11 October 2024

Equity raising to provide flexibility to pursue generative AI related opportunities

Highlights

- A$50 million underwritten institutional placement to provide balance sheet flexibility to fund generative AI related opportunities (**Placement**)
- Appen has returned to underlying EBITDA and underlying cash EBITDA profitability in Q3 FY24, having taken the necessary steps to manage its cost base in line with the revenue opportunity
- Appen's external customer environment continues to show signs of improvement, particularly from generative AI related projects. Proceeds from the Placement will provide additional liquidity to fund working capital and provide greater flexibility to pursue generative AI related opportunities
- Upon settlement of the Placement, Appen will have a pro-forma cash balance of approximately US$62.4 million
- Opportunity for eligible existing shareholders to participate via a non-underwritten Share Purchase Plan (**SPP**) which is targeting to raise a further A$5 million at the same offer price as the Placement (A$1.92 per share (**Offer Price**))

Appen Limited (ASX: APX) (**Appen** or **Company** or **Group**) is pleased to announce it is undertaking an equity raising by way of a fully underwritten A$50 million institutional placement of approximately 26.0 million new fully paid ordinary shares in Appen (**New Shares**) and a non-underwritten SPP targeting to raise A$5 million (**Equity Raising**)[1].

Appen is also pleased to report it has returned to underlying EBITDA[2] and underlying cash EBITDA[3] profitability in Q3 2024 following successful implementation of cost initiatives designed to manage Appen's cost base in line with the available revenue opportunity.

Appen's external customer environment continues to show signs of improvement, particularly from generative AI related opportunities. Some of these projects are high volume and short duration, which requires greater working capital to support as crowd expenses are incurred in advance of corresponding customer receipts.

Appen is well capitalised and has a strong balance sheet with US$30.3m of cash as of 30 September 2024 (approximately US$62.4m pro-forma for the Equity Raising[4]). The net proceeds from the Equity Raising will provide additional liquidity to fund working capital and greater flexibility to pursue generative AI related opportunities.

[1] The Company reserves the right to increase the size of the SPP or, if necessary, scale back applications under the SPP, at its sole discretion.
[2] Underlying results are a non-IFRS measure used by management to assess the performance of the business and are calculated from statutory measures. Non-IFRS measures are not subject to audit. Underlying EBITDA excludes the impact of FX, restructure costs, transaction costs, inventory losses and acquisition-related and one-time share-based payments expenses.
[3] Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.
[4] Pro-forma cash balance excludes potential proceeds from the SPP.

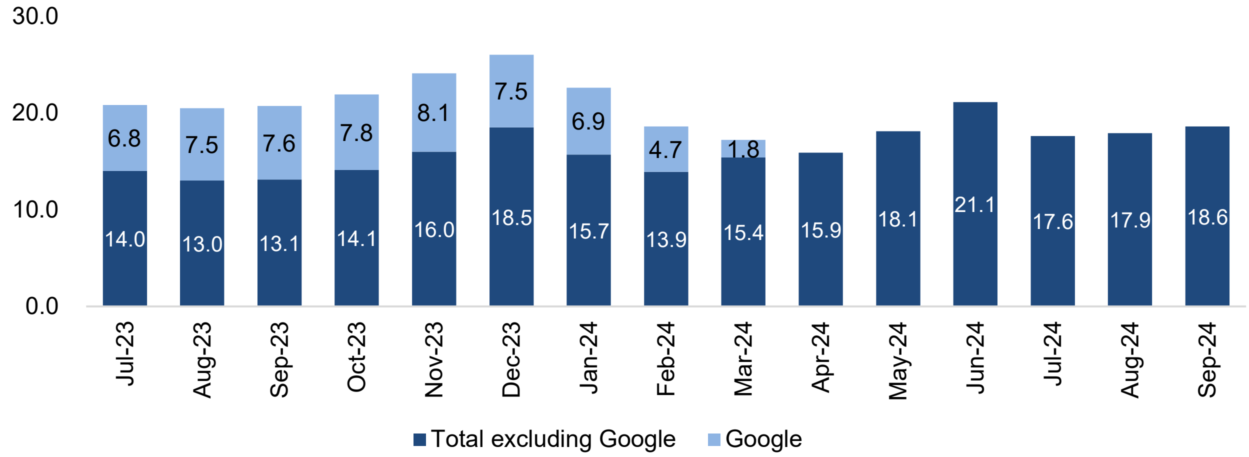
Trading update

Appen provides the following trading update for Q3 FY24[5]:

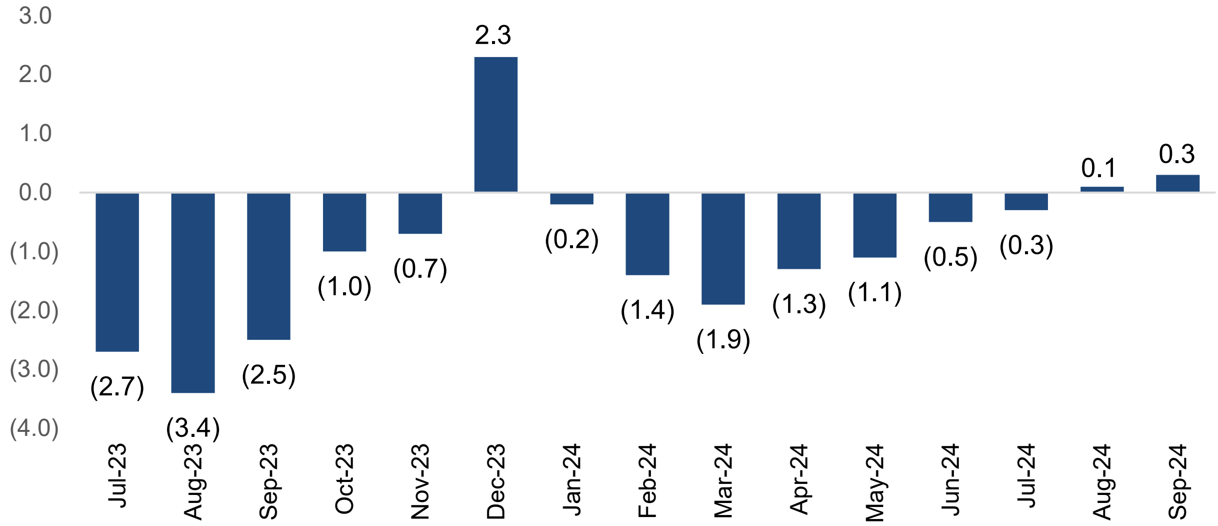
- Revenue of $54.12m for Q3 FY24, down 12.9% on pcp (up 34.6% when excluding Google)
- Gross Margin % of 41.2% for Q3 FY24 (vs pcp of 33.6%)[6]
- Underlying EBITDA of $1.01m for Q3 FY24 (vs pcp of -$7.46m)
- Underlying cash EBITDA of $0.04m for Q3 FY24 (vs pcp of -$8.59m)

The Group's revenue trend continues to exhibit a stable and positive trajectory with each month in Q3 FY24 representing an increase vs the pcp in Q3 FY23 excluding Google. The Group has returned to underlying EBITDA and underlying cash EBITDA profitability in Q3 FY24, following successful completion of previously announced cost-out initiatives.

Group revenue (US$m)



Underlying cash EBITDA (US$m)



Underlying EBITDA (US$m)	(2.3)	(3.1)	(2.1)	(0.6)	0.2	3.2	(0.1)	(1.3)	(1.5)	(1.1)	(0.7)	2.4	0.0	0.3	0.7

[5] All amounts stated are in US$ and all prior period comparisons are to Q3 FY23. The financial figures as at 30 September 2024 are based on unaudited management accounts.

[6] Gross margin refers to revenue less crowd expenses.

Appen's CEO & Managing Director, Mr Ryan Kolln, said, "*Profitability is a key focus for Appen and we are very pleased to have returned to underlying EBITDA and underlying cash EBITDA profitability in Q3 FY24. Our external environment continues to display signs of improvement and we are excited by the potential opportunities that this presents.*"

"We're continuing to experience LLM-related growth which is contributing to our positive revenue trajectory. China continues to experience significant revenue growth and we remain optimistic about the potential of our Enterprise and Government divisions".

Appen will provide additional commentary as part of its Q3 FY24 Quarterly Activity Report and Appendix 4C scheduled for release on or around 31 October 2024.

Equity Raising

Appen is undertaking a fully underwritten institutional placement to raise approximately A$50 million. Approximately 26.0 million New Shares will be issued under the Placement, representing ~11.6% of existing shares on issue.

The Placement is fully underwritten at the Offer Price of A$1.92 per New Share, which represents a 6.9% discount to the 5-day VWAP[7] and an 11.5% discount to the last close price[8].

A summary of the terms of the Underwriting Agreement for the Placement is set out in Annexure 1.

Settlement of the Placement is expected to occur on Wednesday, 16 October 2024, with allotment and normal trading occurring on Thursday, 17 October 2024. The New Shares will rank equally with existing fully paid ordinary shares of Appen and will be issued within the Company's placement capacity under ASX Listing Rule 7.1.

Appen will also be undertaking a non-underwritten share purchase plan targeting to raise A$5m.

Eligible shareholders with a registered address in Australia or New Zealand on the Company's share register as at 7:00pm (Sydney time) on Thursday, 10 October 2024 will have the opportunity to apply for up to A$30,000 worth of New Shares under the SPP.

Shares issued under the SPP will be offered at the Offer Price, being A$1.92, and will rank equally with existing Appen ordinary shares from the date of issue.

It is expected that the SPP offer period will open on Friday, 18 October 2024 and will close at 5:00pm (Sydney time) on Friday, 1 November 2024.

Appen reserves the right to increase the size of the SPP or, if necessary, scale back applications under the SPP, at its sole discretion.

Investors participating in the equity raising should have regard to the risks set out in Annexure 2.

[7] Volume Weighted Average Price (VWAP) from 4 October 2024 to 10 October 2024 of A$2.06.
[8] Closing price of A$2.17 on 10 October 2024.

Indicative timetable

Event	Date
Record date for SPP (7:00pm AEDT)	Thursday, 10 October 2024
Trading halt and announcement of the Equity Raising	Friday, 11 October 2024
Announcement of results of the Placement and trading halt lifted	Monday, 14 October 2024
Settlement of New Shares to be issued under the Placement	Wednesday, 16 October 2024
Allotment of New Shares issued under the Placement and New Shares commence trading on the ASX	Thursday, 17 October 2024
Expected SPP offer opening date (9:00am AEDT)	Friday, 18 October 2024
Expected SPP offer closing date (5:00pm AEDT)	Friday, 1 November 2024
Announcement of SPP results	Thursday, 7 November 2024
Allotment of New Shares for the SPP	Friday, 8 November 2024
New Shares issued under the SPP commence trading on the ASX	Monday, 11 November 2024
Dispatch of holding statements	Tuesday, 12 November 2024

The above timetable is indicative only and subject to change. Appen reserves the right to amend any or all of these dates at their absolute discretion, subject to the Corporations Act 2001 (Cth) (Corporations Act), the ASX Listing Rules and any other applicable laws. The quotation of the New Shares is subject to approval from the ASX. All references to date or time in the indicative timetable is a reference to Sydney time.

Investor Briefing

An investor briefing will be hosted by Ryan Kolln (CEO) and Justin Miles (CFO) at 10:30am (Sydney time) today, Friday 11 October 2024.

Please pre-register for the briefing via the following link:

https://s1.c-conf.com/diamondpass/10042686-5wjshd.html

Barrenjoey Markets Pty Limited is acting as Sole Lead Manager and Underwriter to the Placement.

Authorised by the Board of Appen Limited.

For further information, please contact:

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About Appen

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

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

Founded in 1996, Appen has customers and offices globally.

Not financial product advice

This announcement is not a financial product or investment advice, a recommendation to acquire shares in the Company or accounting, legal or tax advice and does not and will not form any part of any contract for the acquisition of shares in the Company. It has been prepared without taking into account the objectives, financial or tax situation or needs of individuals. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial and tax situation and needs and seek legal and taxation advice appropriate for their jurisdiction. Appen is not licensed to provide financial product advice in respect of an investment in shares. Cooling off rights do not apply to the acquisition of shares under the equity raising.

Not for Release or Distribution in the United States

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this announcement have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended ("U.S. Securities Act"), or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Shares may not be offered or sold, directly or indirectly, to persons in the United States, except in transactions exempt from, or not subject to, the registration of the U.S. Securities Act and any other applicable securities laws of any state or other jurisdiction of the United States.

Forward-looking statements

To the extent that this announcement contains forward-looking information, the forward-looking information is subject to a number of risk factors, uncertainties and other factors that may cause actual results, performance and achievements to be materially greater or less than estimated (refer, in particular, to Annexure 2, "Key Risks"). Any such forward-looking statements are also based on current assumptions and contingencies which may ultimately prove to be materially incorrect. Investors should consider the forward-looking statements contained in this announcement in light of those disclosures and not place reliance on such statements.

The forward-looking statements in this announcement are not guarantees or predictions of future performance. The forward-looking statements are based on information available to Appen as at the date of this announcement. Except as required by law or regulation (including the ASX Listing Rules), Appen undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise.

Annexure 1 – Summary of Terms of the Placement Agreement

Appen has entered into a Placement Agreement with Barrenjoey in respect of the Placement dated 11 October 2024 (***Placement Agreement***), pursuant to which Barrenjoey has agreed to fully underwrite the Placement on the terms and conditions of the Placement Agreement. The SPP will not be underwritten. The Placement Agreement contains customary conditions precedent, representations, warranties, undertakings and indemnities in favour of Barrenjoey.

Barrenjoey may terminate its obligations under the Placement Agreement on the occurrence of certain events without cost or liability at any time before 4.00pm on the settlement date for the Placement (expected to be 16 October 2024) (**Settlement Date**). Those events include (but are not limited to) where:

- there are certain delays to the timetable for the Placement, other than with the written consent of Barrenjoey;
- the trading halt ends early without the prior written consent of Barrenjoey;
- Appen withdraws the Placement;
- Appen does not provide a confirmatory certificate to Barrenjoey by the time specified under the Placement Agreement;
- ASX notifies Appen or Barrenjoey on or before 12:00pm on the Settlement Date that unconditional approval (or approval conditional only on customary conditions which are acceptable to the Underwriter, acting reasonably) will not be granted to the official quotation of all of the New Shares under the Placement (**Placement Shares**) on ASX or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- ASIC makes and application under Part 9.5 of the Corporations Act in relation to the Placement, or commences any investigation or hearing under Part 3 of the *Australian Securities Investments Commission Act 2001 (Cth)* in relation to the Placement and such application, proceedings, investigation or hearings become public or are not withdrawn within specified timeframes;
- ASX announces that existing Appen shares will be delisted, removed from quotation, withdrawn from admission to trading status or suspended from quotation;
- Appen is, or will be, prevented from conducting or completing the Placement by or in accordance with the ASX Listing Rules, ASIC, ASX, applicable laws, an order of a court of competent jurisdiction or a governmental agency;
- a contravention by Appen of the Corporations Act, its Constitution, any of the ASX Listing Rules, any other applicable law or regulation (as amended or varied) in any material respect or order or request made by or on behalf of ASIC, ASX or any governmental agency;
- Appen is unable or reasonably unlikely to be able to issue the Placement Shares on the date proposed;
- the cleansing notice given by Appen is or becomes defective or Appen is required to give a corrective statement under the Corporations Act and, in each case, that defective cleansing notice or corrective statement is adverse from the point of view of an investor;
- a Group Company is or becomes insolvent, or there is an act or omission which is likely to result in a Group Company becoming insolvent;
- Appen ceases to be admitted to trade on the ASX or the Shares cease trading or are suspended other than the trading halt;
- ASX makes an official statement or indicates it will not grant quotation of the Placement Securities or an existing approval is withdrawn , the approval is subsequently withdrawn, qualified (other than by way of customary conditions) or withheld;
- there is an event or occurrence of any government authority which makes it illegal for Barrenjoey to satisfy an obligation under this document, or to market or promote the Placement;

- the S&P/ASX 200 Index falls to or below a level that is 87.5% or less of the level of the index as at the close of trading on the day before the date of the Placement Agreement at any time on or before the Settlement Date;
- any regulatory body commences a public action against Appen or its directors that it tends to bring an action in relation to an indicatable offence or to seek disqualification of a director from managing corporations; and
- an Appen director or the Chief Executive Officer or Chief Financial Officer of Appen is charged with an indictable offence or a director of Appen or the Chief Executive Officer or Chief Financial Officer of Appen is disqualified from managing a corporation.

In addition, Barrenjoey may terminate its obligations under the Placement Agreement on the occurrence of any of the following events during the same period as above, provided that it has reasonable grounds to believe that the event: (a) has had, or could reasonably be expected to have had, a materially adverse effect on the success, marketing or settlement of the Placement or the the ability of Barrenjoey to market or promote ore settle the Placement; or (b) has given, or is likely to give, rise to or result in a contravention by, or a liability of, Barrenjoey or its affiliates under any applicable law:

- a confirmatory certificate provided by Appen to Barrenjoey under the Placement Agreement when given is misleading, inaccurate, untrue or incorrect;
- a representation, warranty, undertaking or obligation contained in the Placement Agreement on the part of Appen is breached, becomes not true or correct or is not performed;
- Appen fails to perform or observe its obligations under the Placement Agreement;
- any adverse change occurs, or there is a development involving a prospective adverse change, in the assets, liabilities, financial position or performance, profits, losses or prospects of the Appen Group from those disclosed to Barrenjoey or in public disclosure ahead of announcement;
- Appen alters its capital structure without the consent of Barrenjoey;
- There is an omission or misstatement relating to the completed Due Diligence Questionnaire or any other information supplied by or on behalf of Appen to Barrenjoey for the purposes of due diligence enquiries into relation to the Placement or SPP contains an omission or misstatement;
- a change to the Chief Executive Officer, the Chief Financial Officer or the board of directors of Appen is announced or occurs;
- hostilities not existing at the date of the Placement Agreement commence or there is a major escalation of hostilities (in each case, whether war is declared or not) occurs, involving one or more of Australia, Russia, Ukraine, the United Kingdom, the United States of America, any member of the European Union, Israel, Iran, Hong Kong or the People's Republic of China, or a national emergency or a material escalation or a nation emergency in any of those countries occurs, or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of these countries elsewhere in the world;
- a general moratorium on commercial banking activities in Australia, Hong Kong, the United States of America, the United Kingdom, the People's Republic of China, Singapore or a member state of the European Union is declared by the relevant central banking authority in those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries;
- there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority (including ASIC), adopts or announces a proposal to adopt a new policy (other than a law, regulation, or policy which has been announced prior to the date of the Placement Agreement) any of which does or is likely to prohibit or regulate the Placement;

- trading in all securities quoted or listed on ASX, HKEX, LSE or NYSE is suspended or limited for at least one day on which that exchange is open for trading; or
- there is any adverse change or disruption to the political or economic conditions or financial markets of Australia, Hong Kong, the United States of America or the United Kingdom.

Termination of the Placement Agreement by Barrenjoey will discharge Barrenjoey's obligations in respect of the period prior to termination and discharge Appen's obligation to pay Barrenjoey any fees, costs, charges or expenses which have not accrued as at termination, but the termination of its obligations will not limit or prevent the exercise of any other rights or remedies which any of the parties may otherwise have.
For details of the fees payable to Barrenjoey, refer to the Appendix 3B released to the ASX on the date of this announcement. Appen also gives certain representations, warranties and undertakings to Barrenjoey and an indemnity in favour of Barrenjoey and its affiliates subject to certain carve-outs.

Annexure 2 – Key Risks

This section discusses some of the key risks associated with an investment in shares in Appen. These risks may affect the future operating and financial performance of the Appen Group and the value of Appen shares.
The risks set out below are not necessarily listed in order of importance and do not necessarily constitute an exhaustive list of all risks involved with an investment in Appen.

Before investing in Appen, you should consider whether this investment is suitable for you. Potential investors should consider publicly available information on the Appen Group (such as that available on the websites of Appen and ASX), carefully consider their personal circumstances (including the possibility that they may lose all or a portion of their investment) and consult their professional advisers before making an investment decision. Additional risks and uncertainties that Appen is unaware of, or that it currently considers to be immaterial, may also become important factors that adversely affect the Appen Group's operating and financial performance. Nothing in this announcement is financial product advice and this announcement has been prepared without taking into account your investment objectives or personal circumstances.

You should note that the occurrence or consequences of many of the risks described in this section are partially or completely outside the control of Appen, its directors and management. Further, you should note that this section focuses on the potentially key risks and does not purport to list every risk that the Appen Group may have now or in the future. It is also important to note that there can be no guarantee that the Appen Group will achieve its stated objectives or that any forward-looking statements or forecasts contained in this announcement will be realised or otherwise eventuate. All potential investors should satisfy themselves that they have a sufficient understanding of these matters, including the risks described in this section, and have regard to their own investment objectives, financial circumstances and taxation position.

Cooling off rights do not apply to the acquisition of New Shares.

Business risks	
Strategic direction of the business	The AI market is dynamic, with changes in client needs and end-user expectations. The strategic direction of the Appen Group's business can rapidly change. Demand for services, technological developments within market segments, geoeconomic confrontations (including global conflicts) and regulatory developments can all impact Appen Group's business model. Changes to these factors may result in downturns or extended periods of uncertainty or volatility which may influence spending by Appen Group clients and affect the Appen's Group's financial and operating performance, Appen's share price and Appen's ability to pay dividends.
Concentration of customers	Appen and its subsidiaries' existing customer base consists of, amongst others, a number of large global multi-national technology companies. Currently five large global technology companies are the major buyers of AI training data and relevance work. The projects awarded by these companies, or the ongoing services which Appen may provide to these companies, can generate large amounts of revenue from that one client. This revenue model leads to a high concentration of revenues with one or more customers. Such customer concentration is not unusual in the industry in which Appen operates, though changes in the demands of these customers and the broader technology market increases the risk that the Appen Group may lose one or more of these customers if it is unable to successfully predict and satisfy its customers' evolving needs.
Revenue model and customer contracts	A substantial part of the Appen Group's existing revenue is generated from individual case by case projects rather than long-term contracts. Appen cannot be assured that a customer will reengage the Appen Group on future projects or services once the project is completed or that the customer will not unilaterally reduce the scope of, or terminate, existing projects on short-term notice (generally 30 days, but sometimes less). The absence of guaranteed long-term revenue makes it difficult to predict the future revenues of the Appen Group and investors should consider this factor in the context of considering any investment. The Appen Group's revenue model is, and will be, predominantly driven by project demands of customers and can be unpredictable throughout any financial year due to the timing of projects, length of sales cycles and the product-release cycles of the Appen Group's clients. Revenues may be impacted from quarter to quarter, and year to year, depending on the customer demand factors or on the completion rate of projects. If a customer, particularly a key customer, reduces its expenditure on either projects or services, it may adversely impact the revenue, earnings and cash flow of the Appen Group.
Future funding	The funds under the Equity Raising, together with existing cash reserves, and future operating cashflow are currently expected to be sufficient to fully meet Appen's business operations. However, no assurance can be given by Appen that its short term funding requirements will not change owing to events that unexpectedly and adversely impact Appen's business. For example, if any of the risks identified in this 'Key Risks' annexure were to occur and materially and adversely impact Appen's business, then Appen may require additional funding in the short-medium term. Further, Appen's continued ability to operate its business and effectively implement its business plan over the medium and long term will depend in part on its ability to generate free cash flow, to raise funds for operations and growth activities and to service, repay and refinance debts as they fall due. To the extent that Appen does require funding for its future

Business risks	
	capital needs, the availability and terms of such funding are uncertain and may be less favourable to Appen than anticipated, which may negatively impact Appen's future profitability and financial flexibility. Funding terms may also place restrictions on the manner in which Appen conducts its business and impose limitations on Appen's ability to execute its business plan and growth strategies.
Appen management personnel	Appen depends on the talent and experience of its existing management personnel. Recent cost reduction exercises have also increased the risk associated with key management personnel as role consolidation has resulted in an increased reliance on key individuals across the business, However, despite incentives offered to key personnel, there can no assurance that Appen will be able to retain all of its key personnel, and there has been key management turnover at Appen in recent years. The loss of any key management or other personnel with specialist skills, or a significant number of personnel generally, may have an adverse impact on the Appen Group. It may be difficult to replace those personnel, or to do so in a timely manner, or at comparable expense. The loss of key management personnel could cause material disruption to the Appen Group's activities in the to medium term.
Technology Market	Technology in the relevant market is changing rapidly and certain changes may impact the demand for Appen's services, change the market opportunity or business models of Appen customers and/or result in the disintermediation of Appen or its customers. Large language models, generalised artificial intelligence, quantum computing, VR/AR, blockchain / cryptocurrency and other developments may prove highly disruptive. Increased pressure to regulate artificial intelligence may also pose a risk to Appen and its customers. AI systems can have bias, hallucinate or otherwise produce harmful results. Implementing systems that are trustworthy and embrace AI for Good principles is not well defined currently and failure to do so may impact societal trust and limit the deployment of new technologies. Technology shifts may diminish the need for humans to train and refine artificial intelligence. The Appen Group's customer base is spread across numerous industry sectors including automobile, information technology, and government. Further, demand for services in the AI market can rapidly change depending on technological developments within market segments. Any adverse developments which impact these industry sectors have the potential to in turn impact the demand for the Appen Group's services, which could adversely impact the future financial performance of the Appen Group.
Recruitment and outsourcing	The Appen Group's operating model requires an ability to mobilise a large number of independent contractors on a project-by-project basis to fulfil customer needs and project requirements. If the Appen Group fails to find independent contractors of a suitable quality, and/or suitable number, and/or jurisdictions restrict flexible independent contractor relationships, this may lead to project delays or lower revenues being generated in relation to the project. These difficulties may more prevalent during times when national economies are strong or getting stronger due to the reduced number of persons looking for work. Most of the Appen Group's search relevance and data analytics services are crowdsourced to, and often performed by, independent contractors. The independent contractors performing these services are retained pursuant to written agreements with a member of the Appen Group that commonly specify the individual's status as an independent contractor, confirm the individuals are not employees of the employing company, and require the individuals to indemnify the employing company in the event the individual incorrectly represented their status to the employing company. Notwithstanding the foregoing express contractual language, from time to time, individuals retained by a member of the Appen Group as independent contractors may file claims for unemployment with the applicable state unemployment agencies claiming employee status with a member of the Appen Group and seeking unemployment benefits. Unemployment benefits are, from time to time, awarded by state unemployment agencies, which may result in nominal charges or increases to the employer's unemployment tax accounts with the various states in which these individuals perform services and in which the member of the Appen Group does not have existing employees. The Appen Group is also subject to the usual risks posed to businesses that employ crowdsourcing, including claims relating to employee classification, claims to benefits, wage and hour claims and other employment claims.
Competition risk	If the actions of competitors or potential competitors of the Appen Group become more effective, Appen may be unable to compete successfully. For example, competitors of the Appen Group might adopt more aggressive strategies to capture market share, or alternatively, customers may choose to do some data automation tasks in house, change the profile of their projects or use their scale to seek better terms on pricing. Such occurrences may negatively affect the Appen Group's future profitability, planned growth and market share. The sectors in which the members of the Appen Group operate are subject to vigorous competition, based on factors including price, service, innovation and the ability to provide the customer with the appropriate services in a timely manner. In some parts of Appen's business there is also competition from niche or low-cost providers. A member of the Appen Group's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, or a failure by a member of the Appen Group to continue to position itself successfully to meet changing market conditions, customer demands

Business risks	
	and technology. Any changes in a member of the Appen Group's competitive position or the competitive landscape may result in a decline in sales revenue and margins, which may have a material adverse effect on its future financial performance and position.
Technology failure	The Appen Group relies on a variety of IT systems in order to manage and deliver services and communicate with its customers. Any failure of an IT system could cause disruption to a member of the Appen Group's ability to offer services and lead to a loss of customers or revenue, reputational damage and a weakening of the Appen Group's competitive position and financial performance. Due to the increase in cyber-attacks, this risk has increased.
Development and commercialisation of intellectual property	The Appen Group relies on its ability to develop and commercialise its products and services and keep pace with advances in the fast-growing AI market. A failure to develop and commercialise its intellectual property successfully would lead to a loss of opportunities and may adversely impact on the operating results and financial position of the Appen Group. The investment required to develop and commercialise intellectual property is expensive and may involve an extended timeframe to achieve returns. There are no assurances that the Appen Group will be able to achieve the necessary development and commercialisation of its intellectual property or have the financial resources available to underpin that development. The allocation of resources to the development and commercialisation of intellectual property that ultimately fail to be commercially viable could impact the Appen Group's financial performance and reputation.
Intellectual property rights	The Appen Group's success depends, in part, on its ability to maintain trade secret protection and operate without infringing the rights of third parties. The protective measures a member of the Appen Group employs may not always be sufficient to protect its trade secrets. If the Company's intellectual property rights have not been protected, have not been protected adequately or cannot be protected, competitors may use a member of the Appen Group's intellectual property to take market share from the Appen Group. This could allow competitors to commercialise products and services competitive with a member of the Appen Group's products and services. Although Appen implements reasonable measures to protect the Group's intellectual property, these measures may not always be sufficient. The Appen Group relies on various methods, including copyright and trademark laws, confidentiality and non-disclosure agreements to protect its intellectual property. It is possible that these efforts may be inadequate, and a third party may use or appropriate Appen's intellectual property, damaging the business and leading to increased expenses and/or lost revenues.
Infringement of third-party intellectual property rights	No member of the Appen Group believes that it is currently infringing any third party's intellectual property rights. To date, no third party has asserted to a member of the Appen Group that this is the case. However, in the future a member of the Appen Group may be subjected to infringement claims or litigation arising out of patents and pending applications for patents involving competitors, or additional proceedings initiated by third parties, the United States Patent and Trademark Office or other intellectual property regulators to re-examine the patentability of licensed or owned patents. The defence and prosecution of intellectual property rights lawsuits, proceedings, and related legal and administrative proceedings are costly and time-consuming to pursue, and their outcome is uncertain. If a member of the Appen Group infringes the rights of third parties, a member of the Appen Group could be prevented from selling its products and be forced to defend litigation and pay damages. Further, there is always a risk of third parties claiming involvement in, or membership of, technological advances contained in a member of the Appen Group's products and, if any disputes arise, they could adversely affect the financial or operational position of the Appen Group. Training data used by large language models and generative AI has been the subject of scrutiny as has the ownership of the output produced by such models.
Brand and reputation risk	The reputation and brand of the Appen Group and its businesses and individual products are important in attracting customers. Given the nature of the Appen Group's customer base, each member of the Appen group must act with the greatest integrity otherwise it will risk losing customers. Any reputation damage or negative publicity around the Appen Group or its businesses or products could adversely impact on the Appen Group's customer relationships, general business and ultimately its financial performance. The actions of the Appen Group's employees, including breaches of any regulations to which a member of the Appen Group is subject, or any negligence in the provision of data, may damage the Appen Group's brand. Appen has a commitment to providing fair pay for crowd workers and a failure to meet those commitments may result in financial liability and damage to Appen's brand.
Government and industry regulation	There is risk that governments and regulators may seek to legislate or create regulations which reduce the utilisation or penetration of technologies that the Appen Group helps service in society. Public perception of machine learning, large language models and artificial intelligence may change and reduce the use, or the willingness of use, of such technologies by corporations and the general public. Compliance and ethical expectations in relation to artificial intelligence from stakeholders and broader community are increasing. These interventions could limit the scope of services offered by Appen Group or may result in additional licensing or approval requirements. In some cases, the Appen Group could be required to expend significant capital or other resources in order to comply with any such new requirements, modify existing products, or may not be able to meet such new requirements at all. Any combination of the foregoing may

Business risks	
	adversely affect the financial or operational position of the Appen Group. Regulatory pressures both on the Appen Group customers and on the group itself continue to evolve. Larger platform companies are facing increased scrutiny from an antitrust (competition law) perspective. There are risks associated with modern slavery which could impact Appen and/or its customers.
Protection of confidential customer information	Through the ordinary course of business, members of the Appen Group collect a range of data from customers and crowd workers. Appen Group is subject to, and must comply with a range of strict data protection and privacy laws in jurisdictions where it operates. The Group has in place various compliance systems and procedures to meet its obligations under these laws and safeguard personal customer data. It is possible that the measures taken by a member of the Appen Group to protect customer data will not be sufficient to detect or prevent unauthorised access to, or a disclosure of, confidential information. Any successful cyber-attack or other breach of security could result in the loss of information integrity, or breaches of a member of the Appen Group's obligations under applicable laws or customer agreements, each of which could adversely impact the Appen Group's reputation, retention of customers, ability to attract new customers and financial performance. If privacy laws and/ or data protection laws were contravened, Appen Group could be exposed to liability, penalties, regulatory enforcement action, or litigation from adversely affected customers.
Breach of privacy laws	Privacy laws around the world continue to develop and impose greater burdens on businesses when dealing with personally identifiable information. The laws are designed to give greater protections to data owners, improve transparency and require businesses develop better privacy processes and security practices. Failure to do so can result in pecuniary penalties, negative publicity, damage to brand and a requirement to improve processes and controls. Appen manages sensitive customer and crowd worker information, increasing its exposure and susceptibility to cyber attacks. Cyber threats could lead to a loss of data or service interruption impacting customers and Appen's reputation.
Acts of terrorism or sabotage	The Appen Group currently operates in certain jurisdictions in the world that may from time to time be the subject of heightened terrorism or sabotage threat. Appen believes that the Appen Group's operations are not immune from being the target of terrorism or sabotage. Any such attack could have a detrimental effect on the Appen Group's businesses from an employee, reputational and financial point of view.
Geopolitical risks	Geopolitical tensions may impact global trade and have wide-ranging impacts to the global economy and markets. The world is currently experiencing a number of conflicts, including the war between Russia and the Ukraine and the conflict in the Middle East, and the duration and path of those conflicts remains uncertain, and could continue to fuel, or exacerbate global tensions, energy and other commodity shortages, supply chain disruptions, inflationary pressures, weakening sentiment and growth prospects, market volatility, cyberattacks, and the proliferation of sanctions and trade measures. Tensions remain elevated between China and the U.S. over a number of issues, including trade, technology, and human rights. Tensions continue between China and Taiwan. Other geopolitical tensions could also add to economic and market uncertainties. Global trade may be impacted.
Foreign exchange risk	The Appen Group's financial reports are prepared in United States dollars and a substantial proportion of the Appen Group's sales revenue, expenditures and cash flows are generated in, and assets and liabilities are denominated in, US dollars. However, the Appen Group is exposed to foreign exchange risk as some transactions are denominated in foreign currencies (including Australian dollars). Movements in foreign exchange rates could also impact the cost competitiveness of both the Appen Group and its competitors. Any adverse movement in foreign exchange rates against the Appen Group but to the benefit of its competitors could affect its ability to obtain business which could adversely impact the future financial performance of the Appen Group. Movements in the exchange rate may also affect the decision of potential clients to enter certain markets.
Litigation and disputes	A member of the Appen Group may be involved from time to time in disputes or claims and litigation with current or former customers, employees or independent contractors, including in relation to workplace relation matters. These disputes may lead to legal and other proceedings and/or settlements, and may cause the member of the Appen Group to suffer additional costs. If future litigation, or threatened litigation, against a member of the Appen Group were to result in damages being awarded against that member, it could have an adverse impact on the financial performance, position and future prospects of Appen (and, therefore, its share price or liquidity of its shares). On behalf of the members of the Appen Group, Appen maintains professional indemnity and public liability insurance in respect of a range of events within coverage ranges determined in accordance with the Board's review and decision. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover any or all claims. As far as Appen is aware, there are no current material claims or material litigation in which a member of the Appen Group is involved.
Sell-down by existing shareholders	There is a risk that existing substantial shareholders may seek to sell-down their shareholding in Appen. A significant sale of shares, or a perception that a selldown may occur, could adversely affect the price of Appen shares.
Risk of dividends	The payment of dividends is announced at the time of release of the Appen Group's half year

Business risks	
not being paid	and full year results as determined by the Board from time to time at its discretion, dependent on the profitability and cash flow of the Appen Group's businesses and requires compliance with Credit Facility terms and conditions. Historically, Appen Group had a stated dividend policy but did not pay a dividend in 2023. Circumstances may continue where Appen is required to reduce or cease paying dividends for a period of time. Appen's focus to invest for growth may also impact its ability to pay future dividends.
Investments by Appen may not be successful	A member of the Appen Group may acquire businesses from time to time. While Appen will take every effort to ensure that any acquisition is successfully integrated and benefits realised, there can be no assurance that Appen will be successful in realising the anticipated benefits and synergies of any businesses that it acquires. The ability to realise these benefits will depend in part on whether Appen can efficiently integrate acquired businesses with its existing operations. The challenges of integrating and operating acquired businesses may be greater if the Appen Group acquires businesses that provide services outside the Appen Group's current geographic offering, particularly if it is unable to retain the acquired company's management. In addition, there is a risk that Appen will overestimate the value of acquired businesses and therefore overpay. These factors may adversely impact the Appen Group's financial performance. As the Appen Group's business expands, the complexity of its business will increase. If Appen is unable to adapt to address different market dynamics, the Appen Group's operational and financial performance may be adversely affected.
Climate risks	Climate-related risks may impact Appen and/or its customers. There are risks related to the transition to a lower-carbon economy and risks related to the physical impacts of climate change. Transition risks arise when transitioning to a lower-carbon economy and may entail extensive policy, legal, technology and market changes to address mitigation and adaption requirements related to climate change. Physical risks may arise from climate change and can be acute or chronic, both may be a risk to Appen and/or its customers. Acute physical risks are those that are event-driven, including increased severity of extreme weather events, such as cyclones or floods. Chronic physical risks are longer term changes to climate patterns that may cause natural disasters or other weather related impacts
Modern slavery risk	The nature of business operations, locations and highly technical nature of the business lends itself to a relatively low risk of modern slavery across the supply chain. However, due to the highly distributed nature of the independent contractors there remains a risk of unidentified instances of forced labour across this network. Appen contracts with each of these contractors directly and not through agencies or other organisations in order to reduce this risk.
Other environmental, social and governance (***ESG***) risks and expectations	Evolving community attitudes towards, and increasing regulation and disclosure in relation to, ESG issues may impact the operation of Appen's business, including issues such as diversity and inclusion, ethical sourcing, energy, and general employment practice. Increased expectations, and in particular the failure to meet those expectations, with respect to ESG may impact on the profitability or value of Appen's business, restrict Appen's ability to attract financing or investment, result in heightened compliance costs associated with meeting prevailing regulatory and disclosure standards, or adversely impact Appen's reputation including with its network partners, stakeholders and employees, any of which may have an adverse effect on Appen's business, financial position and prospects.
Taxation	Changes to the rate of taxes imposed on a member of the Appen Group (including overseas jurisdictions in which a member of the Appen Group operates now or in the future), or tax legislation generally, may affect the Appen Group and its shareholders. In addition, an interpretation of Australian taxation laws by the Australian Taxation Office that differs from Appen's interpretation may lead to an increase in Appen's (or a member of the Appen Group's) taxation liabilities and a reduction in shareholder returns.
Accounting standards may change	Australian Accounting Standards are set by the AASB and are outside the control of either Appen or its directors and management. There is a risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key statement of profit and loss and balance sheet items, including revenue and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB, or changes to the commonly held views on the application of those standards, could materially adversely affect the financial performance and position reported in the Appen Group's consolidated financial statements.
Other risks	The above risks should not be taken as a complete list of the risks associated with an investment in the Appen Group or Appen shares. The risks outlined above, and other risks not specifically referred to may in the future materially adversely affect the value of Appen shares and their performance. Accordingly, no assurance or guarantee of future performance or profitability is given by Appen in respect of Appen shares.

Offer risks	
Underwriting risk	Appen has entered into a Placement Agreement with Barrenjoey pursuant to which Barrenjoey has agreed to fully underwrite the Placement – subject to those terms and conditions of the Placement Agreement. If certain conditions are not satisfied or if certain termination events occur, Barrenjoey may terminate the Placement Agreement.

Offer risks	
	Those termination events are summarised in the Appendix 1 to this announcement. Termination of the Placement Agreement would have an adverse impact on the amount of proceeds raised under the Equity Raising. Termination of the Placement Agreement could adversely affect Appen Group's business, cash flow, financial condition and results of operations.
Risk associated with an investment in Appen Group	There are general risks associated with investments in equity capital, such as Appen shares. The trading price of Appen shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for the New Shares being less or more than the Offer Price. Generally applicable factors which may affect the market price of shares include: • general movements in Australian and international stock markets; • investor sentiment; • Australian and international economic conditions and outlook; • changes in interest rates and the rate of inflation; • changes in government legislation and policies, including taxation laws; • announcement of new technologies; • geopolitical instability, including international conflicts, and acts of terrorism (including in Ukraine, Israel and the Gaza territory); • epidemics and pandemics such as COVID-19; • demand for and supply of Appen shares; • announcements and results of competitors; and • analyst reports. No assurances can be given that the New Shares will trade at or above the Offer Price. None of Appen Group, its directors or any other person guarantees the market performance of the New Shares. The financial position, performance or prospects of Appen Group and Appen's share price may be adversely affected by the worsening of general economic conditions in the United States or any other market in which Appen Group operates, as well as international market conditions and related factors. It is also possible new risks might emerge as a result of global markets experiencing extreme stress, or existing risks may manifest themselves in ways that are not currently foreseeable.
Liquidity risk	There can be no guarantee of an active market in Appen shares or that the price of Appen shares will increase. There may be relatively few potential buyers or sellers of Appen shares on the ASX at any time. This may increase the volatility of the market price of Appen shares. It may also affect the prevailing market price at which shareholders are able to sell their shares in Appen.
Dilution risk	Eligible shareholders who take up their entitlements under the Placement in full may still have their percentage shareholding in Appen diluted as a result of the SPP. Eligible shareholders who do not participate in the Placement or SPP, or do not take up their entitlements under the Placement or SPP in full, will have their percentage shareholding in Appen diluted by both transactions and they will not be exposed to future increases or decreases in Appen's share price in respect of those New Shares which would have been issued to them had they taken up all of their entitlement. As the Placement or SPP is non-renounceable, investors who do not participate will not receive any value for the part they choose not to subscribe for. Appen may also issue new securities in the future (including, without limitation, to finance acquisitions, contractually payable amounts or pay down debt) which may, under certain circumstances, dilute the value of an investor's interest.

Annexure 3 – International Selling Restrictions

This document does not constitute an offer of new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). Accordingly, this document may not be distributed, and the New Shares may not be offered or sold, in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act").

The New Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part 13 of the Securities and Futures Act 2001 of Singapore (the "SFA") or another exemption under the SFA.

This document has been given to you on the basis that you are an "institutional investor" or an "accredited investor" (as such terms are defined in the SFA). If you are not such an investor, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party in Singapore. On-sale restrictions in Singapore may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.