



## **APPEN LIMITED**

### **CORPORATE GOVERNANCE STATEMENT (Statement)**

The Board of Directors of Appen Limited (**Company** or **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**).

The corporate governance policies and practices described below are those that have been in place throughout the year ended 31 December 2018 or as at the date of this report where indicated.

Consistent with the Company's commitment to transparency in its dealings with stakeholders, this Statement has been prepared by reference to each recommendation contained in the Governance Principles.

All references to the Company's website are to: [www.appen.com](http://www.appen.com).

This Statement was approved by the Company's Board on 21 February 2019 and is current as at that date.

#### **Principle 1: Lay solid foundations for management and oversight**

##### ***Recommendation 1.1 – Roles and Responsibilities of the Board - Adopted***

*A listed entity should disclose:*

- (a) the respective roles and responsibilities of its board and management; and*
- (b) those matters expressly reserved to the board and those delegated to management.*

The board is accountable to shareholders for the management of the Company's business and affairs and as such is responsible for the overall strategy, governance and performance of the Company. To clarify the roles and responsibilities of directors and management and to assist the board in discharging its responsibilities, the Company has established a governance framework, which sets out the functions reserved to the board and provides for the delegation of functions to board committees and to senior management. The board operates under a formal charter, which can be found on the Company's website.

The Chief Executive Officer/Managing Director (**CEO/MD**) oversees the day-to-day management of the business. The CEO/MD has been delegated the authority to manage the Group in accordance with the strategy, plans and policies approved by the board. The delegations are reviewed by the Board from time to time.

Responsibilities specifically delegated to the CEO/MD are outlined in the Board Charter.

### **Recommendation 1.2 – Appointment and Re-election of Directors - Adopted**

*A listed entity should:*

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and*
- (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

When considering the appointment of directors to the board, a formal process is undertaken to identify various candidates, with interviews held and appropriate back-ground checks carried out. In addition, the board considers and formally resolves to support the election or re-election of directors to shareholders at general meetings/annual general meeting.

Before board candidates are selected, the board considers the current collective skills and competencies, and will assess its needs at that time and in the future and develop selection criteria for the candidates. Candidates are required to disclose their other commitments and confirm that they are able to dedicate sufficient time to their duties. A shortlist of candidates is considered by the board relative to its selection criteria.

The Company provides shareholders, in the relevant notice of meeting, with information to assist them to make an informed decision on all directors standing for election or re-election. Directors are re-elected in accordance with the Company Constitution and the ASX Listing Rules.

### **Recommendation 1.3 – Agreements with directors and senior managers – Adopted**

*A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.*

Non-executive directors are appointed pursuant to formal letters of appointment which, among other things, set out the key terms and conditions of the appointment, the board's expectations in relation to the performance of the director, procedures for dealing with a director's potential conflict of interest and the disclosure obligations of the director, together with the details of the director's remuneration.

All senior executives have detailed service contracts in place with appropriate performance criteria outlined.

### **Recommendation 1.4 – Accountability of the company secretary - Adopted**

*The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.*

The Company's Board Charter expressly provides that the company secretary is directly accountable to the Board through the Chair on all matters to do with the proper function of the board. All directors have access to the company secretary, who is appointed by, and accountable to, the board on all governance matters.

## **Recommendation 1.5 – Diversity Policy - Adopted**

*A listed entity should:*

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;*
- (b) disclose that policy or a summary of it; and*
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:
  - (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or*
  - (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.**

The Company has adopted a Diversity Policy, a copy of which is available on the website.

Appen has a diverse employee base, employing people in the USA, Australia, UK and The Philippines. As a language resource and content relevance organisation, Appen engages with a diversity of people with different languages, ethnicity, gender and age. Diversity is considered to be a core strength of the organisation.

The board has recently established a goal of achieving a target of 30% females at the senior executive level of the organisation. Management is currently reviewing existing policies and developing a timeline and roadmap to achieve this targeted gender diversity.

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 the focus on sourcing and putting forward well qualified female candidates, along with using other avenues to source female talent.

As at 31 December 2018, the following gender diversity levels were evidenced in the Company:

- The proportion of female directors: 33.33%
- The proportion of female employees who are senior executives: 25.00%
- The proportion of female employees in the whole organisation: 61.43%

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

***Recommendation 1.6 – Evaluation of the performance of the board, its committees and individual directors - Adopted***

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The board is committed to enhancing its effectiveness through performance management and review. The board review process is designed to help enhance performance by providing a mechanism to raise and resolve issues and to provide recommendations to enhance its effectiveness.

In June 2016, the board conducted a formal, structured evaluation that involved each director completing a confidential questionnaire covering the role, composition, processes and the carrying out of its responsibilities. The results of the questionnaire and an analysis of these results were reported to the board.

Results of the evaluations consistently indicate that the perception of the role, the composition, function, procedures, working style, behaviours and administration of the board are effective and that the board is performing well.

In relation to the board, the evaluation identified that the high quality of interaction between board members and the relationship between the board and management, and the board's strong understanding of the business were key factors in its effective function.

The evaluation process noted strengths, recommended improvements and identified areas for increased focus.

Individual Directors did not undergo a specific individual performance assessment during the reporting period but the opportunity for this was incorporated into the board review.

The Board has made a decision to have an external board performance review in the first quarter of 2019.

## **Recommendation 1.7 – Evaluation of the performance of senior executives - Adopted**

*A listed entity should:*

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The evaluation for all executives is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved, and the development of management and personnel.

The CEO/MD's performance is formally assessed on an annual basis by the board. All Key Performance Indicators (**KPIs**) are carefully considered by the Nomination and Remuneration Committee, which evaluates the CEO/MD's performance and makes a recommendation to the board in relation to performance and remuneration.

An annual assessment of the performance of all other senior executives is undertaken by the board on the basis of recommendations from the CEO/MD, who conducts performance reviews in relation to each senior executive.

A performance evaluation for all senior executives, including the CEO/MD, was undertaken in the reporting period in accordance with the process disclosed above.

Further information on directors' and executives' remuneration, including principles used to determine remuneration and KPIs, is set out in the Annual Report under the heading 'Remuneration Report'.

### **Principle 2: Structure the board to add value**

The Constitution of the Company provides that there will be a minimum of three directors and not more than seven directors.

At the date of this report, the board comprises five non-executive directors, and one executive director.

The current members of the board are:

- Mr Chris Vonwiller (Chair), (appointed 14 August 2009)
- Mr Mark Brayan (Managing Director and CEO), (appointed 13 July 2015)
- Ms Robin Low (Non-executive Director), (appointed 30 October 2014)
- Ms Deena Shiff (Non-executive Director), (appointed 15 May 2015)
- Mr Bill Pulver (Non-executive Director), (appointed 19 April 2010)
- Mr Steve Hasker (Non-executive Director), (appointed 7 April 2015)

Directors' details are listed in the Annual Report in the Directors Report, including details of their other listed entity directorships and experience. This information can also be found on the Company's website.

The ultimate responsibility for the oversight of the operations of the Company rests with the board. However, the board may discharge any of its responsibilities through committees of the board in accordance with the Constitution and the *Corporations Act 2001 (Cth)* (**Corporations Act**).

The board has established the following standing committees, which assist it with the execution of its responsibilities. The composition and effectiveness of the committees are reviewed on an annual basis:

- Audit and Risk Management Committee; and
- Nomination and Remuneration Committee.

Each of these committees operate in accordance with specific charters approved by the board which can be found on the Company's website.

The applicable composition requirements as stated in the committee charters and current membership of each of the board committees are set out below:

Board Committee	Composition Requirements	Membership
Audit and Risk Management Committee	<p>At least three members, all of whom must be non-executive directors and a majority of whom are independent directors. The chairman should be an independent non-executive director, who is not the chairman of the board.</p> <p>All members should be financially literate and at least one member must have financial expertise and some members must have an understanding of the industry in which Appen operates.</p>	Robin Low (Chair); Chris Vonwiller; and Deena Shiff.
Nomination and Remuneration Committee	At least three members, the majority of whom are independent directors. The chairman should be an independent director.	Bill Pulver (Chair); Robin Low; and Steve Hasker

	All members should have an appropriate level of understanding of the Governance Principles, the Company's businesses and organisation structure, the functions of the board and the various roles and responsibilities of directors and other senior executive positions, disclosure requirements under the Corporations Act and ASX Listing Rules, and the complexities involved in negotiating and determining executive remuneration packages.	
--	---	--

The number of scheduled board and committee meetings held during the year ended 31 December 2018 and the number of meetings attended by each of the directors is set out in the table below:

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee	
	A	B	A	B	A	B
Chris Vonwiller	14	14	4	4	-	-
Bill Pulver	14	14	-	-	2	2
Robin Low	14	14	4	4	2	2
Steve Hasker	14	13	-	-	2	2
Deena Shiff	14	14	4	4	-	-
Mark Brayan	14	14	-	-	-	-

**A:** Meetings eligible to attend    **B:** Meetings attended

**Recommendation 2.1 – Nomination Committee - adopted**

The board of a listed entity should:

- (a) *have a nomination committee which:*
  - (1) *has at least three members, a majority of whom are independent directors; and*
  - (2) *is chaired by an independent director, and disclose:*
    - (3) *the charter of the committee;*
    - (4) *the members of the committee; and*
    - (5) *as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

*(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.*

The Board has established a Nomination and Remuneration Committee which operates under a charter approved by the board. This can be found on the Company’s website.

Details of the composition of this committee is outlined above.

Details on the number of meetings of the committee held during the year and the attendees at those meetings are also outlined above.

**Recommendation 2.2 – Board skills matrix - adopted**

*A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.*

The board maintains a Board Skills Matrix that lists out the skills and experience considered by the board to be important for its directors to collectively possess. These skills are set out in the table below, with each considered a competency that the board believes it requires to effectively discharge its duties. The Board skills matrix and competency descriptions were reviewed in 2018 with Diversity: the capability to advise on diversity issues impacting the Company, added to the matrix.

In addition to the skills and experience set out in table below, the board considers that each director has the following attributes:

- Honesty and integrity;
- The ability to think strategically;
- The time available to devote to Appen’s business;
- A willingness to question and challenge; and
- A commitment to the highest standards of governance.

All directors are expected to use their range of relevant skills, knowledge and experience and to apply their judgement to all matters discussed at Board meetings.

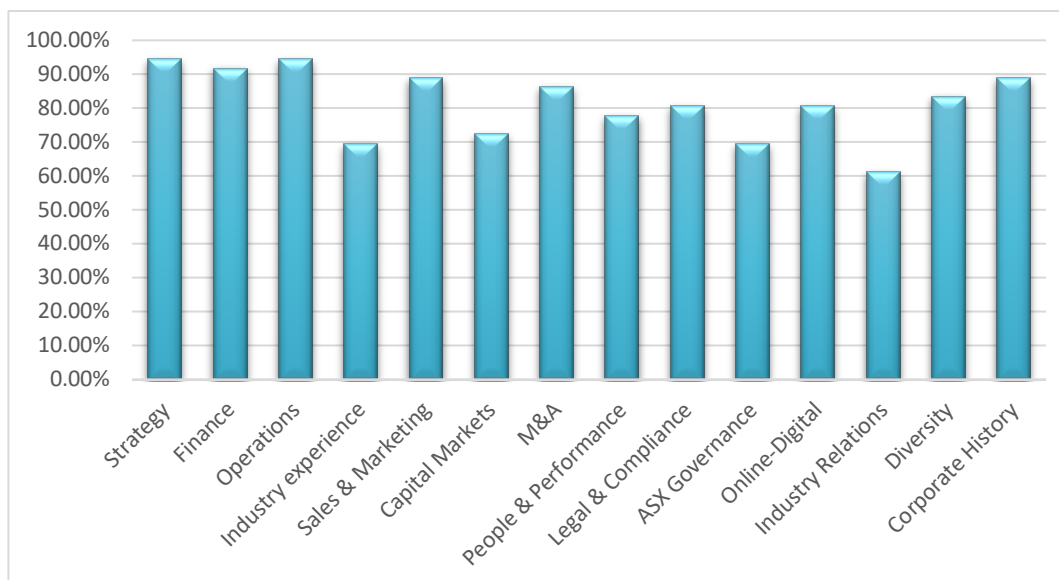
SKILL	DESCRIPTION
Strategy	Ability to think strategically and identify and critically assess opportunities and threats and develop effective strategies in the context of changing market conditions.
Finance	The ability to analyse financial statements and reporting, critically assess the financial performance of the group, contribute to budget planning and efficient use of capital and resources.
Operations	A broad range of commercial and business experience in business systems, practices, improvements, risk and compliance, sales, maintenance, technology and human resources.



SKILL	DESCRIPTION
Sales and Marketing	Clear understanding of developing and implementing brand strategy, recruiting, running and incentivising sales teams, setting sales budgets and targets and getting brand “cut-through”. These skills must also be applicable to the online and digital space.
Capital markets	Expertise in considering and implementing efficient capital management including alternative capital sources and distributions, yields and markets.
Industry experience	Experience and broad understanding of the application of language technology, machine learning and artificial intelligence, including market drivers, risks and trends including policies, competitors, end users, regulatory policy and framework.
Mergers and Acquisitions	Experience in all aspects of the negotiation, structuring, risk management and assessment of both acquisitions and divestments.
People and performance	Appreciation for the best practices in HR planning and management with familiarity in employment legislation and labour relations, recruitment, compensation, performance reviews and conflict management.
Legal and compliance	Ability to identify key risks to the group in a wide range of areas including legal and regulatory compliance and monitor risk and compliance management frameworks and systems.
ASX governance	Knowledge and experience in best practice ASX and Corporations Act, Governance structures, policies and processes.
Online/Digital	Expertise in the analysis of online/digital feasibility and assessment, strategies for optimising value and understanding and mitigating risk from/of online/digital opportunities. Skills and knowledge for addressing cyber risks and privacy risks.
Industry relations	Expertise in the industry both in terms of policy development, interest group input and lobbying and legislation. Effective networks.
Diversity	Expertise in diversity strategies, policy development and monitoring.
Corporate History	A good understanding of recent corporate background including organisational structure, litigation, key contracts and relationships, performance and capital structures

Upon analysis of the matrix, the board is satisfied that that it has the necessary mix of skills and experience appropriate to the current size and complexity of the Company’s business. This is evidenced in the director bio’s in the Company’s Annual Report which outlines the skills and expertise of each director.

The table below illustrates the extent to which the current board fulfils each of the identified required skills of the board. These percentages are extracted directly from the board skills matrix, where directors are rated on their level of competence for each identified skill using a rating of high, medium or low. These ratings are allocated a number and the percentage results of the board as a whole are then tabulated. Although collectively some competencies and skills have a higher expertise or skill level than others, the board is of the opinion that collectively it has an adequate skill level for all competencies to discharge its duties.



Whilst the current board composition meets the Company's needs, this skills and experience analysis assists to identify opportunities for director training and development and identify skill gaps to be addressed through future board appointments.

### **Recommendations 2.3 and 2.4 – Director independence - adopted**

*A listed entity should disclose:*

- (a) the names of the directors considered by the board to be independent directors;*
- (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*
- (c) the length of service of each director.*

*A majority of the board of a listed entity should be independent directors.*

On an annual basis, the board assesses the independence of all directors against the criteria outlined in Box 2.3 of the Governance Principles. The board considers an independent director to be a non-executive director who is not a member of the Company's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of their judgement.

The board considers the materiality of any given relationship on a case-by-case basis, having regard to both quantitative and qualitative principles.

The following directors have been determined as being independent as at 31 December 2018 – Mr Bill Pulver, Ms Robin Low, Mr Steve Hasker and Ms Deena Shiff.

The rationale for this determination is they are non-executives, not substantial shareholders, conduct themselves at arms length in their engagement with the Company and bring their considerable skillsets to bear on matters before the board. The approach of these directors to matters of the board is always independent in both appearance and in fact.

In addition, in order to facilitate independent judgement in decision-making, each director has the right to seek independent professional advice at the Company's expense.

Mr Vonwiller is a substantial shareholder of the Company and therefore is not considered to be independent based on the criteria in Box 2.3 of the Governance Principles. The board believes that Mr Vonwiller's experience is invaluable to the Company and its operations and that Mr Vonwiller exercises independent judgement in decision-making.

Mr Mark Brayan by virtue of his executive CEO position is considered non-independent, based on the criteria in Principle 2 of the Governance Principles.

Based on this assessment the board has a majority of independent directors.

The term of office held by each director in office at the date of this statement is outlined earlier in this statement.

#### **Recommendation 2.5 – not adopted**

*The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.*

The Chairman, Mr Chris Vonwiller is a non-executive director. The board has determined, that Mr Vonwiller cannot currently be considered an independent director, due to his substantial shareholding in the Company. Notwithstanding this non-independence, Mr Vonwiller is considered by the other directors to be the most appropriate director to be Chairman of the Board due to his experience with the Company and the industry.

The duties of Chairman and of Chief Executive Officer are carried out by separate people

#### **Recommendation 2.6 - adopted**

*A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

A director induction program has been designed and directors are expected to participate in this induction and orientation program on appointment. In addition, industry updates are regularly provided to the board to ensure they are informed about developments within the company and the industry in which it operates.

### **Principle 3: Act ethically and responsibly**

#### **Recommendation 3.1 - adopted**

*A listed entity should:*

- (a) have a code of conduct for its directors, senior executives and employees; and*
- (b) disclose that code or a summary of it.*

The Company's Code of Conduct (the **Code**) outlines the standards of conduct expected of the business and its people, taking into account the Company's legal and other obligations to its

stakeholders. The Code applies to the directors of the Company, and all employees of the Company and its subsidiaries (**Group Personnel**).

As well as the legal and equitable duties owed by Group Personnel, the purpose of this Code is to:

- a. articulate the high standards of honesty, integrity, professionalism, ethical and law-abiding behaviour expected of Group Personnel;
- b. encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders (including employees, customers, suppliers and creditors);
- c. guide Group Personnel as to the practices thought necessary to maintain confidence in the Group's integrity;
- d. outlines employment practices adopted by the Company; and
- e. set out the responsibility of Group Personnel to report any violations of this code or unethical or unlawful behaviour.

A copy of the Code has been posted on the Company's website.

#### **Principle 4: Safeguard integrity in corporate reporting**

##### ***Recommendation 4.1 - adopted***

*The board of a listed entity should:*

- (a) *have an audit committee which:*
  - (1) *has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and*
  - (2) *is chaired by an independent director, who is not the chair of the board, and disclose:*
    - (3) *the charter of the committee;*
    - (4) *the relevant qualifications and experience of the members of the committee; and*
    - (5) *in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) *if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.*

An independent Audit and Risk Management Committee has been established by the board to protect the integrity of financial reports as well as to monitor and review the effectiveness of the Company's structures in the areas of operational risk and legal and regulatory compliance.

The Audit and Risk Management Committee operates in accordance with a charter adopted by the board. The charter sets out the roles and responsibilities as well as the structure and composition of the committee. Pursuant to the charter, which is available to view on the Company's website, the responsibilities of the Audit and Risk Management Committee are:

- Risk oversight and management policies in relation to the roles and respective accountabilities of the board, the committee and management;
- Risk management and internal control environment;
- Facilitate effective external audit function and communication between the board and the external auditor;
- Maintain and improve the quality, credibility and objectivity of the financial process, including financial reporting; and
- Reviewing and monitoring related party transactions.

Details of the composition of this committee is outlined earlier in this Statement.

Details on the number of meetings of the committee held during the year and the attendees at those meetings are also outlined earlier in this Statement.

The qualifications and experience of the members of the Audit and Risk Management Committee are outlined in the Directors Report contained in the Annual Report.

#### ***Recommendation 4.2 - adopted***

*The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

The Company has a requirement that the CEO/MD and CFO provide written assurance to the Board, prior to approval of the Company's financial statements for each financial period, that in their opinion, the Company's financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of Appen's financial position and performance, and that this opinion has been formed on the basis of a sound system of risk management and internal control which operates effectively.

**Recommendation 4.3 - adopted**

*A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit*

The Company's external auditor is required to attend the annual general meeting and is available to answer questions from shareholders questions about the conduct of the audit and the preparation and content of the external auditor's report; accounting polices adopted by Appen in relation to the preparation of the financial statements; and independence of the auditor in relation to the conduct of the audit

**Principle 5: Make timely and balanced disclosure**

**Recommendation 5.1 - adopted**

*A listed entity should:*

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and*
- (b) disclose that policy or a summary of it.*

The Company has adopted a Price Sensitive Information Policy, a copy of which is posted on its website.

The objectives of this policy are to:

- ensure that the Company is able to meet its continuous disclosure obligations under the ASX Listing Rules and the Corporations Act; and
- establish internal procedures so that all Group Personnel understand their obligations to ensure:
  - confidential information is protected; and
  - disclose Price Sensitive Information to the Disclosure Officer.

The purpose of this policy is to:

- (a) ensure that the Company immediately discloses all price-sensitive information to ASX in accordance with the ASX Listing Rules and the Corporations Act;
- (b) confirm officers and employees are aware of the Company's continuous disclosure obligations; and
- (c) establish procedures for:
  - (i) the collection of all potentially price-sensitive information;
  - (ii) assessing if information must be disclosed to ASX under the ASX Listing Rules or the Corporations Act;

- (iii) releasing to ASX information determined to be price-sensitive information and to require disclosure;
- (iv) dealing with market rumours and speculation;
- (v) communicating with analysts and investors;
- (vi) establish authorised Company spokespersons; and
- (vii) responding to any queries from ASX (particularly queries under Listing Rule 3.1B).

The overarching principle of this policy is governed by Listing Rule 3.1, which requires the Company to immediately notify the ASX of any information that a reasonable person would expect to have a material effect on the price or value of Appen's quoted securities, provided that the information does not fall within the exception to disclosure under the Listing Rules. The Policy provides for the exceptions to Listing Rule 3.1 as outlined in Listing Rule 3.1A.

#### **Principle 6: Respect the rights of security holders**

##### ***Recommendation 6.1 - adopted***

*A listed entity should provide information about itself and its governance to investors via its website.*

The Company's website contains a large amount of information for investors and is all contained in the investors section.

The Company has a communications plan and an investor relations calendar providing information of key dates impacting shareholders, analyst briefings and conferences

##### ***Recommendation 6.2 - adopted***

*A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.*

The Company is committed to maintaining direct, open and timely communications with all shareholders. The board's policy is that shareholders are informed of all material developments that impact on the Company.

To facilitate this, the Company has established a Shareholder Communication and Participation Policy, a copy of which is posted on its website.

The aim of this policy is to nurture the loyalty and confidence of the Company's shareholders through frequent, full and forthright communication, both directly to shareholders and indirectly through analysts and the media. The Company aims to be a model corporation in its approach to shareholder communications and relations. The Company seeks to ensure that each investor interaction with the Company meets the highest levels of professionalism and quality.

Information is communicated to shareholders through:

- The publication of the annual and interim financial reports;
- Disclosures to the ASX;
- Notices and explanatory memoranda of general meetings;
- Updates and announcements to inform shareholders of key matters of interest issued on a needs basis;
- Presentations to analysts (which are made available to all shareholders via the website); and
- The Annual General Meeting.

***Recommendation 6.3 – adopted***

*A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.*

Appen’s annual general meeting is convened once a year, usually in May. In relation to its meetings of shareholders, an explanatory memorandum on the resolutions is included with the notice of meeting.

Shareholders are encouraged to vote on all resolutions and unless specifically stated otherwise in the notice of meeting, all shareholders are eligible to vote on all resolutions. Shareholders who cannot attend the annual general meeting may lodge a proxy in accordance with the Corporations Act. Proxy forms may be lodged with the share registry by mail, hand delivery, facsimile or electronically.

Transcripts of the chairman’s address and any investor presentation is released to the ASX upon the commencement of the annual general meeting and the outcome of voting on resolutions at the meeting is released to the market after the conclusion of the meeting. Both documents are also be posted on the Company website.

In the event that shareholders cannot attend formal meetings, they are able to lodge a proxy in accordance with the Corporations Act by mail or online.

***Recommendation 6.4 - adopted***

*A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

All shareholders have the option to receive communications electronically from, and send communications to the Company’s registry service provider Link Market Services.



## **Principle 7: Recognise and manage risk**

### **Recommendation 7.1 - adopted**

*The board of a listed entity should:*

- (a) have a committee or committees to oversee risk, each of which:
  - (1) has at least three members, a majority of whom are independent directors; and*
  - (2) is chaired by an independent director, and disclose:
    - (3) the charter of the committee;*
    - (4) the members of the committee; and*
    - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or***
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.*

The Board is responsible for ensuring that sound risk management strategy and policies are in place. The Board has delegated to the Audit and Risk Management Committee the responsibility for identifying and overseeing major risks and the establishment and implementation of the risk management system.

All material risks affecting the Company, including both financial and non-financial matters, are considered by the Audit and Risk Management Committee. All Directors and senior management are encouraged to review the business for risk on an ongoing basis and to raise any risk issues of concern with members of the Audit and Risk Management Committee. These protocols form the basis for the risk management system.

The Audit and Risk Management Committee's current membership and the independence of the members are set out earlier in this Statement

### **Recommendation 7.2 - adopted**

*The board or a committee of the board should:*

- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and*
- (b) disclose, in relation to each reporting period, whether such a review has taken place.*

The Audit and Risk Management Committee reviews and assesses the Company's risk management framework annually and review the implementation, management and

maintenance of appropriate enterprise-wide risk management systems, policies and procedures, reporting protocols and internal controls. A review as described was carried out during the year ended 31 December 2017.

**Recommendation 7.3 – adopted**

*A listed entity should disclose:*

- (a) if it has an internal audit function, how the function is structured and what role it performs; or*
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

To date, an internal audit function has not been established, however the potential scope of this function and the options for either an internal or external resource are currently being assessed.

The company currently reviews, evaluates and improves the effectiveness of its risk management and internal controls through, management processes, the tools and assistance provided to partner businesses through the risk and compliance oversight function and external audit input, all overseen by the Audit and Risk Management Committee.

**Recommendation 7.4 - adopted**

*A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.*

The Company is subject to risk factors that are both specific to its business activities and that are of a more general nature.

The Board has considered the Company's exposure specifically to economic, environmental and social sustainability risks and has determined the following:

- Economic risks – the business is exposed to general economic conditions. Specifically, there is a material risk in customer concentration, however these customers are active with a number of projects across the business;
- Environmental risks – there is no current material exposure to environmental risks, however the Board monitors these risks and notes initiatives to lower the Company's carbon footprint where possible by using video and phone conferencing to reduce the extent of travel, and has a million plus crowd workers that work from home using internet-based tools; and
- Social sustainability – there is risk associated with crowd and remote workers, however the Company has practices and processes in place to mitigate risks associated with this.

The Board notes that part of the Company's business is in the area of artificial intelligence and as such, it continues to monitor the social and political context in which the Company operates.

## **Principle 8: Remunerate fairly and responsibly**

### **Recommendation 8.1 - adopted**

The board of a listed entity should:

- (a) *have a remuneration committee which:*
  - (1) *has at least three members, a majority of whom are independent directors; and*
  - (2) *is chaired by an independent director, and disclose:*
    - (3) *the charter of the committee;*
    - (4) *the members of the committee; and*
    - (5) *as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) *if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.*

The Company has established a Nomination and Remuneration Committee, the objective of which is to assist the board fulfill its statutory fiduciary and regulatory role and achieve its objectives that the Company:

- (a) has a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- (b) has coherent remuneration policies and practices to attract and retain executives and directors who will create value for shareholders;
- (c) observes those remuneration policies and practices; and
- (d) fairly and responsibly rewards executives having regard to the performance of the Group, the performance of the executives and the general external pay environment

The Nomination and Remuneration Committee operates pursuant to a charter which can be found on the Company's website.

The Nomination and Remuneration Committee's current membership, meeting attendance and the independence of the members are set out earlier in this Statement.

### ***Recommendation 8.2 - adopted***

*A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.*

The Company's Remuneration Policy is designed to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration is intimately connected to performance and is intended to be appropriate for the results delivered. The Company's policies are designed to attract and maintain talented and motivated employees as well as raising the level of performance of the Company.

#### *Remuneration of Executive Directors*

Appen's remuneration policy is designed to attract, motivate and retain employees, including senior management, and ensure that the interests of the employees are aligned with those of the shareholders. In discharging its duties, the Nomination and Remuneration Committee reviews and makes recommendations to the Board on the remuneration of the CFO and other senior managers, including:

- Short and long-term remuneration, including both fixed remuneration and performance-based remuneration;
- Any termination payments; and
- Appropriate grants of securities under the Employee Incentive Plan.

In making its recommendations the Nomination and Remuneration Committee ensures that:

- Remuneration is set with reference to prevailing market rates for similar positions, adjusted to account for experience, productivity and ability;
- Remuneration packages are designed to motivate senior management to pursue the long-term growth and success of the Company: and
- A clear relationship exists between performance and remuneration.

#### *Remuneration of non-executive Directors*

Non-executive Directors are remunerated by way of fees which are set with reference to the prevailing market rates. They do not participate in the schemes designed for the remuneration of executives, nor do they receive bonus payments or any retirement benefits other than statutory superannuation.

To create alignment between non-executive directors and shareholders, non-executive directors are encouraged to hold Appen shares and a policy has been adopted that places a minimum holding requirement of the equivalent of one years' pre-tax director fees after 3 years. Conversely to preserve independence and impartiality, no element of non-executive director

remuneration is 'at risk' (that is, it is not based on the performance of the Group).

**Recommendation 8.3 - adopted**

*A listed entity which has an equity-based remuneration scheme should:*

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and*
- (b) disclose that policy or a summary of it.*

The Company has adopted a Securities Dealing Policy that is intended to explain the types of conduct in relation to dealing in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects Appen's directors, officers, employees and management against the misuse of unpublished information that could materially affect the value of securities.

The Share Trading Policy sets out restrictions that apply to dealing with securities and defines "prohibited periods" during which Designated Persons, are unable to deal in Appen securities.

In all instances, buying or selling of shares is not permitted at any time by any person who possesses price – sensitive information. The Security Dealing Policy is available on the Company website.

The Company's Security Dealing Policy provides that Designated Persons must not enter into any transaction that operate to limit the economic risk associated with holding securities in the Company.

**Approved by the Board on 21 February 2019**