dec 2018[3]	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	$8.15
2018 Special	20 Feb 2018	N/A	N/A	2	UBEPS	20.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	$8.15
2018 Special	20 Feb 2018	N/A	N/A	3	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$8.15
2019AU	31 Jan 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2022	1 Jan 2022	$15.96
2019AU	31 Jan 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2022	1 Jan 2022	$15.96
2019AU	31 Jan 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	$15.96
2019US	31 Jan 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	$15.96
2019US	31 Jan 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$15.96
2019US	31 Jan 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	$15.96
2019US	21 May 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	$23.91
2019US	21 May 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$23.91
2019US	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

Directors' Report

continued

Plan	Grant date	Expiry date[1]	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved[2]	Vesting condition	Vesting date	Value per right at grant date
2019US	22 July 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	$29.80
2019US	22 July 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$29.80
2019US	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
2019US	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

* The equity-settled performance rights for the successful completion of the Leapforce acquisition on 7 December 2017 were vested immediately on grant date of 20 February 2018.
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 8 years from the grant date.
2 Target achievement table:

UBEPS Target Achieved	% Performance Rights Allocated
100% or more of UBEPS Target	100%
90–99% of UBEPS Target*	50–80%
Less than 90%	Nil

* At the board's discretion.
3 Grant ratified at annual general meeting on 31 May 2019

The number of performance rights allocated to executives at the end of the year are:

Plan	M Brayan No.	K Levine No.	J Kondo No.	T Sharkey No.
2017	59,430	35,022	–	–
2018	23,153	12,155	–	8,518
2018 STI	50,000	33,333	–	–
2018 Special	150,000	100,000	–	–
2019	160,000	80,000	90,000	90,000
Total	**442,583**	**260,510**	**90,000**	**98,518**

The movement during the reporting period of performance rights owned by executive KMP are outlined in the table below:

		Held at 1 January 2019	Granted during the year	Exercised during the year*	Forfeited during the year	Held at 31 December 2019	Vested during the year	Vested and exerciseable at 31 December 2019
M Brayan	2016	95,535	–	(95,535)	–	–	95,535	–
	2017	59,430	–	–	–	59,430	–	–
	2018	23,153	–	–	–	23,153	–	–
	2018 STI	–	100,000	(50,000)	–	50,000	50,000	–
	2018 Special	150,000	–	–	–	150,000	–	–
	2019 AU	–	160,000	–	–	160,000	–	–
		328,118	**260,000**	**(145,535)**	**–**	**442,583**	**145,535**	**–**
K Levine	2016	63,690	–	(63,690)	–	–	63,690	–
	2017	35,022	–	–	–	35,022	–	–
	2018	12,155	–	–	–	12,155	–	–
	2018 STI	–	66,666	(33,333)	–	33,333	33,333	–
	2018 Special	100,000	–	–	–	100,000	–	–
	2019 AU	–	80,000	–	–	80,000	–	–
		210,867	**146,666**	**(97,023)**	**–**	**260,510**	**97,023**	**–**
J Kondo	2019 US	**–**	**90,000**	**–**	**–**	**90,000**	**–**	**–**
T Sharkey	2018	8,518	–	–	–	8,518	–	–
	2019 US	–	90,000	–	–	90,000	–	–
		8,518	**90,000**	**–**	**–**	**98,518**	**–**	**–**

* Details of the performance rights exercised are detailed in the table below:

Executive	Number of rights exercised	Value of rights at grant date	Value of rights at exercisable date
M Brayan	145,535	$542,204	$2,637,640
K Levine	97,023	$361,467	$1,539,755
J Kondo	–	–	–
T Sharkey	–	–	–

The rights exercised during the year relate to vesting of the relevant plans as detailed above, upon the successful achievement of the relevant performance and employment hurdles, as outlined in the Overview of Current Performance Rights and Conditions table, above.

Summary of Executive Remuneration

Details of the remuneration of the KMP of the Group are set out in the tables below:

	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		
2019	Cash salary $	STI $	Super-annuation* $	Termination payments $	Leave entitlements $	Equity-settled Rights $	Cash-settled $	Total $
M Brayan	479,233	709,613	20,767	–	37,229	1,584,277	–	2,831,119
K Levine	379,233	283,845	20,767	–	20,436	917,710	–	1,621,991
J Kondo[(a)]	218,770	378,964	6,739	–	17,276	750,708	–	1,372,457
T Sharkey	584,080	339,500	35,943	–	21,170	773,092	–	1,753,785
	1,661,316	**1,711,922**	**84,216**	**–**	**96,111**	**4,025,787**	**–**	**7,579,352**

* Includes discretionary company contributions to an approved 401k pension fund and insurance contributions in US

(a) Commenced 22 July 2019

	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		
2018	Cash salary $	STI $	Super-annuation* $	Termination payments $	Leave entitlements $	Equity-settled Rights $	Cash-settled $	Total $
M Brayan	484,960	375,000	15,041	–	28,698	828,921	–	1,732,620
K Levine	332,791	157,500	17,209	–	6,744	544,078	–	1,058,322
P Hall[(a)]	62,785	–	5,012	–	–	–	–	67,797
T Garves[(b)]	143,007	–	21,554	–	–	–	–	164,561
T Sharkey[(c)]	223,654	134,193	20,949	–	18,688	18,377	–	415,861
	1,247,197	**666,693**	**79,765**	**–**	**54,130**	**1,391,376**	**–**	**3,439,161**

* Includes discretionary company contributions to an approved 401k pension fund and insurance contributions in US

(a) Retired 29 March 2018

(b) Exited 4 May 2018

(c) Commenced 9 July 2018

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Proportion of remuneration performance related		Value of equity as proportion of remuneration	
Name	2019	2018	2019	2018
M Brayan	81%	69%	56%	48%
K Levine	74%	66%	57%	51%
J Kondo	82%	–	55%	–
T Sharkey	63%	37%	44%	4%

6. Executive Shareholdings and Performance Rights

The table below outlines the current shares and performance rights held by the executive KMP as at 31 December 2019:

Executive	Security	Number	Number of ordinary shares currently held (direct and indirect)
M Brayan	Rights	442,583	404,414
K Levine	Rights	260,510	106,936
J Kondo	Rights	90,000	–
T Sharkey	Rights	98,518	–

It is company policy that 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 https://appen.com/investors/corporate-governance/.

Share ownership policies

Appen has in place an Executive Share Ownership Policy which applies to the CEO and Group Executives. The intent of the policy is to align the interests of the CEO and Group Executives with the interests of our long-term shareholders. Under the policy, the CEO and Group Executives are required to hold at least 50% of the shares issued in respect of the performance rights granted in 2019, net of any necessary sales to cover tax obligations, while employed by the company. Share transfers to affiliate or related entities or persons are permitted.

This concludes the remuneration report, which has been audited.

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

25 February 2020
Sydney

Auditor’s Independence Declaration

to the directors of Appen Limited

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

To the Directors of Appen Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Appen Limited for the financial year ended 31 December 2019 there have been:

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

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

KPMG

KPMG

Tony Nimac
Partner

Sydney

25 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

	Note	Group 2019 $'000	Group 2018 $'000
Revenue	5	535,501	364,273
Interest income calculated using the effective interest method		498	16
Expenses			
Services purchased – data collection		(310,644)	(228,338)
Employee benefits expense	6	(75,474)	(43,813)
Share-based payments expense	6	(19,204)	(4,017)
Depreciation and amortisation expense	6	(25,864)	(8,941)
Impairment of receivables		(791)	(100)
Travel expense		(2,973)	(1,503)
Professional fees		(11,511)	(3,787)
Rental expense		(698)	(1,915)
Communication expense		(1,074)	(911)
Transaction costs		(7,450)	(1,507)
Earn out adjustment		2,557	–
Deemed interest on earn-out liability		(3,368)	–
Net foreign exchange loss		(101)	(116)
Other expenses		(20,226)	(10,186)
Finance costs	6	(4,123)	(3,201)
Profit before income tax expense		**55,055**	**55,954**
Income tax expense	7	(13,444)	(14,226)
Profit after income tax expense for the year attributable to the owners of Appen Limited	28	**41,611**	**41,728**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		2,681	7,643
Other comprehensive income for the year, net of tax		**2,681**	**7,643**
Total comprehensive income for the year attributable to the owners of Appen Limited		**44,292**	**49,371**
		Cents	Cents
Basic earnings per share	42	35.28	39.25
Diluted earnings per share	42	34.60	38.55

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 2019

	Note	Group 2019 $'000	Group 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	8	75,274	40,045
Trade and other receivables	9	116,336	60,469
Contract assets	10	7,886	10,354
Derivative financial instruments	11	314	–
Income tax refund due		–	588
Prepayments		2,829	2,859
Total current assets		**202,639**	**114,315**
Non-current assets			
Property, plant and equipment	12	5,577	4,906
Right-of-use assets	13	21,922	–
Intangibles	14	398,576	119,144
Deferred tax	15	3,979	1,584
Other non-current assets		1,444	37
Total non-current assets		**431,498**	**125,671**
Total assets		**634,137**	**239,986**
Liabilities			
Current liabilities			
Trade and other payables	16	60,414	37,015
Contract liabilities	17	22,122	1,535
Lease liabilities	18	4,648	–
Derivative financial instruments	19	–	249
Income tax		1,424	–
Employee benefits	20	2,050	1,429
Other liabilities	21	38,143	100
Total current liabilities		**128,801**	**40,328**
Non-current liabilities			
Borrowings	22	–	56,330
Lease liabilities	23	18,043	–
Deferred tax	24	4,011	3,549
Employee benefits	25	431	379
Other		1,069	–
Total non-current liabilities		**23,554**	**60,258**
Total liabilities		**152,355**	**100,586**
Net assets		**481,782**	**139,400**
Equity			
Issued capital	26	362,138	69,602
Reserves	27	123,514	73,668
Accumulated losses	28	(3,870)	(3,870)
Total equity		**481,782**	**139,400**

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 2019

Group	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2018	69,569	27,712	(3,870)	93,411
Profit after income tax expense for the year	–	–	41,728	41,728
Other comprehensive income for the year, net of tax	–	7,643	–	7,643
Total comprehensive income for the year	**–**	**7,643**	**41,728**	**49,371**
Transfer between reserves	–	41,728	(41,728)	–
Transactions with owners in their capacity as owners:				
Issue of ordinary shares, net of transaction costs (Note 26)	33	–	–	33
Share-based payments	–	4,017	–	4,017
Dividends paid (Note 29)	–	(7,432)	–	(7,432)
Balance at 31 December 2018	**69,602**	**73,668**	**(3,870)**	**139,400**

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)	–
Transactions with owners in their capacity as owners:				
Issue of ordinary shares, net of transaction costs (Note 26)	292,536	–	–	292,536
Share-based payments	–	14,657	–	14,657
Dividends paid (Note 29)	–	(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 2019

	Note	Group 2019 $'000	Group 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		488,584	340,353
Payments to suppliers and employees (inclusive of GST)		(405,831)	(274,974)
		82,753	65,379
Interest received		468	16
Interest paid		(2,413)	(2,994)
Income taxes paid		(13,506)	(15,602)
Net cash from operating activities	40	**67,302**	**46,799**
Cash flows from investing activities			
Payments for acquisition – Figure Eight	37	(233,008)	(1,308)
Payments for acquisition – Leapforce		(827)	–
Transaction costs paid for acquisition		(6,687)	(2,300)
Payments for property, plant and equipment	12	(3,113)	(2,826)
Payments for intangibles		(12,400)	(1,162)
Net cash used in investing activities		**(256,035)**	**(7,596)**
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs	26	292,536	33
Repayment of borrowings	22	(57,028)	(17,830)
Payments for lease liabilities		(4,467)	–
Dividends paid	29	(9,103)	(7,432)
Net cash from/(used in) financing activities		**221,938**	**(25,229)**
Net increase in cash and cash equivalents		33,205	13,974
Cash and cash equivalents at the beginning of the financial year		40,045	24,015
Effects of exchange rate changes on cash and cash equivalents		2,024	2,056
Cash and cash equivalents at the end of the financial year	8	**75,274**	**40,045**

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 2019

Note 1. General information

The financial statements cover Appen Limited as a Group consisting of Appen Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in 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 25 February 2020.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Initial adoption of AASB 16 'Leases'

The Group has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Practical expedients applied

In adopting AASB 16, the Group has used the following practical expedients permitted by the standard:

- accounted for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As lessee

The Group recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation, and adjusted for remeasurement of the lease liability.

The lease liability is initially measured at the present value of future lease payments, discounted by applying the interest rate implicit in the lease contract or, the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments paid out in future periods.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

	1 January 2019 $'000
Right-of-use assets (AASB 16)	11,820
Lease liabilities – current (AASB 16)	(1,035)
Lease liabilities – non-current (AASB 16)	(10,785)
Reduction in opening retained profits as at 1 January 2019	–

Note 2. Significant accounting policies (continued)

AASB Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation is applicable to annual reporting periods beginning on or after 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exist which will address the accounting diversity which currently exists in practice. An uncertain tax treatment is one where there is uncertainty over whether the relevant taxation authority will accept the entity's tax treatment (i.e. as submitted in the entity's income tax return) under tax law thereby potentially affecting an entity's tax accounting which is based upon the derivation of taxable profits and losses, tax bases, unused tax losses, unused tax credits and tax rates ('tax accounting elements'). The 'unit of account' to be adopted is determined based on the approach which better predicts the anticipated resolution of the uncertainties with the tax authority. The entity shall consider all issues that the tax authority might consider in making such assessment and must make a presumption that the tax authority will examine amounts that it has a right to examine and has obtained full knowledge of all facts as a consequence. If the entity concludes that it is probable that the taxation authority will accept its adopted position representing an uncertain tax treatment, then the entity determines its respective tax accounting elements consistently with the tax treatment included in its tax filings. If, however, the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related tax accounting elements. The Group adopted this interpretation from 1 January 2019 and there was no significant impact on adoption.

Basis of preparation

Statement of compliance

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

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 in Note 3.

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 36.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Appen Limited ('Company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the year then ended. Appen Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is 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 directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Note 2. Significant accounting policies (continued)

Operating segments

Segment results that are reported to the Group's CEO (the Chief Operating Decision Maker ('CODM')) includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Appen Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the 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 dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

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 requirement. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue 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, any potential bonuses receivable from the customer and any other contingent events. 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 refund liability.

Services

Revenue from services represents the sale of contract service 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 customers. 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 on cost to cost basis. No revenue is recognised if there are either significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of disputes on service quality, or there is continuing management involvement with the products.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

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

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Notes to the Consolidated Financial Statements

continued

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

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.

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.

Cash and cash equivalents

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.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

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.

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

Note 2. Significant accounting policies (continued)

Contract assets

Contract assets are recognised when the Group has transferred goods or services to the customer but where the Group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Derivative financial instruments

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 gain and loss 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. Therefore, upon adoption of AASB 9, the gain or loss on cash flow hedge is recognised in other comprehensive income, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Note 2. Significant accounting policies (continued)

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 as follows:

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases (to 31 December 2018)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Right-of-use assets (from 1 January 2019)

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, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method of amortisation and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Note 2. Significant accounting policies (continued)

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 associated with systems implementation are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 7 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 3 to 7 years. Amortisation starts at the time that the technology is activated and is used by both internal and external customers. The capitalised costs of platform technology include the direct costs of internal staff and any supporting software acquired from a third party.

Leapforce and Figure Eight platform development costs acquired are capitalised and amortised on a straight-line base over the period of their expected benefit, being their finite life of 7 years.

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 7 to 10 years.

Crowd database

Crowd database products are capitalised at the direct costs incurred. The capitalised costs of database products include direct costs of internal staff, services purchased from overseas field partners, and supporting software acquired from a third-party supplier.

Crowd database costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of up to one year.

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 5 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 3 to 5 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a 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 the customer.

Borrowings

Loans and borrowings are initially recognised at the 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

continued

Note 2. Significant accounting policies (continued)

Lease liabilities (from 1 January 2019)

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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 option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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.

All changes in the liability of the employee benefits are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. 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.

Note 2. Significant accounting policies (continued)

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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, 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 that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 2. Significant accounting policies (continued)

Earnings per share

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, adjusted for bonus elements in ordinary shares issued 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 potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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.

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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Other amending accounting standards and interpretations

Other amending accounting standards and interpretations issued but not mandatory are not considered to have a significant impact on the financial statements of the company as they provide either clarification of existing accounting treatment or editorial amendments.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. Performance rights are valued on a discounted dividend stream method. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Notes to the Consolidated Financial Statements

continued

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Allowance for expected credit losses

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 rate for each group. These assumptions include recent sales experience and historical collection rates.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2. 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 discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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 non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

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 many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

Business combinations

As discussed in Note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into two operating segments based on differences in products and services provided: Relevance (formerly Content Relevance) and Speech & Image (formerly Language Resources). 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.

Note 4. Operating segments (continued)

Types of products and services

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

Relevance (formerly Content Relevance)	Relevance provides annotated data used in search technology (embedded in web, e-commerce and social engagement) for improving relevance and accuracy of search engines, social media applications and e-commerce.
Speech & Image (formerly Language Resources)	Speech & Image provides annotated speech and image data used in speech and image recognisers, machine translation, speech synthesisers and other machine-learning technologies resulting in more engaging and fluent devices including internet-connected devices, in-car automotive systems and speech-enabled consumer electronics.

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 31 December 2019 approximately 88.2% (2018: 89.1%) of the Group's external revenue was derived from sales to five major customers.

Operating segment information

Group – 2019	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	467,810	67,683	–	535,493
Interest	21	–	477	498
Other income	–	–	8	8
Total revenue	**467,831**	**67,683**	**485**	**535,999**
Segment result	104,195	21,421	8	125,624
Corporate overhead				(10,917)
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)
Earn out payment adjustment				2,557
Deemed interest on earn-out liability				(3,368)
Interest				(4,123)
Profit before income tax expense				**55,055**
Income tax expense				(13,444)
Profit after income tax expense				**41,611**

Notes to the Consolidated Financial Statements

continued

Note 4. Operating segments (continued)

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. Therefore, the current and comparative EBITDA are not directly comparable.

The revenue and segment result profit of Relevance includes the formerly Content Relevance before acquisition of Figure Eight and contribution from Figure Eight after acquisition.

Group – 2018	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Other segments $'000	Total $'000
Revenue				
Services revenue	312,846	51,361	–	364,207
Interest	–	–	16	16
Other income	–	–	66	66
Total revenue	**312,846**	**51,361**	**82**	**364,289**
Segment result	66,684	19,293	66	86,043
Corporate overhead				(11,056)
Marketing expenses				(1,479)
Net foreign exchange loss				112
Share-based payment – employees				(2,351)
Share-based payment – acquisition related				(1,666)
Transaction costs				(1,507)
Depreciation and amortisation				(8,941)
Interest				(3,201)
Profit before income tax expense				**55,954**
Income tax expense				(14,226)
Profit after income tax expense				**41,728**

Segment profit for Relevance (formerly Content Relevance) and Speech & Image (formerly Language Resources) has been restated to reflect revised divisional allocation methodology effected in 2019. There is no change to total revenue and profit.

Geographical information

	Services revenue		Geographical non-current assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Australia	59,568	40,583	1,421	1,250
US	468,420	316,480	406,007	117,143
Other countries	7,505	7,144	15,052	6,175
	535,493	**364,207**	**422,480**	**124,568**

Notes to the Consolidated Financial Statements

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Note 5. Revenue

	Group 2019 $'000	Group 2018 $'000
Revenue from contracts with customers		
Services revenue	535,493	364,207
Other income		
Other income	8	66
Revenue	**535,501**	**364,273**

Disaggregation of services revenue

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

Group – 2019	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Total $'000
Geographical regions			
Australia	–	59,568	59,568
US	467,810	610	468,420
Other countries	–	7,505	7,505
	467,810	**67,683**	**535,493**

Group – 2018	Relevance (formerly Content Relevance) $'000	Speech & Image (formerly Language Resources) $'000	Total $'000
Geographical regions			
Australia	–	40,583	40,583
US	312,846	3,634	316,480
Other countries	–	7,144	7,144
	312,846	**51,361**	**364,207**

Note 6. Expenses

	Group 2019 $'000	Group 2018 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	647	570
Fixtures and fittings	353	124
Computer equipment	1,136	801
Audio equipment	20	16
Buildings right-of-use assets	3,947	–
Total depreciation	**6,103**	**1,511**
Amortisation		
Systems implementation	543	476
Platform development	5,299	–
Other intangibles	33	31
Amortisation sub-total	**5,875**	**507**
Amortisation – acquisition related		
Platform development	7,536	782
Customer relationships	5,951	5,004
Crowd database	–	1,067
Brand	327	–
Customer contracts	72	70
Amortisation – acquisition related sub-total	**13,886**	**6,923**
Total depreciation and amortisation	**25,864**	**8,941**
Finance costs		
Interest and finance charges paid/payable on borrowings	3,103	3,201
Interest and finance charges paid/payable on lease liabilities	1,020	–
Finance costs expensed	**4,123**	**3,201**
Share-based payments expense		
Share-based payment in respect of Appen performance rights	11,048	2,351
Share-based payment in respect of Leapforce acquisition	1,668	1,666
Share-based payment in respect of Figure Eight acquisition	6,488	–
Total share-based payments expense	**19,204**	**4,017**
Employee benefits expense		
Defined contribution superannuation expense	3,285	1,817
Employee benefits expense	72,189	41,996
Total employee benefits expense	**75,474**	**43,813**

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Note 7. Income tax expense

	Group 2019 $'000	Group 2018* $'000
Income tax expense		
Current tax	15,377	13,630
Deferred tax – origination and reversal of temporary differences	(2,452)	596
Adjustment recognised for prior periods	519	–
Aggregate income tax expense	**13,444**	**14,226**
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (Note 15)	(2,914)	(1,584)
Increase in deferred tax liabilities (Note 24)	462	2,180
Deferred tax – origination and reversal of temporary differences	**(2,452)**	**596**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	55,055	55,954
Tax at the statutory tax rate of 30%	16,517	16,786
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	38	13
Employee share based payment expense	458	1,205
Employee share issued via employee share trust	(2,192)	(1,920)
Non-deductible transaction cost related to acquisition	802	–
	15,623	**16,084**
Adjustment recognised for prior periods	519	–
Difference in overseas tax rates	(2,698)	(1,858)
Income tax expense	**13,444**	**14,226**

* Comparative figures have been restated to show the tax effect amount not deductible/(taxable) in the taxable income calculation.

Note 8. Current assets – cash and cash equivalents

	Group 2019 $'000	Group 2018 $'000
Cash on hand	6	2
Cash at bank	75,268	40,043
	75,274	**40,045**

Notes to the Consolidated Financial Statements

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Note 9. Current assets – trade and other receivables

	Group 2019 $'000	Group 2018 $'000
Trade receivables	115,737	59,628
Less: Allowance for expected credit losses	(1,027)	(184)
	114,710	**59,444**
Other receivables	1,294	908
GST receivable	332	117
	116,336	**60,469**

Allowance for expected credit losses

The Group has recognised an additional provision of $791,279 (2018: $100,000) in profit or loss in respect of impairment of receivables for the year ended 31 December 2019.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
Group	2019 %	2018 %	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Not overdue	–	–	64,458	51,648	–	–
0 to 3 months overdue	–	–	50,040	7,796	–	–
Over 3 months overdue	83%	100%	1,239	184	1,027	184
			115,737	**59,628**	**1,027**	**184**

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

	Group 2019 $'000	Group 2018 $'000
Opening balance	184	75
Additional provisions recognised	791	100
Foreign currency revaluation on opening balance	48	9
Receivables written off during the year as uncollectable	4	–
Closing balance	**1,027**	**184**

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Note 10. Current assets – contract assets

	Group 2019 $'000	Group 2018 $'000
Contract assets	**7,886**	**10,354**
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	10,354	11,270
Additions	63,699	44,272
Transfer to trade receivables	(66,000)	(46,713)
Revaluation	(167)	1,525
Closing balance	**7,886**	**10,354**

Note 11. Current assets – derivative financial instruments

	Group 2019 $'000	Group 2018 $'000
Forward foreign exchange contracts – cash flow hedges	**314**	**–**

Refer to Note 31 for further information on fair value measurement.

Note 12. Non-current assets – property, plant and equipment

	Group 2019 $'000	Group 2018 $'000
Leasehold improvements – at cost	4,510	3,435
Less: Accumulated depreciation	(2,164)	(1,067)
	2,346	**2,368**
Fixtures and fittings – at cost	1,571	855
Less: Accumulated depreciation	(887)	(531)
	684	**324**
Computer equipment – at cost	5,592	3,876
Less: Accumulated depreciation	(3,110)	(1,712)
	2,482	**2,164**
Audio equipment – at cost	198	163
Less: Accumulated depreciation	(133)	(113)
	65	**50**
	5,577	**4,906**

Note 12. Non-current assets – property, plant and equipment (continued)

Reconciliations

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

Group	Leasehold improvements $'000	Fixtures and fittings $'000	Computer equipment $'000	Audio equipment $'000	Total $'000
Balance at 1 January 2018	420	339	962	41	1,762
Additions	694	76	2,032	24	2,826
Disposals	–	–	(29)	–	(29)
Exchange differences	(27)	33	–	1	7
Other adjustment	1,851	–	–	–	1,851
Depreciation expense	(570)	(124)	(801)	(16)	(1,511)
Balance at 31 December 2018	**2,368**	**324**	**2,164**	**50**	**4,906**
Additions	754	529	1,795	35	3,113
Additions through business combinations – Figure Eight (Note 37)	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**

Note 13. Non-current assets – right-of-use assets

	Group	
	2019 $'000	2018 $'000
Land and buildings – right-of-use	25,838	–
Less: Accumulated depreciation	(3,916)	–
	21,922	**–**

Per AASB 16, the Group has recognised the right to use assets across the lease contract term.

The Group leases land and buildings for its offices under agreements of between 3 to 11 years with, in some cases, options to extend. The leases have various escalation clauses.

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 2018	11,820
Balance at 31 December 2018	**11,820**
Additions on adoption of AASB 16	14,018
Exchange differences	31
Depreciation expense	(3,947)
Balance at 31 December 2019	**21,922**

Note 14. Non-current assets – intangibles

	Group 2019 $'000	Group 2018 $'000
Goodwill – at cost	288,772	81,055
Systems implementation – at cost	5,419	5,284
Less: Accumulated amortisation	(3,050)	(2,498)
	2,369	**2,786**
Platform development – at cost	87,772	5,137
Less: Accumulated amortisation	(15,007)	(1,892)
	72,765	**3,245**
Customer relationships – at cost	44,909	36,994
Less: Accumulated amortisation	(11,209)	(5,285)
	33,700	**31,709**
Crowd database – at cost	1,141	1,134
Less: Accumulated amortisation	(1,141)	(1,134)
	–	**–**
Brand – at cost	855	–
Less: Accumulated amortisation	(321)	–
	534	**–**
Customer contracts – at cost	3,369	3,337
Less: Accumulated amortisation	(3,223)	(3,126)
	146	**211**
Other intangibles – at cost	716	529
Less: Accumulated amortisation	(426)	(391)
	290	**138**
	398,576	**119,144**

Notes to the Consolidated Financial Statements

continued

Note 14. Non-current assets – 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 implementation $'000	Platform development $'000	Customer relationships $'000	Crowd database $'000	Total $'000
Balance at 1 January 2018	71,615	2,930	3,194	36,994	1,134	115,867
Additions	–	227	886	–	–	1,113
Additions through business combinations (Note 37)	1,308	–	–	–	–	1,308
Disposals	–	–	–	–	–	–
Exchange differences	8,132	105	(53)	(281)	(67)	7,836
Amortisation expense	–	(476)	(782)	(5,004)	(1,067)	(7,329)
Balance at 31 December 2018	**81,055**	**2,786**	**3,245**	**31,709**	**–**	**118,795**
Additions	–	104	12,109	–	–	12,213
Additions through business combinations – Leapforce	827	–	–	–	–	827
Additions through business combinations – Figure Eight (Note 37)	202,625	–	70,485	7,699	–	280,809
Exchange differences	4,265	22	(239)	243	–	4,291
Amortisation expense	–	(543)	(12,835)	(5,951)	–	(19,329)
Balance at 31 December 2019	**288,772**	**2,369**	**72,765**	**33,700**	**–**	**397,606**

Group	Sub-total b/fwd $'000	Brand $'000	Customer contracts $'000	Other intangibles $'000	Total $'000
Balance at 1 January 2018	115,867	–	270	116	116,253
Additions	1,113	–	–	49	1,162
Additions through business combinations (Note 37)	1,308	–	–	–	1,308
Disposals	–	–	–	(1)	(1)
Exchange differences	7,836	–	11	5	7,852
Amortisation expense	(7,329)	–	(70)	(31)	(7,430)
Balance at 31 December 2018	**118,795**	**–**	**211**	**138**	**119,144**
Additions	12,213	–	–	187	12,400
Additions through business combinations – Leapforce	827	–	–	–	827
Additions through business combinations – Figure Eight (Note 37)	280,809	855	–	–	281,664
Exchange differences	4,291	6	7	(2)	4,302
Amortisation expense	(19,329)	(327)	(72)	(33)	(19,761)
Balance at 31 December 2019	**397,606**	**534**	**146**	**290**	**398,576**

Note 14. Non-current assets – intangibles (continued)

Valuations

For the purposes of allocating the purchase consideration in a business combination, identifiable intangible assets have been valued according to the following valuation methodologies:

Customer relationships	Customer relationships were valued on an excess earnings basis. The excess earnings method is predicated on the basis that the value of an intangible asset is the present value of the earnings it generates, net of a reasonable return on other assets also contributing to that stream of earnings.
Crowd database	Crowd database was valued on a replacement cost basis. Under the replacement cost-based methodology, the value of an intangible asset is estimated by reference to the costs that would have to be expended in order to recreate the asset or the cost historically incurred to create the asset.
Platform development	Platform development for Leapforce acquisition was valued on a replacement cost basis. Under the replacement cost-based methodology, the value of an intangible asset is estimated by reference to the costs that would have to be expended in order to recreate the asset or the cost historically incurred to create the asset. This was cross checked to the relief from royalty methodology. The relief from royalty methodology involves estimating the amount of hypothetical royalty that would be paid if the identifiable intangible asset was licensed from an independent third party owner. The fair value of the identifiable intangible asset is the net present value of the prospective stream of hypothetical royalty savings that would be generated over the expected useful life of the intangible asset. Platform development for the Figure Eight acquisition was valued on an income approach – relief from royalty method, and this was cross checked to the replacement cost-based methodology.

Impairment testing of intangible assets

Recoverable amount being the net amount of discounted future cash flows materially exceeds the carrying value of assets in the Relevance and Speech and Image cash generating unit. Goodwill relates to the acquisition of Butler Hill, Inc., Leapforce, Inc., Raterlabs, Inc. and Figure Eight, Inc. 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.

Butler Hill, Inc., Leapforce, Inc., Raterlabs, Inc. and Figure Eight Technologies, Inc.

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

- Cashflows were projected based on forecast operating results over a 5 year period.
- Average annual revenue growth rates of 8.4% for 2020 to 2024 were used for revenue projections. This growth was referenced against the average annual historical growth rates over the past 4 years and the long-term growth rate of the industry. All future years of the model use a constant rate of 3%; and
- A pre-tax discount of 16.1% based on the weighted average cost of capital.

The Goodwill carrying value of $282,959,000 has been allocated to the Relevance (formerly Content Relevance) CGU.

Mendip Media Group Limited

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

- Cashflows were projected based on forecast operating results over a 5 year period.
- Average annual revenue growth rates of 13.1% for 2020 to 2024 were used for revenue projections. This growth was referenced against average annual historical growth rates over the past 4 years and the long-term growth rate of the industry. All future years of the model use a constant rate of 3%; and
- A pre-tax discount of 16.4% based on the weighted average cost of capital.

The Goodwill carrying value of $1,837,000 has been allocated to the Speech & Image (formerly Language Resources) CGU.

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Note 15. Non-current assets – deferred tax

	Group	
	2019 $'000	2018 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Allowance for expected credit losses	1	–
Property, plant and equipment	(258)	413
Intangibles	–	4
Leases	303	–
Employee benefits	1,093	828
Accrued expenses	1,463	327
Work-in-progress	(656)	(2,845)
Foreign currency revaluation and other expense	2,033	2,857
Deferred tax asset	**3,979**	**1,584**
Movements:		
Opening balance	1,584	–
Credited to profit or loss (Note 7)	2,914	1,584
Additions through business combinations (Note 37)	(519)	–
Closing balance	**3,979**	**1,584**

Note 16. Current liabilities – trade and other payables

	Group	
	2019 $'000	2018 $'000
Trade payables	24,974	20,709
Other payables and accrued expenses	35,440	16,306
	60,414	**37,015**

Refer to Note 30 for further information on financial instruments.

Notes to the Consolidated Financial Statements

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Note 17. Current liabilities – contract liabilities

	Group	
	2019 $'000	2018 $'000
Invoices issued/deposits received in advance	22,122	1,535
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	1,535	1,237
Payments received in advance	21,870	802
Transfer from/(to) revenue	(1,234)	(566)
Revaluation	(49)	62
Closing balance	**22,122**	**1,535**

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 $22,122,000 as at 31 December 2019 ($1,535,000 as at 31 December 2018) and is expected to be recognised as revenue in future periods as follows:

	Group	
	2019 $'000	2018 $'000
Less than 3 months	314	1,048
Over 3 months	21,808	487
	22,122	**1,535**

Note 18. Current liabilities – lease liabilities

	Group	
	2019 $'000	2018 $'000
Lease liability	**4,648**	–

Per AASB 16, the Group has recognised the financial liabilities representing the obligation to make future lease payment.

Note 19. Current liabilities – derivative financial instruments

	Group	
	2019 $'000	2018 $'000
Forward foreign exchange contracts	–	**249**

Refer to Note 30 for further information on financial instruments.
Refer to Note 31 for further information on fair value measurement.

Note 20. Current liabilities – employee benefits

	Group	
	2019 $'000	2018 $'000
Annual leave	**2,050**	**1,429**

Note 21. Current liabilities – other liabilities

	Group	
	2019 $'000	2018 $'000
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	1,298	100
	38,143	**100**

Note 22. Non-current liabilities – borrowings

	Group	
	2019 $'000	2018 $'000
Facility A (Senior debt)	–	56,330
Movements in borrowings		
Movements in each class of borrowings during the current and previous financial year, are set out below:		
Facility A (Senior debt)		
Carrying amount at the start of the year	56,330	56,330
Loan repayment	(57,028)	–
Revaluation	698	–
Carrying amount at the end of the year	**–**	**56,330**

Refer to Note 30 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. The value disclosed above is net of borrowing costs of $nil (2018: $365,000).

Facility B

The facility was established in December 2019 and varied in April 2019 with a limit of A$20m. 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 is available to fund general corporate and working capital needs of the Group (including transaction costs). The facility attracts interest at a margin over bank reference rates, based on the net leverage ratio.

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Note 22. Non-current liabilities – 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. The facility is available to fund the earn out payment for the Figure Eight acquisition and thereafter for general corporate needs of the Group, limited to the amount drawn down for the earn out payment. This facility attracts interest at a margin over bank reference rates, based on the net leverage ratio. This facility also provides for a future commitment of US$35 million for the purpose mentioned above.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Group	
	2019 $'000	2018 $'000
Facility A (Senior debt)	**–**	**56,330**

Assets pledged as security

The bank loans are secured by a fixed charge over the assets of the Group.

Financing arrangements

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

	Group	
	2019 $'000	2018 $'000
Total facilities		
Facility A (Senior debt) *	28,514	56,695
Facility B (Working capital)	20,000	20,000
Facility C (Acquisition funding)	128,312	–
	176,826	**76,695**
Used at the reporting date		
Facility A (Senior debt) *	–	56,695
Facility B (Working capital)	–	–
Facility C (Acquisition funding)	–	–
	–	**56,695**
Unused at the reporting date		
Facility A (Senior debt) *	28,514	–
Facility B (Working capital)	20,000	20,000
Facility C (Acquisition funding)	128,312	–
	176,826	**20,000**

* Balance excludes borrowing cost of $nil (2018: $365,000).

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Note 23. Non-current liabilities – lease liabilities

	Group 2019 $'000	Group 2018 $'000
Lease liability	**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.

Note 24. Non-current liabilities – deferred tax

	Group 2019 $'000	Group 2018 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax loss from Figure Eight acquisition*	(16,624)	–
Impairment of receivables	–	(45)
Property, plant and equipment	134	111
Right-of-use office lease	(94)	–
Intangible assets	3,210	1,953
Employee benefits	(676)	(304)
Revenue received in advance	666	–
Platform development costs	2,331	337
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	(2,032)	1,497
Deferred tax liability	**4,011**	**3,549**

* Estimated tax losses relating to Figure Eight to be applied to future periods amounts to USD $46 million.
This is subject to estimated maximum annual limitations as follows:
2020: USD $18 million
2021: USD $16.5 million
2022–2027: USD $0.7 million

	2019 $'000	2018 $'000
Movements:		
Opening balance	3,549	1,369
Charged to profit or loss (Note 7)	462	2,180
Closing balance	**4,011**	**3,549**

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Note 25. Non-current liabilities – employee benefits

	Group	
	2019 $'000	2018 $'000
Long service leave	**431**	**379**

Note 26. Equity – issued capital

	Group			
	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares – fully paid	**121,107,755**	**106,599,647**	**362,138**	**69,602**

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2018	105,804,907	–	69,569
Issue of shares on exercise of performance rights	1 March 2018	520,040	$10.600	–
Issue of shares on exercise of performance rights	4 June 2018	83,334	$10.210	–
Issue of shares on exercise of options	28 June 2018	40,900	$0.494	20
Issue of shares on exercise of options	27 September 2018	26,563	$0.500	13
Issue of contingent Leapforce shares	7 December 2018	123,903	–	–
Balance	**31 December 2018**	**106,599,647**	**–**	**69,602**
Issue of shares on exercise of options	11 March 2019	40,900	$0.494	20
Issue of shares on exercise of performance rights	11 March 2019	332,697	$15.870	–
Issue of shares to fund acquisition of Figure Eight Technologies, Inc.	18 March 2019	13,255,814	$21.500	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	$21.500	15,002
Issue of shares on exercise of performance rights	4 June 2019	50,000	$22.430	–
Issue of shares on exercise of performance rights	29 August 2019	7,033	$24.270	–
Issue of shares as contingent consideration on acquisition of Leapforce, Inc and RaterLabs, Inc.	9 December 2019	123,903	$22.940	–
Balance	**31 December 2019**	**121,107,755**	**–**	**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

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Note 26. Equity – 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 optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. 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 2018 Annual Report.

Note 27. Equity – reserves

	Group	
	2019 $'000	2018 $'000
Common control reserve	(1,416)	(1,416)
Foreign currency translation reserve	13,114	10,433
Share-based payments reserve	20,653	5,996
Profits reserve	89,304	56,796
Other reserves	1,859	1,859
	123,514	**73,668**

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.

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, and other parties as part of their compensation for services.

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, Inc.

Notes to the Consolidated Financial Statements

continued

Note 27. Equity – reserves (continued)

Movements in reserves

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

Group	Common control $'000	Foreign currency translation $'000	Share-based payments $'000	Profits $'000	Other $'000	Total $'000
Balance at 1 January 2018	(1,416)	2,790	1,979	22,500	1,859	27,712
Foreign currency translation	–	7,643	–	–	–	7,643
Share-based payments	–	–	4,017	–	–	4,017
Transfer from accumulated losses	–	–	–	41,728	–	41,728
Dividends paid	–	–	–	(7,432)	–	(7,432)
Balance at 31 December 2018	**(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**

Note 28. Equity – accumulated losses

	Group	
	2019 $'000	2018 $'000
Accumulated losses at the beginning of the financial year	(3,870)	(3,870)
Profit after income tax expense for the year	41,611	41,728
Transfer to Profits reserve	(41,611)	(41,728)
Accumulated losses at the end of the financial year	**(3,870)**	**(3,870)**

Note 29. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Group	
	2019 $'000	2018 $'000
Final dividend paid out of the profits reserve for the year ended 31 December 2018 of 4.0 cents per ordinary share (2018: 31 December 2017 of 3.0 cents)	4,264	3,174
Interim dividend paid out of the profits reserve for the year ended 31 December 2019 of 4.0 cents per ordinary share (2018: 31 December 2018 of 4.0 cents)	4,839	4,258
	9,103	**7,432**

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Note 29. Equity – dividends (continued)

Dividend declared

On 25 February 2020, the Company declared a final dividend for the year ended 31 December 2019 of 5.0 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 2020. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2019 and will be recognised in subsequent financial periods.

Franking credits

	Group	
	2019 $'000	2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**2,386**	**1,326**

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

Note 30. 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.

Note 30. Financial instruments (continued)

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:

	Buy Australian dollars		Average exchange rates	
	2019 $'000	2018 $'000	2019	2018
Sell United States dollars				
Foreign exchange forward contract maturity:				
0–3 months	5,841	13,260	0.6848	0.7164
3–6 months	5,412	2,784	0.6842	0.7185

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

	Average exchange rates		Reporting date exchange rates	
	2019	2018	2019	2018
Australian dollars				
United States Dollars	0.6960	0.7450	0.7014	0.7055
United Kingdom Pound Sterling	0.5450	0.5596	0.5320	0.5540
European Economic and Monetary Union Euro	0.6220	0.6317	0.6254	0.6164
Hong Kong Dollars	5.4505	5.8368	5.4610	5.5230
Philippine Pesos	35.9756	39.2972	35.5986	37.1044
Chinese Yuan	4.7993	4.9333	4.8856	4.8497

Note 30. Financial instruments (continued)

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Group	Assets 2019 $'000	Assets 2018 $'000	Liabilities 2019 $'000	Liabilities 2018 $'000
United States Dollars	182,652	95,610	27,226	78,048
European Economic and Monetary Union Euro	3,922	2,228	–	–
United Kingdom Pound Sterling	1,194	533	116	85
Hong Kong Dollars	–	1	–	–
Philippine Pesos	3,567	1,011	325	297
Chinese Yuan	242	205	534	–
	191,577	**99,588**	**28,201**	**78,430**

The Group had net assets denominated in foreign currencies of $163,376,000 (assets $191,577,000 less liabilities $28,201,000) as at 31 December 2019 (2018: net assets of $21,158,000 (assets $99,588,000 less liabilities $78,430,000)).

Based on this exposure, had the Australian dollar weakened by 5% or strengthened by 5% (2018: weakened by 5% or strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year based on the assets dominated in foreign currency, excluding the translation difference for consolidated reporting purpose, and the Group's equity would have been lower or higher by the following:

Group – 2019	AUD strengthened % change	AUD strengthened Effect on profit before tax $'000	AUD strengthened Effect on equity $'000	AUD weakened % change	AUD weakened Effect on profit before tax $'000	AUD weakened Effect on equity $'000
United States Dollars	5%	(612)	(7,654)	5%	612	7,654
European Economic and Monetary Union Euro	5%	(196)	–	5%	196	–
United Kingdom Pound Sterling	5%	(5)	(49)	5%	5	49
Hong Kong Dollars	5%	–	–	5%	–	–
Philippine Pesos	5%	–	(162)	5%	–	162
Chinese Yuan	5%	–	15	5%	–	(15)
		(813)	**(7,850)**		**813**	**7,850**

Notes to the Consolidated Financial Statements

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Note 30. Financial instruments (continued)

Group – 2018	AUD strengthened % change	AUD strengthened Effect on profit before tax $'000	AUD strengthened Effect on equity $'000	AUD weakened % change	AUD weakened Effect on profit before tax $'000	AUD weakened Effect on equity $'000
United States Dollars	5%	2,278	(3,476)	5%	(2,278)	3,476
European Economic and Monetary Union Euro	5%	(111)	–	5%	111	–
United Kingdom Pound Sterling	5%	(12)	(21)	5%	12	21
Hong Kong Dollars	5%	–	–	5%	–	–
Philippine Pesos	5%	–	(36)	5%	–	36
Chinese Yuan	5%	–	(10)	5%	–	10
		2,155	**(3,543)**		**(2,155)**	**3,543**

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 the following variable rate borrowings:

Group	2019 Balance $'000	2018 Balance $'000
Facility A	–	56,695
Net exposure to cash flow interest rate risk	**–**	**56,695**

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

For the Group the net exposure to interest rate risk totalled $nil (2018: $56,695,000).

Note 30. Financial instruments (continued)

Cash flow sensitivity analysis for variable-rate instruments

A reasonable possible change of 100 base points in interest rates at the reporting date would have increased or decreased equity and profit or loss by the amounts below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Basis points increase			Basis points decrease		
Group – 2019	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Facility A	100	–	–	100	–	–
Facility B	100	–	–	100	–	–
Facility C	100	–	–	100	–	–
		–	**–**		**–**	**–**

	Basis points increase			Basis points decrease		
Group – 2018	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Facility A	100	(567)	(567)	100	567	567
Facility B	100	–	–	100	–	–
		(567)	**(567)**		**567**	**567**

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 1 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.

Note 30. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Group	
	2019 $'000	2018 $'000
Facility A (Senior debt)	28,514	–
Facility B (Working capital)	20,000	20,000
Facility C (Acquisition funding)	128,312	–
	176,826	**20,000**

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 – 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
Non-derivatives						
Non-interest bearing						
Trade payables	–	24,974	–	–	–	24,974
Other payables	–	3,586	–	–	–	3,586
Interest-bearing – fixed rate						
Lease liability	4.90%	4,668	5,065	7,690	5,268	22,691
Total non-derivatives		**33,228**	**5,065**	**7,690**	**5,268**	**51,251**

Group – 2018	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	20,709	–	–	–	20,709
Other payables	–	1,503	–	–	–	1,503
Interest-bearing – variable						
Facility A – Senior debt	–	1,106	1,106	57,801	–	60,013
Total non-derivatives		**23,318**	**1,106**	**57,801**	–	**82,225**
Derivatives						
Forward foreign exchange contracts net settled	–	249	–	–	–	249
Total derivatives		**249**	–	–	–	**249**

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

Note 31. 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 – 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward foreign exchange contracts	–	314	–	314
Total assets	**–**	**314**	**–**	**314**
Liabilities				
Earn-out liability in respect of Figure Eight acquisition	–	–	36,845	36,845
Total liabilities	**–**	**–**	**36,845**	**36,845**

Group – 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Forward foreign exchange contracts	–	249	–	249
Total liabilities	**–**	**249**	**–**	**249**

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.

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 2018	–
Balance at 31 December 2018	**–**
Additions	36,845
Balance at 31 December 2019	**36,845**

Note 32. 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	
	2019 $	2018 $
Short-term employee benefits	3,986,365	2,342,673
Post-employment benefits	121,089	100,826
Long-term benefits	96,111	54,130
Share-based payments	4,025,787	1,391,376
	8,229,352	**3,889,005**

Note 33. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	Group	
	2019 $	2018 $
Audit services – KPMG		
Audit or review of the financial statements	349,552	210,770
Other services – KPMG		
Taxation and compliance services – Australia	148,825	256,802
Other services	58,803	–
	207,628	256,802
	557,180	**467,572**
Audit services – network firms		
Audit or review of the financial statements	22,958	47,762
Other services – network firms		
Taxation and compliance services – USA	52,002	463,269
Other services	32,987	–
	84,989	463,269
	107,947	**511,031**

Note 34. Contingent liabilities

The Group has given bank guarantees as at 31 December 2019 of $nil (2018: $133,000) in satisfaction of its performance obligations with respect to rental premises.

Note 35. Related party transactions

Parent entity
Appen Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 38.

Key management personnel
Disclosures relating to key management personnel are set out in Note 32 and the remuneration report included in the directors' report.

Transactions with related parties
There were no transactions with related parties during the current financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 36. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Company	
	2019 $'000	2018 $'000
Profit after income tax	11,840	6,653
Total comprehensive income	**11,840**	**6,653**

Statement of financial position

	Company	
	2019 $'000	2018 $'000
Total current assets	86	66,543
Total assets	393,729	82,294
Total current liabilities	4,713	380
Total liabilities	3,572	2,613
Net assets	**390,157**	**79,681**
Equity		
Issued capital	362,138	69,602
Share-based payments reserve	20,654	5,997
Profits reserve	11,111	7,828
Other reserves	1,859	1,859
Accumulated losses	(5,605)	(5,605)
Total equity	**390,157**	**79,681**

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Note 36. Parent entity information (continued)

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 2019 and 31 December 2018.

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

Capital commitments – Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 and 31 December 2018.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, 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 and its receipt may be an indicator of an impairment of the investment.

Note 37. Business combinations

2019

Figure Eight Technologies, Inc.
On 2 April 2019, Appen Limited acquired 100% of the ordinary shares of Figure Eight Technologies, Inc. ('Figure Eight') for the total consideration of $274,923,000 including working capital and an earn out payment, estimated at $29,916,000. Figure Eight is a best in class machine learning software platform which uses highly automated annotation tools to transform unstructured text, image, audio and video data into customised high-quality artificial intelligence training data. This was a strategic acquisition to secure the services of Figure Eight to enable Appen to grow its position as a global leader of high quality data provision for machine learning and artificial intelligence.

The goodwill of $206,351,000 represents the difference in the fair value of assets acquired to consideration paid.

The acquired business contributed revenues of $37,857,000 and loss after tax of $7,952,000 to the Group for the period from date of acquisition to 31 December 2019. If the acquisition occurred on 1 January 2019, the full year contributions would have been revenues of $49,863,000 and loss after tax of $9,135,000.

The values identified in relation to the acquisition of Figure Eight are final as at 31 December 2019.

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Note 37. Business combinations (continued)

Details of the acquisition are as follows:

	Provisional amount disclosed at 2 April 2019 $'000	Adjustments $'000	Final amount at 31 December 2019 $'000
Cash and cash equivalents	11,999	–	11,999
Trade receivables	4,098	–	4,098
Prepayments	983	–	983
Other current assets	34	1	35
Leasehold improvements	378	–	378
Fixtures and fittings	248	–	248
Computer equipment	227	–	227
Platform development	1,482	69,003	70,485
Customer relationships	–	7,699	7,699
Brand	–	855	855
Deferred tax asset	4	(523)	(519)
Trade payables	(1,847)	–	(1,847)
Other payables	(11,072)	(1,198)	(12,270)
Accrued expenses	(4,337)	(381)	(4,718)
Deferred revenue	(8,365)	4,079	(4,286)
Non-current liabilities	–	(1,069)	(1,069)
Net assets/(liabilities) acquired	(6,168)	78,466	72,298
Goodwill	281,091	(78,466)	202,625
Acquisition-date fair value of the total consideration transferred	**274,923**	–	**274,923**
Representing:			
Cash paid or payable to vendor	245,007	–	245,007
Contingent consideration	29,916	–	29,916
Total consideration	**274,923**	–	**274,923**

	Group 2019 $'000
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	274,923
Less: cash and cash equivalents	(11,999)
Less: contingent consideration	(29,916)
Net cash used	**233,008**

2018

An additional amount of $1,308,000 was paid in 2018 for the Leapforce acquisition in 2017.

There were no business combinations in the year to 31 December 2018.

Note 38. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

		Ownership interest	
Name	Principal place of business/ Country of incorporation	2019 %	2018 %
Appen Butler Hill Pty Limited	Australia	100%	100%
Appen Butler Hill, Inc.*	United States of America	100%	100%
Appen (Europe) Limited*	United Kingdom	100%	100%
Mendip Media Group Limited	United Kingdom	100%	100%
Appen (Hong Kong) Limited*	Hong Kong	100%	100%
Beijing Appen Technology Co., Ltd*	China	100%	100%
Leapforce, Inc.	United States of America	100%	100%
RaterLabs, Inc.	United States of America	100%	100%
Appen Financial Services Pty Ltd	Australia	100%	100%
Figure Eight Technologies, Inc.	United States of America	100%	–
Appen Technology (WuXi) Co.Ltd	China	100%	–
Figure Eight Federal LLC	United States of America	100%	–

* Wholly-owned subsidiaries of Appen Butler Hill Pty Limited.

Note 39. 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'.

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Note 39. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

Statement of profit or loss and other comprehensive income	2019 $'000	2018 $'000
Revenue	70,244	56,195
Services purchased – data collection	(6,308)	(6,629)
Employee benefits expense	(27,762)	(25,621)
Depreciation and amortisation expense	(2,770)	(1,393)
Travel expense	(1,153)	(700)
Professional fees	(2,893)	(1,661)
Rental expense	(389)	(1,180)
Communication expense	(3,366)	(1,546)
Transaction costs	4,229	547
Other expenses	(4,558)	(3,608)
Finance costs	(3,548)	–
Profit before income tax (expense)/benefit	21,726	14,404
Income tax (expense)/benefit	(3,150)	417
Profit after income tax (expense)/benefit	18,576	14,821
Other comprehensive income/(loss)		
Foreign currency translation	5,523	(17)
Other comprehensive income/(loss) for the year, net of tax	5,523	(17)
Total comprehensive income for the year	**24,099**	**14,804**

Equity – retained profits	2019 $'000	2018 $'000
Retained profits at the beginning of the financial year	–	–
Profit after income tax (expense)/benefit	18,576	14,821
Transfer to Profits reserve	(18,576)	(14,821)
Retained profits at the end of the financial year	**–**	**–**

Note 39. Deed of cross guarantee (continued)

Statement of financial position	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	18,616	11,412
Trade and other receivables	2,142	14,296
Contract assets	2,594	–
Derivative financial instruments	314	–
Income tax refund due	124	46
Prepayments	388	1,783
	24,178	**27,537**
Non-current assets		
Investments accounted for using the equity method	7,630	6,593
Property, plant and equipment	3,351	4,310
Intangibles	8,336	265
Deferred tax	2,411	2,212
Intercompany loan	375,952	54,914
Other non-current assets	255	159
	397,935	**68,453**
Total assets	**422,113**	**95,990**
Current liabilities		
Trade and other payables	451	4,639
Contract liabilities	1,173	1,274
Derivative financial instruments	–	249
Income tax	1,584	752
Provisions	998	756
Other liabilities	8,132	–
	12,338	**7,670**
Non-current liabilities		
Lease liabilities	8,546	–
Deferred tax	–	670
Provisions	431	379
	8,977	**1,049**
Total liabilities	**21,315**	**8,719**
Net assets	**400,798**	**87,271**
Equity		
Issued capital	364,231	69,602
Reserves	36,567	17,669
Total equity	**400,798**	**87,271**

Note 40. Reconciliation of profit after income tax to net cash from operating activities

	Group	
	2019 $'000	2018 $'000
Profit after income tax expense for the year	41,611	41,728
Adjustments for:		
Depreciation and amortisation	25,865	8,941
Net loss on disposal of property, plant and equipment	30	3
Share-based payments	19,204	4,017
Foreign exchange differences	3,796	5,246
Interest expense – deemed	3,368	–
Interest expense – right-of-use assets	1,020	–
Transaction costs paid for acquisition	6,687	1,507
Earn-out adjustment	(2,557)	–
Change in operating assets and liabilities:		
Increase in trade and other receivables	(48,508)	(29,652)
Increase/(decrease) in trade and other payables	4,803	12,228
Increase in employee benefits and provisions	8,494	3,778
Increase in contract liabilities	1,171	298
Increase/(decrease) in provision for income tax	4,251	(1,891)
Increase/(decrease) in deferred tax liabilities	(1,933)	596
Net cash from operating activities	**67,302**	**46,799**

Note 41. Changes in liabilities arising from financing activities

Group	Facility A $'000	Facility B $'000	Facility C $'000	Lease $'000	Total $'000
Balance at 1 January 2018	50,448	16,861	–	4	67,313
Repayment	–	(17,830)	–	–	(17,830)
Revaluation	5,882	969	–	–	6,851
Other changes	–	–	–	(4)	(4)
Balance at 31 December 2018	**56,330**	**–**	**–**	**–**	**56,330**
Repayment	(57,028)	–	–	–	(57,028)
Capitalised borrowing cost	(950)	–	–	–	(950)
Revaluation	332	–	–	–	332
Other changes	1,316	–	–	–	1,316
Balance at 31 December 2019	**–**	**–**	**–**	**–**	**–**

Notes to the Consolidated Financial Statements

continued

Note 42. Earnings per share

	Group	
	2019 $'000	2018 $'000
Profit after income tax attributable to the owners of Appen Limited	**41,611**	**41,728**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	117,937,257	106,324,919
Adjustments for calculation of diluted earnings per share:		
Options and rights over ordinary shares	2,333,771	1,932,042
Weighted average number of ordinary shares used in calculating diluted earnings per share	**120,271,028**	**108,256,961**

	Cents	Cents
Basic earnings per share	**35.28**	**39.25**
Diluted earnings per share	**34.60**	**38.55**

Note 43. Share-based payments

Performance rights

Long-term incentive plan

The Company has developed a long term incentive plan ('LTIP') which incorporates performance conditions and was effective from 1 January 2015.

In order to meet the above objectives, the Board has taken a blended approach to the Australian and US practices. The key components of the LTI scheme are as follows:

- Annual grants of performance rights (with quantum determined at Board discretion)
- Vesting conditions of:
  1. an underlying basic EPS ("UBEPS") growth test over 3 consecutive years, tested annually (with 100% vesting where the UBEPS target is achieved, 50–80% vesting for 90–99% achievement 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
- '3-year' performance periods, with grants consisting of 3 equal tranches each tested over a single 12-month period. Vesting for US employees is different to Australian employees
- Rights for which the performance condition is not satisfied in the annual testing are carried over to subsequent years and may vest if the equivalent compound annual growth rate (CAGR) is achieved

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 2.25%.

Notes to the Consolidated Financial Statements

continued

Note 43. Share-based payments (continued)

Overview of Current Performance Rights and Conditions

Plan	Grant date	Expiry date[1]	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved[2]	Vesting condition	Vesting date	Value per right at grant date
2016	1 Mar 2016	N/A	N/A	1	UBEPS	10.0%	End 2016	Yes	Employed at 1 Jan 2019	1 Jan 2019	$1.41
2016	1 Mar 2016	N/A	N/A	2	UBEPS	10.0%	End 2017	Yes	Employed at 1 Jan 2019	1 Jan 2019	$1.41
2016	1 Mar 2016	N/A	N/A	3	UBEPS	10.0%	End 2018	Yes	Employed at 1 Jan 2019	25 Feb 2019	$1.41
2017	1 Mar 2017	N/A	N/A	1	UBEPS	10.0%	End 2018	Yes	Employed at 1 Jan 2020	1 Jan 2020	$2.58
2017	1 Mar 2017	N/A	N/A	2	UBEPS	10.0%	End 2019	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	Pending	Employed at 1 Jan 2020	25 Feb 2020	$2.58
2018	20 Feb 2018	N/A	N/A	1	UBEPS	10.0%	End 2019	Yes	Employed at 1 Jan 2021	1 Jan 2021	$8.15
2018	20 Feb 2018	N/A	N/A	2	UBEPS	10.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	$8.15
2018	20 Feb 2018	N/A	N/A	3	UBEPS	10.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$8.15
2018 STI	30 Aug 2018[3]	N/A	N/A	2	Relevance EBITDA and EBITDA margin	N/A	End 2018	Yes	N/A	25 Feb 2019	$12.37
2018 STI	20 Dec 2018[3]	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	$8.15
2018 Special	20 Feb 2018	N/A	N/A	2	UBEPS	20.0%	End 2019	Pending	Employed at 1 Jan 2021	1 Jan 2021	$8.15
2018 Special	20 Feb 2018	N/A	N/A	3	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$8.15
2019AU	31 Jan 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2022	1 Jan 2022	$15.96
2019AU	31 Jan 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2022	1 Jan 2022	$15.96
2019AU	31 Jan 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	$15.96
2019US	31 Jan 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	$15.96
2019US	31 Jan 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$15.96
2019US	31 Jan 2019	N/A	N/A	3	UBEPS	20.0%	End 2021	Pending	Employed at 1 Jan 2022	Release of 2021 results	$15.96

Notes to the Consolidated Financial Statements

continued

Note 43. Share-based payments (continued)

Plan	Grant date	Expiry date[1]	Exercise price	Tranche	Performance measurement	Performance target	Performance target measurement date	Target achieved[2]	Vesting condition	Vesting date	Value per right at grant date
2019US	21 May 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	$23.91
2019US	21 May 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$23.91
2019US	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
2019US	22 July 2019	N/A	N/A	1	UBEPS	20.0%	End 2019	Yes	Employed at 1 Jan 2020	25 Feb 2020	$29.80
2019US	22 July 2019	N/A	N/A	2	UBEPS	20.0%	End 2020	Pending	Employed at 1 Jan 2021	Release of 2020 results	$29.80
2019US	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
2019US	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

* The equity-settled performance rights for the successful completion of the Leapforce acquisition on 7 December 2017 were vested immediately on grant date of 20 February 2018.

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 8 years from the grant date.

2 Target achievement table:

UBEPS Target Achieved	% Performance Rights Allocated
100% or more of UBEPS Target	100%
90–99% of UBEPS Target*	50–80%
Less than 90%	Nil

* At the board's discretion.

3 Grant ratified at annual general meeting on 31 May 2019.

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

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
	1,134,232	**1,366,922**	**(382,697)**	**(241,042)**	**1,877,415**

Note 43. Share-based payments (continued)

31 Dec 2018

Plan	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2015	520,040	–	(520,040)	–	–
2016	423,160	–	–	(119,887)	303,273
2017	315,390	–	–	(63,063)	252,327
2018	–	134,840	–	–	134,840
2018 Special	–	443,792	–	–	443,792
2018 STI	–	83,334	(83,334)	–	–
	1,258,590	**661,966**	**(603,374)**	**(182,950)**	**1,134,232**

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.17 years (2018: 1.16 years).

Options

Subscription deeds

The Options may be exercised for the exercise price specified on grant of the Option. The Options may only be exercised during the designated exercise period for the relevant tranche of Options. The Options may be exercised by lodging the option certificate, a signed exercise notice and an amount equal to the exercise price multiplied by the number of Options being exercised at the Company's registered office. On exercise, the holder will be issued one ordinary share for each Option exercised.

The Options lapse automatically:

- if the Subscriber ceases to be a full-time employee of the Company, subject to the discretion of the Board; or
- at the end of the designated exercise period for the relevant tranche of Options.

The Company may, with 5 days' written notice, elect to purchase all of the Options held by the holder for the "option value", being the value of the shares that would be issued on exercise of the Options, less the relevant exercise price.

Employee Share Option Plan

The Board may invite employees of the Group to participate in the Plan.

The Options may be exercised for the exercise price specified in the relevant invitation. The Options may only be exercised during a specified exercise period, after the vesting conditions and any other exercise conditions specified in the invitation have been met. The Options may be exercised by delivering an exercise notice to the Company and paying the exercise price. On exercise, the holder will be issued one ordinary share for each Option exercised. Each share acquired on exercise of an Option ranks equally in all respects with all other Shares.

All unvested Options lapse automatically if the holder ceases to be employed by the Company. Any vested Options lapse automatically:

- if the holder leaves the Company in circumstances which make them a "non-qualifying leaver" including termination for a material breach of their employment agreement, non-performance, fraud, wilful or serious misconduct; or
- on the earlier of the expiry date of the Options set out in the invitation and the fifth anniversary of the grant of the Options.

In the event of a reconstruction of share capital prior to the exercise of the Options, the number of Shares to be issued on the exercise of the Option and/or the exercise price must be reconstructed accordingly.

A holder cannot dispose of their Options without the prior written consent of the Board.

Notes to the Consolidated Financial Statements

continued

Note 43. Share-based payments (continued)

Set out below are summaries of Options granted under the plans:

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
31/08/2013	01/03/2019	$0.494	40,900	–	(40,900)	–	–
			40,900	**–**	**(40,900)**	**–**	**–**
Weighted average exercise price			$0.494	$0.000	$0.494	$0.000	$0.000

All options above were granted under the terms of the Employee Share Option Plan.

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
31/08/2013	01/03/2019	$0.494	81,800	–	(40,900)	–	40,900
24/12/2014	01/03/2020	$0.500	13,281	–	(13,281)	–	–
24/12/2014	01/03/2021	$0.500	13,281	–	(13,281)	–	–
			108,362	**–**	**(67,462)**	**–**	**40,900**
Weighted average exercise price			$0.495	$0.000	$0.496	$0.000	$0.494

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2019 Number	2018 Number
31/08/2013	01/03/2019	–	40,900
		–	**40,900**

The weighted average share price during the financial year was $23.298 (2018: $11.645).

The weighted average remaining contractual life of options outstanding at the end of the financial year was nil years (2018: 0.17 years).

Note 44. Events after the reporting period

Apart from the dividend declared as disclosed in Note 29, no other matter or circumstance has arisen since 31 December 2019 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 Note 2 to 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 2019 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 39 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

25 February 2020
Sydney

Independent Auditor's Report

to the members of Appen Limited

KPMG

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 2019 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 2019
- 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.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Revenue recognition
- Acquisition of Figure Eight Technologies Inc.

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 ($536m)

Refer to Note 5 to the Financial Report

The key audit matter	How the matter was addressed in our audit

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.
	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.
	• 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.

Independent Auditor's Report

continued

A significant amount of contract assets related to revenue generated from speech and image 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 involve 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, 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.	• We assessed the accuracy of contract assets and receivables related to revenue from speech and image 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 and invoices raised, to relevant projects in contract assets and receivables at year end. • We analysed revenue by forming an expectation of the Group's revenue for the year derived from cash receipts in the Group's bank statements and compared this expectation to revenue recognised by the Group. • We tested a statistical sample of transactions from both service revenue streams to underlying records such as records of completion and customer acknowledgements, to check revenue was recognised in the period the service was provided.

Acquisition of Figure Eight Technologies Inc

Refer to Note 37 to the Financial Report

The key audit matter	How the matter was addressed in our audit
On 2 April 2019, the Group completed the acquisition of Figure Eight Technologies Inc., a machine learning software platform company headquartered in San Francisco, United States of America. The total consideration was $274.9m. We determined that the acquisition was a key audit matter because of the size of the transaction and the high level of judgement made by the Group that is required in determining: • when control of Figure Eight Technologies Inc. was obtained; • consideration payable including the fair value of the contingent consideration; • the identification of acquired intangibles assets, such as platform and customer relationships;	Our procedures included: • reading the transaction documents related to the acquisition to understand the structure, key terms and conditions; • evaluating documentation underlying the Group's assessment of when control is obtained of Figure Eight Technologies Inc.; • working with our valuation specialists to assess and challenge key assumptions used in the Group's valuation of identified intangible assets by: • assessing the scope, objectivity and competency of independent valuation specialists engaged by the Company;

Independent Auditor's Report

continued

KPMG

• the assumptions and estimates used when performing intangible asset valuations, including estimated future cash flows, royalty rates, growth rates and discount rates; and • disclosure of the acquisition in the financial statements	• comparing key assumptions used by the Group's independent valuation expert to information from similar business acquisitions, industry trends and historical performance; and • challenging the Group's identified intangible assets and the Group's independent valuation specialist's approach and methodology to valuing their assets by comparing to the requirements of the accounting standards. • assessing the appropriateness of the business combination disclosure in the financial statements.

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 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.

Independent Auditor's Report

continued

KPMG

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: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Appen Limited for the year ended 31 December 2019, 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 43 to 57 of the Directors' report for the year ended 31 December 2019.

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

KPMG

KPMG

Tony Nimac

Partner

Sydney

25 February 2020

Shareholder Information

31 December 2019

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 12 February 2020.

Distribution of shareholders

The distribution of issued capital is as follows:

	Number of shareholders	Ordinary shares	% of issued capital %
100,001 and over	43	90,517,705	74.74
10,001 to 100,000	358	7,995,839	6.60
5,001 to 10,000	641	4,475,533	3.70
1,001 to 5,000	5,381	11,975,593	9.89
1 to 1,000	18,419	6,143,085	5.07
Total	**24,842**	**121,107,755**	**100.00**

Distribution of performance right holders

The distribution of unquoted options on issue are as follows:

	Number of performance rights holders	Unlisted performance rights	% of total performance rights %
100,001 and over	3	888,093	47.30
10,001 to 100,000	23	703,611	37.48
5,001 to 10,000	23	182,982	9.75
1,001 to 5,000	41	99,952	5.32
1 to 1,000	4	2,777	0.15
Total	**94**	**1,877,415**	**100.00**

The performance rights on issue are unquoted and have been issued under an employee incentive scheme.

Less than marketable parcels of ordinary shares

There are no shareholders with unmarketable parcels.

Shareholder Information

continued

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	30,727,574	25.37
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	17,065,872	14.09
C & J VONWILLER PTY LTD	11,060,286	9.13
CITICORP NOMINEES PTY LIMITED	8,739,229	7.22
NATIONAL NOMINEES LIMITED	7,518,895	6.21
BNP PARIBAS NOMINEES PTY LTD	2,233,546	1.84
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,420,932	1.17
BNP PARIBAS NOMS PTY LTD	1,199,268	0.99
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	1,126,425	0.93
CS FOURTH NOMINEES PTY LIMITED	867,350	0.72
CS THIRD NOMINEES PTY LIMITED	764,391	0.63
CITICORP NOMINEES PTY LIMITED	623,157	0.51
NEW GREENWICH PTY LTD	607,384	0.50
CITIBANK NA	557,566	0.46
BNP PARIBAS NOMINEES PTY LTD	459,765	0.38
GINGA PTY LTD	440,000	0.36
BUTTONWOOD NOMINEES PTY LTD	388,766	0.32
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	382,887	0.32
SIDMOUTH PTY LIMITED	300,000	0.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED–GSCO ECA	240,718	0.20
	86,724,011	**71.60**
Remaining quoted equity securities	**34,383,744**	**28.40**
Total number of ordinary shares on issue	**121,107,755**	**100.00**

Unquoted equity securities

The Company had the following unquoted securities on issue as at 12 February 2020:

	Number on issue	Number of holders
Performance rights over ordinary shares issued	1,877,415	94

Shareholder Information

continued

Substantial Shareholders

The names of the Substantial Shareholders listed in the Company's Register as at 12 February 2020 as advised by notices lodged with ASX:

	Ordinary shares	
	Number held	% of total shares issued
C & J Vonwiller Pty Limited	11,060,286	9.13

Restricted securities

Class	Expiry date	Number of shares
Ordinary shares, in respect of the Leapforce acquisition	7 December 2020	557,566
Ordinary shares, in respect of the Figure Eight acquisition	2 April 2021	27,919
		585,485

Voting rights

In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll.

Options and performance rights have no voting rights.

On-market buy-backs

There is no current on-market buy-back in relation to the Company's securities.

Corporate Directory

Directors

Christopher Charles Vonwiller – Chairman
Mark Ronald Brayan – Managing Director and Chief Executive Officer
Stephen John Hasker
Robin Jane Low
William Robert Pulver
Deena Robyn Shiff

Company secretary

Carl Middlehurst

Registered office

Level 6
9 Help Street
Chatswood NSW 2067

Tel: 02 9468 6300

Share register

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000

Telephone: 1300 554 474
Facsimile: (02) 9287 0303

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)

Website

www.appen.com

Corporate Governance Statement

https://appen.com/investors/corporate-governance/

appen

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