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ASX ANNOUNCEMENT
26 May 2023

2023 ANNUAL GENERAL MEETING – CHAIR'S ADDRESS

Appen Limited (**Appen**) (ASX:APX) provides the attached Chair's address to be delivered at today's Annual General Meeting commencing at 10.00am AEST.

The webcast of the AGM can be joined at: Webcast - Registration (openbriefing.com)

Authorised for release by the Chair of Appen Limited.

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About Appen

Appen is the global leader in data for the AI Lifecycle. With over 25 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 235 languages, in over 70,000 locations and 170 countries, and the industry's most advanced AI-assisted data annotation 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.

Chair address

2023 Annual General Meeting

26 May 2023

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I want to start this morning by reflecting on Appen's performance and the recent actions of the board and management to put Appen on a new path.

In recent times, Appen's business has not performed to its full potential. Our 2022 financial results were far from satisfactory and reflect the broader tech slowdown that we are seeing in the US.

At the same time, 2022 was a breakthrough year for AI with the emergence of generative AI. The evolution of large language models such as ChatGPT have created significant excitement around the future of AI.

While we are energised by the potential of AI and generative AI, and what this could potentially mean for Appen – our immediate task is to reset the business.

As part of this reset, earlier this month we announced a substantial cost reduction program to ensure Appen's cost base is aligned to our revenue expectations and market conditions.

We also undertook a fully underwritten equity capital raising of $60 million to support the company's strategy refresh and return to profitability. The equity raising is comprised of two parts – a pro-rata accelerated non-renounceable entitlement offer of A$38 million and a $A21 million institutional placement.

Due to legal restrictions, we cannot discuss any further details relating to the Capital Raising other than the basic terms I've referred to here. We anticipate making further announcements, in accordance with our ASX continuous reporting obligations, in due course.

Following the equity raising, we will need to refresh Appen's placement capacity. This requires shareholder approval, and we will therefore hold an extraordinary general meeting in the not-too-distant future seeking your support.

To tell you more about our year and reset, I will cover five topics before handing over to Armughan for his first AGM address as CEO & President of Appen.

1. New leadership
2. Board renewal and governance
3. Appen's remuneration framework and CEO remuneration
4. FY22 financial performance
5. AI for Good

New leadership

Starting with leadership.

Most of Appen's employees and business are overseas and 90% of our revenue is derived from the US. In taking the company forward, the board felt it was important that we appoint a North America based CEO.

Armughan is a successful and respected executive in the North American Technology industry. He commenced as our new CEO & President on 9 January 2023.

Armughan has deep technology expertise in international markets and experience in driving growth, operational excellence and delivering best-in-class innovation. These attributes are critically important for Appen.

His proven track record gives me confidence that he will get the entire Appen team engaged and invested in the journey to delivering the full performance potential of the company.

As part of this mandate to reshape our strategy and improve returns for our shareholders – he has already made great progress to instil a high level of operational rigour across the business.

On 1 May, we also announced that Helen Johnson joined as our Chief Financial Officer.

Helen brings nearly 30 years of finance experience primarily with publicly traded and global businesses. With a background in corporate finance, including leading global teams in turnaround and growth scenarios, she is a tremendous asset.

Helen will be based in North America and will partner with the board and Armughan in the next phase of Appen's transformation.

Armughan and Helen, succeed Mark Brayan and Kevin Levine respectively.

Both Mark and Kevin served with Appen as CEO and CFO for more than 7 years.

On behalf of the Board, I would like to thank Mark and Kevin for their considerable contributions to Appen.

Kevin will remain with the business until 1 September to support Helen in her role and ensure a smooth handover.

Board renewal and governance

We maintained a strong focus on governance at Board level as we guide Appen through its next phase.

In line with the Board's renewal plan outlined before the 2021 AGM, we welcomed three new independent directors – Stuart Davis, Lynn Mickleburgh and Mini Peiris.

Last year you would have heard me speak about Stuart's appointment – as he joined the board on 29 March 2022 and stood for election at last year's meeting.

Lynn joined the board on 29 July 2022 and Mini joined the Board on 4 November 2022.

Both Lynn and Mini are very experienced Silicon Valley executives and are standing for election today and will address shareholders on their candidacies later in the meeting.

The Appen board comprises eight directors – including the Managing Director. The appointments of Stuart, Lynn and Mini complete our process of board renewal. Collectively, their experience, skills and detailed knowledge greatly benefit the board.

Appen now has three non- executive directors based in Australia and four non-executive directors based in the US. I consider the board to have the right balance of corporate governance, deep financial experience, and industry perspectives of the US market, as well as the diversity of thought and backgrounds.

Steve Hasker, Chair of the Board's People and Culture Committee – a longstanding and experienced director – offers himself for re-election today and will also address shareholders later in meeting.

Remuneration framework

Turning to remuneration.

I will now cover the

- second item on today's agenda, the Remuneration Report
- item 6 on the agenda, the grant of long-term incentive performance rights to the CEO & President, and
- item 7 on the agenda, the sign-on bonus to the CEO and President.

Steve Hasker, will speak to the Remuneration Report in more detail shortly. I will therefore keep my comments brief with respect to 2022 remuneration outcomes.

At last year's AGM, I spoke about the reset of our remuneration strategy in line with shareholder expectations.

Our executive remuneration framework remains heavily weighted towards performance and at-risk equity-based pay, and the board continues to set challenging short and long-term targets.

For FY22, the **short-term incentive or STI** scorecard included a combination of financial and non-financial metrics to reflect our focus on customer, crowd and employee satisfaction.

This year, we saw solid improvements in customer NPS and employee engagement.

However, our crowd NPS score was disappointing. And we are working hard to improve the crowd experience and lift crowd satisfaction.

In recognition of the improvements in customer NPS and employee engagement, a partial STI was paid.

As I will outline in a moment, our financial FY22 performance was disappointing. And consequently, there was no STI payable for our financial performance.

Turning to the CEO's remuneration arrangements, and item 6 on the agenda.

In designing a remuneration framework for Armughan, we felt it was very important to have good alignment between executive pay and shareholder value creation.

At the same time, Armughan's remuneration package needed to reflect elements of the North American technology industry practice where Appen operates and where Armughan lives.

His package is very heavily weighted to at-risk pay, with targets that require a significant improvement in Appen share price.

Armughan's package includes a base salary of US$600,000.

His STI is equivalent to 100% of base salary at target, up to 150% at maximum. This of course is subject to the same mix of financial and non-financial metrics as other KMP, with 25% of any STI awarded to be deferred into equity for 12 months.

The LTI component of Armughan's remuneration is valued at US$5,000,000 and vests over a three-year performance period.

It is subject to Appen's absolute total shareholder return over a three-year period being equal to or greater than 190%, which is the minimum vesting requirement up to 320% to trigger full vesting.

This means that the share price must be significantly higher than it is today for any vesting to occur.

This performance measure was chosen to align Armughan's interests with shareholders from commencement. He will only be rewarded for delivering significant shareholder value.

Armughan will not be eligible for another LTI grant until after 31 December 2025.

Turning to item 7 on the agenda.

There is also a sign-on bonus equivalent to US$2,000,000. This is payable through monthly vesting of equity over two years and reflects US technology industry practice. The sign-on bonus replaces a portion of what Armughan would have otherwise received at his previous employer.

We consider his package to be fully aligned with shareholders' interests.

We also feel fortunate to have a CEO of the calibre of Armughan to take the company forward.

Appen's FY22 performance

Now, turning to Appen's financial performance.

For the 2022 financial year, we reported a Statutory Loss of $239.1 million. This reflects the impairment of $204 million attributed to the investment in the New Markets business.

Total revenue declined 13.1% to $388.1 million due to the broader tech slowdown that I mentioned earlier.

Pleasingly revenue from New Markets, excluding Global Product increased 15.4% to $70.2 million, underpinned by strong growth in China. And revenue growth from our second largest customer increased 20%.

Underlying EBITDA (before foreign exchange) declined from $78.8 million to $13.6 million. This reflects lower revenue, lower gross margin, increased costs to support growth in new markets, investment in people across product technology and transformation.

For any board and management team, maintaining adequate liquidity and an appropriate allocation of capital is key priority – and this was certainly a key focus at Appen.

As a reflection of the company's financial performance, we did not pay an interim or final dividend.

AI for Good

I will now turn to our non-financial performance metrics and highlight how we are embedding AI for Good across the company.

AI for Good is something we are passionate about. It reflects the positive impact of our work on society.

In positioning Appen to capture its full growth potential – we are also focused on delivering good outcomes and doing the right thing by all stakeholders.

We recognise the value of our one million plus crowd and the value our crowd provides to our customers.

We pride ourselves on the high ethical treatment of our crowd as defined in our Crowd Code of Conduct, our Global Ethical sourcing, and Modern Slavery Policy.

We are also diligent when it comes to keeping data safe.

At Appen, every day we are trusted with the data of our customers, crowd and employees, and you, our shareholders.

Our systems and processes are based on international standards and every quarter the board meets with management to assess our capability.

Our in-house experts remain at the forefront of data security to protect stakeholder data and meet privacy obligations. In 2022, we recorded no material privacy breaches.

Promoting a diverse and inclusive culture across all aspects of Appen's business is also a key focus.

In 2022 female representation among the senior leadership team increased from 38% to 43%. We also maintained female representation of 50% among Non-executive Directors.

At Appen, we recognise that diversity is more far-reaching than gender.

We understand that for AI to perform correctly it requires diverse datasets that are representative of the real world. To deliver on our commitment to responsible AI we ensure our crowd is sufficiently diverse.

We are also focused on increasing the value of and trust in AI – and through our partnership with the World Economic Forum we are able to help shape responsible AI standards.

You might recall that last year I spoke about our commitment to support initiatives to transition to net zero emissions. This year we made good progress and have published our Net Zero Roadmap designed to achieve our net zero emissions target.

In 2022, we also became a signatory to the United Nations Global Compact and have committed to take action to embed the ten principles within our business practices.

Closing comments

On behalf of the Board, I would like to thank you – Appen's shareholders – for your ongoing support. I understand that 2022 was a disappointing year.

I do look forward to the year ahead and to working with the Board and new management team to position Appen to capture the opportunities in AI space.

Despite the uncertainty of the operating environment, the board and management are confident we can position Appen to capture the opportunities to presented by generative AI.

I now welcome Armughan Ahmad to give his first AGM address as CEO and President.

Richard Freudenstein
Chair