



22 October 2018

Dear Shareholder,

You have recently received the annual accounts for the year ending June 2018. Over the past year a few shareholders have requested clarification of the company's remuneration policy. At the behest of our Chairman, Jack Boyer, and as Chairman of the People Culture & Remuneration Committee (PC&RC), I wanted to provide further detail in this letter about the remuneration mechanisms outlined in the Annual Report.

Introduction

The PC&R has addressed a number of compensation related issues during the year ended 30 June 2018, including introducing a new bonus framework to allow us to attract and retain the world class talent that Seeing Machines requires to be successful. When you read about our remuneration framework you will notice that we have aligned individuals closely to shareholder interests by having 100% of the Long Term Incentive (LTI) and 50% of the Short Term Incentive (STI) dependent on the achievement of Company objectives. I am pleased to outline the approach taken along with key decisions.

Overhaul of Short Term and Long Term Incentive Programmes

Seeing Machines faces unique opportunities and challenges. We are an Australian company, listed on the AIM exchange, developing leading sensing technologies and services in a globally competitive market place. We draw our talent from a global and increasingly targeted pool with current emphasis on computer vision and automotive experience. We have 217 employees, of which 47% are engineers and 13% have a Doctor of Philosophy (PhD). This year we have seen our first employees based in the United Kingdom, Germany and Japan.

Aon Hewitt were engaged in early FY2018 to review a proposed STI and LTI framework. They were asked to assess the framework against market practices in the United States of America (USA) and Australia and to review the proposed LTI scheme design and award sizes, and how the proposed awards align executive and shareholder interests and its efficiency in equity usage.

Short Term Incentive (STI) – variable pay component

STIs apply to the Chief Executive Officer (CEO), the Executive team and selected key individuals. The Board determines the STI component of CEO remuneration and the PC&RC approves recommendations by the CEO for his/her direct reports.

STIs are an annual award based on a percentage of the individuals' fixed remuneration. They are a variable pay component meaning that they are not guaranteed. We start with the premise that all individuals need to be striving for the optimum outcome for the Company as a whole, hence half of the Short Term Incentive is based on achievement of overall Company objectives. Company objectives are set by the Board each year and are a combination of financial targets such as revenue and relative total shareholder returns (RTSR) and other targets which may be drawn from customer, sales and marketing, operational processes, employee and corporate social responsibility perspectives.

The other half of the STI is dependent on a combination of business unit objective achievement and individual objective achievement. The combination depends on the focus and influence of



the individual. The technical heads of the Company have a focus encompassing all areas of the Company, whereas our business leaders are focused on a specific vertical sector of the business.

STI achievement is by way of cash although the Board has flexibility in determining if the awards should be in equity, a combination of the two or at the choice of the individual. Our STI is designed to motivate and reward performance over a year.

Long Term Incentive (LTI) – variable pay component

LTIs apply to the Chief Executive Officer, the Executive team and selected key individuals. The Board determines the LTI component of CEO remuneration and the PC&RC approves recommendations by the CEO of his/her direct reports.

LTIs are an annual award in the form of Performance Rights (shares) that vest equally in three tranches over the following three years. They are a variable pay component meaning that they are not guaranteed. The award amount is based on achievement of Company objectives specified in the original performance year. As mentioned, Company objectives are set by the Board each year. The objectives for the FY18 year and how the Board reviewed the achievement of them is explained later in this report.

We elected to grant performance rights as opposed to options for two reasons:

1. Options have an exercise price and greater risk, so it is not unreasonable to assume twice as many options as rights must be awarded to deliver the same value.
2. Performance rights are the prevalent LTI instrument in the ASX and in the USA in the form of restricted stock; the majority of our employees are in Australia and the USA.

Grants of equity to staff are governed by the Seeing Machines Limited Employee Benefits Plan Rules which were approved by Shareholders at the Annual General Meeting on 17 November 2017 and are compliant with Australian Securities and Investment Commission (ASIC) rules. The Company operates within the following caps and guidelines:

- An Australian cap of 5% of the total number of shares on issue at the time of the proposed issue to be utilised for employees in Australia
- USA and other countries cap of 5% of the total number of shares on issue at the time of the proposed issue to be utilised for employees in the USA and other countries other than Australia
- Guidance of 10% of total equity to be held by employees, and
- Guidance of not more than 2.2% of total equity to be awarded to employees annually.

Recognition of Key Staff

We announced in June 2018 that we had made one-off equity awards to a small number of individuals in recognition of their significant contribution in the Company's achievements during a time when a formal standardized equity framework was not yet in place. These awards were by way of performance rights that vest in three equal tranches. The two founders (existing employees) who were part of this award had accelerated vesting to acknowledge their long tenure with the Company and the dilution of their equity over time.

This group of individuals was heavily scrutinised. Prior to each tranche of equity vesting the Board ensure that the individuals are performing to expectation and that they are still actively employed.



Prior to the first tranche of equity vesting on 1 October, one individual's employment ceased which meant they were no longer eligible to receive this equity.

Changes to Benefits in the USA

Nearly a quarter of our employees are in the USA. Over the last 18 months we have recruited a number of mid to very senior staff in this region. The expectation from these new hires is that Seeing Machines would have a competitive 401(k) (pension plan) in place. Our existing plan was ineffective due to insufficient numbers of employees earning less than USD120,000 per year, voluntarily contributing to 401(k).

In the USA there is a contribution test applied whereby the average contribution of highly compensated employees, as a group, cannot exceed the average contribution of non-highly compensated employees, as a group, by more than 2%.

As a result, we have moved to a 401(k) Safe Harbour plan which exempts us from the contribution test. We now have a Basic Matching Contribution plan whereby Seeing Machines will match up to the first 3% of salary deferred into a 401(k) plan. Additionally, half of the next 2% deferred will also be matched by the Company. This means that the maximum amount to be matched by the Company is 4%.

Resolution 5 and 6 in the Notice of Annual General Meeting (AGM)

There are two resolutions in the upcoming AGM that we are asking for your approval of.

Resolution 5

The Australian Corporation Act requires that shareholder approval be obtained if termination benefits for any executive exceed one year's average base salary. This would be the situation for Nick DiFiore our Senior Vice Present and General Manager Automotive if his employment is involuntarily terminated without cause.

Resolution 6

In the Company's constitution, shareholder approval is required to increase the maximum aggregate or combined remuneration cap for non-executive directors. The current maximum aggregate was set at the 2015 General Meeting. The proposed increase has been determined following a review of benchmarking data and is essential to enable the Company to continue attracting and retaining high quality directors with appropriate experience, calibre and integrity.

The explanatory notes in the Notice of Annual General Meeting 2018 give further information on both of these resolutions.

SUMMARY

The above changes are compliant with the PC&RC charter and continue to create and maintain a remuneration framework that is simple, transparent and fair to both shareholders and employees. With the continued growth of Seeing Machines, and the attraction and retention of candidates with expert knowledge and experience sourced from global technology and industry talent pools, our remuneration framework has continued to evolve to meet these challenges.



Approach to Remuneration

Being a global employer, we negotiate remuneration packages that are competitive in each of our local markets. We have a number of remuneration levers that we can utilise depending on where the individual is located. In the USA for example, LTIs are much more common than in Australia and generally form a larger part of the individual’s total remuneration package. We also customise the benefits we offer to ensure we are competitive in that location. In the USA for example, the co-payment of health insurance by the company is common whereas in Australia it is not as payment of health insurance is an individual responsibility.

The following table summarises the different remuneration levers that we use and why we use that particular lever.

Remuneration Lever	Vehicle	Purpose
Fixed Remuneration	Paid in local currency. This includes base salary, compulsory pension payments, annual leave and other benefits.	To attract and retain employees by offering competitive fixed remuneration with reference to the role, location, experience and performance of the individual.
Short Term Incentive	Paid in local currency and the target amount is a percentage of fixed remuneration. This amount is variable and dependent on a combination of individual and company objective achievement. Company objectives are set by the Board.	To motivate and reward executives and key personnel on the short-term objectives and strategy of the business. Seeing Machines is a nimble and agile company required to respond quickly to rapid changes in both technology and industry.
Long Term Incentive	Rewarded in the form of performance rights which vest equally over three years. This reward is variable and dependent on the achievement of company objectives. Objectives are set by the Board.	To retain and reward executives and key personnel who contribute to the long-term sustainability and growth of Seeing Machines.
Share in Seeing Machines success Incentive	Paid in local currency or equity or a combination. Employees who are not part of a formal incentive programme are part of a programme whereby they share in the success of the company meeting its short-term objectives. This reward is variable.	To encourage a whole of company mindset as individuals focus on achieving their short-term objectives.



Remuneration for Executive Directors

All employee remuneration packages are designed to be competitive in the home location of the individual. Hence a remuneration package for an employee in Silicon Valley, USA would look different to a remuneration package for an employee in Canberra, Australia.

The remuneration for Executive Directors is set in the same way as remuneration for other Executives and was explained in the above paragraph. Benchmarking includes all aspects of a remuneration package including STIs, LTIs and other benefits such as pensions.

Ken Kroeger's role changed during FY2018. He started the year as Executive Chairman giving assistance to Mike McAuliffe as CEO. He became interim CEO on 29 January 2018 at an annual salary of AUD380,000.

As interim CEO and Chairman, Ken was the only Executive Director.

The on target remuneration package for Ken Kroeger, compared to his actual remuneration package for the year ended 30 June 2018, is as follows:

Item	On-Target	Actual Award
TFR	AUD380,000	AUD380,000
STI of 25% of TFR	AUD95,000	To Be Determined
LTI of 75% of TFR	AUD285,000	AUD114,000 worth of equity



STI Award

STI's are paid in cash, although at the discretion of the Board, are able to be paid partly or fully as equity. The STI is based on individual objectives and Company objectives, with fifty percent weighting applied to each.

Company objectives for FY18, equally weighted, and achievement were:

Category	Measure	Outcome
Revenue	AUD 40.4M	AUD 30M Should also recognise booked automotive wins of USD 60M more than anticipated in forecasts.
Relative Total Shareholder Return	Agreed to benchmark ourselves against other AIM-listed companies in the same category using average performance metrics.	We have benchmarked Seeing Machines against the performance of the FTSE techMARK Focus (under£4bn) index over the last year, 1 July 2017 – 30 June 2018. The Seeing Machines share price went up over 325% compared to the FTSE techMARK Focus index that went up 6.1%
EBITDA	AUD (29.4)M	AUD (33.1)M
Capital Raise	GBP 30M	GBP 35M (capped by Seeing Machines)
Quality	Quality Audit	ISO9001 - retained certification

The Board approved 40% objective achievement.

Ken's STI was awaiting approval at the time of this letter.

LTI Award

LTI awards are paid in equity and vest equally over the following three years. An award made in 2018 would vest one third in 2019, one third in 2020 and one third in 2021, provided the individual remains employed and is rated as 'Meets' performance criteria or above at the end of each twelve month period.

The award amount is based on a percentage of the individual's TFR and is based on Company objective achievement of the original year. For this last year, Ken Kroeger will have received 40% of his target LTI based on Company objective achievement. This amount is then converted into a number of shares that will vest in three equal tranches over the next three years. The value of the shares is the average of the closing share price on the AIM taken over the five trading days



following the release of the Company's audited financial results. This was 0.064732 pence. Ken Kroeger received a total of 935,573 shares.

STI's and LTIs for Other Executives and Key Employees

There are 46 individuals who receive a proportion of their remuneration as at risk STI and/or LTI. These individuals are either part of the executive, have a skill set that is critical to the Company's success or are at a level in the organisation where at-risk reward is common in the market. The majority of eligible employees receive a STI target percentage of 10% and a LTI target percentage of 15%.

There is consistency in the structure of the framework for STIs and LTIs. STIs are based half on individual objective achievement and half on company objective achievement. LTIs are based on company objective achievement. The majority STI percentage awarded was 70% of the STI target. LTI's were all awarded at 40% of the LTI target.

Out of the 46 individuals there are 6 individuals who have an on target STI which is 30% or more of their TFR. Out of the 46 individuals there are 20 individual who have an on target LTI which is 40% or more of their TFR.

For this year the Board approved the Executive using its discretion when applying the Company objective achievement of 40% to STI awards for individuals who were high performers and who were critical to the Company moving forward. The Executive applied 100% STI achievement for those individuals who were promoted and/or who were performance rated as 'Exceeds' and 'Exceptional' in the annual performance ratings review meetings. There were also seven additional individuals who, whilst not rated above 'Meets' had performed and continue to perform a critical role in the Company. There was one individual who did not receive an STI or LTI payment.

"Share in Seeing Machines Success" Incentive – other employees

For those employees who are not part of the executive or key personnel incentive scheme, Seeing Machines has an annual variable scheme that also hinges on the achievement of Company objectives. We believe that every employee at the Company is important and, provided they are meeting their individual objectives, as assessed through normal performance management processes, should share in its success. Although we target and budget an award of 10% of fixed remuneration for this group, the reward is determined at the end of fiscal year once results have been audited. The reward may be paid in cash or equity. The Board make this determination along with the actual percentage or fixed amount. In FY2018 this award was either cash or equity to the value of AUD2,000.

Remuneration for Non-Executive Directors

The Board determines fees payable to Directors, out of a maximum aggregate amount set by shareholders. This aggregate amount was last set at the AGM on 29 October 2015 as a maximum of AUD450,000 per annum. All but one of the non-executive directors has a cash component comprising 75% of the fee with the other 25% being a share component. The one non-executive



director has the discretion to determine whether he would like the 25% share component to be cash.

The cash component includes superannuation entitlements that are applicable for Australian based directors by law but will also be applied for overseas directors to ensure all directors are paid equitably.

The share component is issued in one tranche for the financial year, in arrears. The shares are issued within two weeks of the Company releasing its annual results and coming out of its 'close period' (i.e. typically by mid-September). The issue price would be set as the average closing price over the last five days before the shares were issued.

Seeing Machines continues to grow, and the potential of the Company is impressive. As we continue to define the global talent that we need, we will continue to shape our remuneration structures to attract, motivate and retain our staff, ensuring strengthening shareholder returns.

I would like to thank my fellow Committee members for their expertise and guidance, as well as all those who have supported the Board in strengthening Seeing Machines' remuneration and benefits frameworks.

Jim Walker
Chairman of the People, Culture and Remuneration Committee