SCOTT

SCOTT TECHNOLOGY LIMITED

# ANNUAL REPORT 2021

Automated lamb boning room.

The Board of Directors of Scott Technology Limited is pleased to present the Annual Report for the year ended 31 August 2021. This provides a review of our progress in FY21 and our focus for the financial year ahead. Strong progress has been made in the first full year of the Scott 2025 strategy, including the COVID-19 pandemic response and impact.

On behalf of the Board, 21 October 2021.

**Stuart McLauchlan**
*Chairman and Independent Director*

**John Kippenberger**
*Chief Executive Officer*

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## DIVIDEND

Final dividend: 4.0 cents per share (unimputed)

Record date: 9 November 2021

Payment date: 22 November 2021

Dividend reinvestment plan applies to this payment for shareholders who have elected to receive shares in lieu on a cash dividend.

## ANNUAL MEETING

Thursday 25 November 2021, 3:00pm

www.virtualmeeting.co.nz/sct21

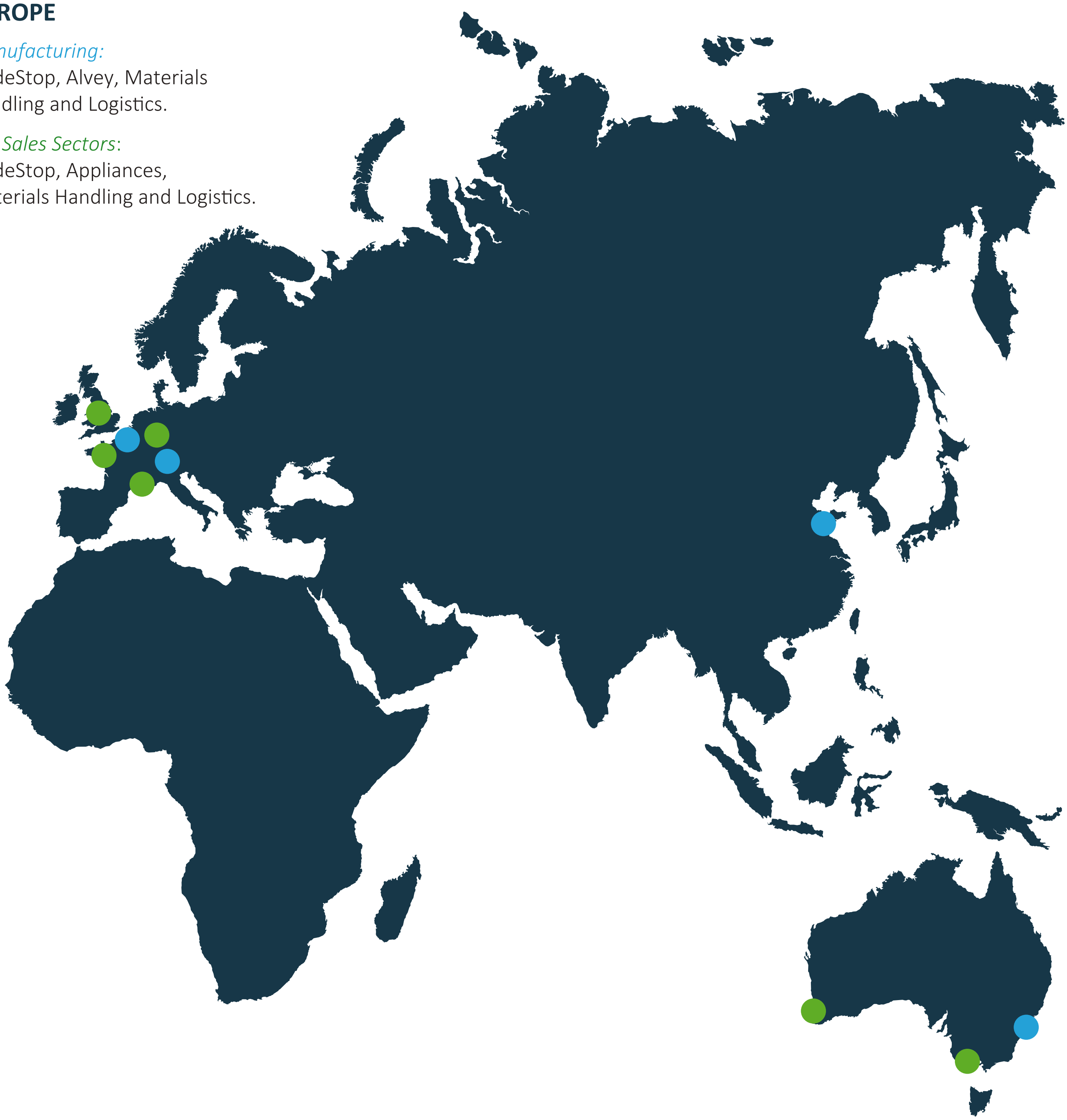
Proxies close 3:00pm,
Tuesday 23 November 2021

# OUR BUSINESS

**EUROPE**

*Manufacturing:*
BladeStop, Alvey, Materials Handling and Logistics.

*Key Sales Sectors*:
BladeStop, Appliances,
Materials Handling and Logistics.



Sales and Office Facilities

Manufacturing Facilities

## CHINA

*Manufacturing:*
Appliances.

*Key Sales Sectors*:
Appliances.

## AMERICAS

*Manufacturing:*
Transbotics and Robotworx.

*Key Sales Sectors*:
Meat, Appliances, Industrial Automation and Materials Handling and Logistics.

## AUSTRALASIA

*Manufacturing:*
BladeStop, Meat, Mining, Rocklabs, Appliances and Industrial Automation.

*Key Sales Sectors*:
Meat, Mining, Rocklabs,
Industrial Automation and BladeStop.

# FY21 AT A GLANCE

## STRONG RETURN TO PROFITABILITY

**REVENUE UP 16% TO $216.2M, GROSS MARGIN UP FROM 8% TO 23%, EBITDA OF $22.1M AND NET PROFIT AFTER TAX OF $9.5M**

## DIVIDEND

*Total annual dividend 6.0 cents.*

## ONGOING MOMENTUM OF SCOTT 2025 STRATEGY

*With a streamlined cost structure, a focus on core areas of proven expertise and improved performance.*

# FINANCIAL PERFORMANCE

**FY21 revenue of $216.2m increased 16% on the prior comparative period (pcp) as Scott's strategy of generating more revenue from proven systems, products and service continued to deliver revenue growth.**

With an EBITDA of $22.1m, the Group reached its highest ever profit, superseding its pre-COVID-19 performance of $20.0m. This was despite lower revenue when compared to the same period, reflecting margin improvement as a result of the ongoing execution of the Scott 2025 strategy.

Margins increased from 8% in FY20, to 23% in FY21 as Scott focused on expanding repeatable solutions such as BladeStop and Rocklabs, whilst taking opportunities to increase price where its customer proposition is strong. The Group also captured the benefit from last year's significant right-sizing program, with employee numbers now sitting at 622 in FY21, down from 784 for FY19.

Net profit after tax (NPAT) for the year was $9.5m, significantly ahead of pcp and 10% higher than FY19.

Operating cash flow of $13.4m was lower than the pcp of $19.6m as the company's revenue growth, in the form of higher trade debtors and contract work in progress, consumed a portion of the higher net profit after tax ($9.5m) earned in 2021. The Group had cash in the bank of $12.2m on 31 August 2021.

The Group net debt position moved to a net cash balance of $1.3m despite the demands on cash of a growing top line.

In recognition of the progress made by the Company, the Directors declared an (unimputed) dividend of 4.0 cents per share, payable on 22 November 2021. The Dividend Reinvestment Plan will apply.

## STRONG FORWARD WORK

*With new system design and build contracts in Europe, USA, China and Australasia and continuing growth in product and service.*

## COVID-19 IMPACT

*Still being felt deeply across the Group.*

## DRIVING HIGH-PERFORMANCE SAFETY CULTURE

*An increased focus on lead indicators, resulting in a significant reduction in LTIs.*

## DEVELOPMENT OF SUSTAINABILITY STRATEGY

*As we pursue a long-term sustainable future together with our customers, communities and wider stakeholders.*

# FIVE YEAR TRENDS

| FINANCIAL | 2017<br>$'000s | 2018<br>$'000s | 2019<br>$'000s | 2020<br>$'000s | 2021<br>$'000s |
|---|---|---|---|---|---|
| Revenue | 132,631 | 181,779 | 225,093 | 186,073 | 216,234 |
| Net surplus / (loss) after tax | 10,265 | 10,772 | 8,604 | (17,503) | 9,527 |
| Operating cash flow | 13,407 | 1,018 | 726 | 19,563 | 13,426 |
| Net cash / (overdraft) | 26,670 | 12,473 | (4,737) | 7,745 | 12,242 |
| Bank loans | - | 7,409 | 11,667 | 11,185 | 10,920 |
| Total assets | 126,181 | 194,310 | 217,786 | 193,110 | 194,504 |
| Shareholders' equity | 97,156 | 105,677 | 112,732 | 92,740 | 98,195 |

| DIVIDENDS (CENTS PER SHARE) | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Interim | 4.0 | 4.0 | 4.0 | - | 2.0 |
| Final | 6.0 | 6.0 | 4.0 | - | 4.0 |

| EMPLOYEES (NUMBER) | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| New Zealand | 215 | 249 | 248 | 188 | 188 |
| Australia | 84 | 95 | 101 | 77 | 86 |
| China | 27 | 33 | 36 | 35 | 45 |
| Americas | 44 | 74 | 83 | 56 | 73 |
| Europe | 53 | 327 | 316 | 257 | 230 |
| **Total** | **423** | **778** | **784** | **613** | **622** |

# CHAIRMAN'S COMMENTARY

*Stuart McLauchlan - Chairman and Independent Director*

## It is my pleasure to present Scott Technology's 2021 Annual Report on behalf of the Board of Directors.

I would like to acknowledge and thank our people across the globe for their efforts over the year, despite the economic and personal challenges arising from COVID-19.

The unpredictable nature of COVID-19 has required Scott to be flexible in managing individual situations across our global businesses. Our businesses continue to stringently follow COVID-19 protocols and the advice of relevant local authorities, as applicable to the circumstances at the time.

Throughout the pandemic we have implemented strict controls with the objectives of keeping our people safe.

The Scott pandemic response team, consisting of John Kippenberger, myself and John's Executive team, continues to oversee all COVID-19 related matters impacting our employees and businesses.

The impacts of lockdowns, and other restrictions, have put extra demands on the business and our people. We are very conscious of the wellbeing and safety of our people and have invested in extra resources to assist us through the pandemic.

### HEALTH AND SAFETY

Health and Safety is an important focus for Scott and we look for the same commitment from our customers.

We strive for continuous improvement in our health and wellbeing outcomes for all our employees and stakeholders. We have set the same best practice expectations across our operations in all regions.

The Health and Safety Committee compromises all Board members.

### FINANCIAL PERFORMANCE

The company achieved sales of $216.2m, despite the ongoing disruptions we have faced in all of the markets we operate in. We are pleased with the very strong return to profitability after the restructuring undertaken last year to right-size Scott to deliver on the Board's 2025 strategy.

> **"MANAGEMENT HAS CONTINUED TO DELIVER A VERY DISCIPLINED APPROACH TO MARGIN CONTROL, DEBTOR COLLECTIONS AND INVENTORY CONTROL"**

Management has continued to deliver a very disciplined approach to margin control, debtor collections and inventory control.

> **"I would like to acknowledge and thank our people across the globe for their efforts over the year despite the economic and personal challenges arising from COVID-19"**

**Stuart McLauchlan**
*Chairman and Independent Director*


Automated mine site laboratory for the Rio Tinto Gudai-Darri iron ore project during production at our Sydney facility.

We have finished the year with a very healthy balance sheet, with net cash of $1.3m.

## DIVIDEND

The Directors are recommending a final dividend of 4.0 cents be paid on top of the interim 2.0 cents dividend paid in May of this year.

## GOVERNANCE

The annual shareholder meeting is planned to be held in Dunedin and online on 25 November at 3:00pm. In accordance with the company's constitution and the NZX Listing Rules, John Thorman, Edison Alvares and Brent Eastwood will retire and will be eligible for re-election.

The Board and management are committed and have invested in the development of our Environmental, Social and Governance (ESG) program. This will ensure sustainability factors remain front of mind to both preserve and create value for all shareholders.

## OUTLOOK

Despite the ongoing difficulties of operating a global business from New Zealand, we are seeing very good engagement from our customers. This is resulting in a strong order pipeline which bodes well for the coming year.

On behalf of the Board, I would like to thank our shareholders for your continued support of our company, the Board and management.

**Stuart McLauchlan**
*Chairman and Independent Director*

# CHIEF EXECUTIVE OFFICER'S COMMENTARY

*John Kippenberger - Chief Executive Officer*

The 2021 financial year is one which has seen the Scott team forge strong and compelling progress across most parts of the global Scott Group. This has been achieved through strong focus on the core fundamentals of the Scott 2025 strategy, exceptional talent, commitment and teamwork, and notwithstanding the ongoing restrictions and challenges caused by the global pandemic.

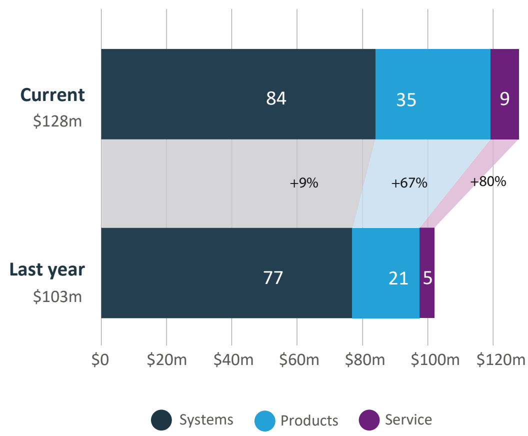
At Scott we are proud of our team, together with our local and global partners. Through their efforts we have recovered the base business operating performance from the harsh impacts of 2020, and we are positively positioned to achieve sustained, profitable growth across our key industry sectors and geographic regions for years to come.

**"AT SCOTT WE ARE PROUD OF OUR TEAM, TOGETHER WITH OUR LOCAL AND GLOBAL PARTNERS. THROUGH THEIR EFFORTS WE HAVE RECOVERED THE BASE BUSINESS OPERATING PERFORMANCE..."**

## RESULTS

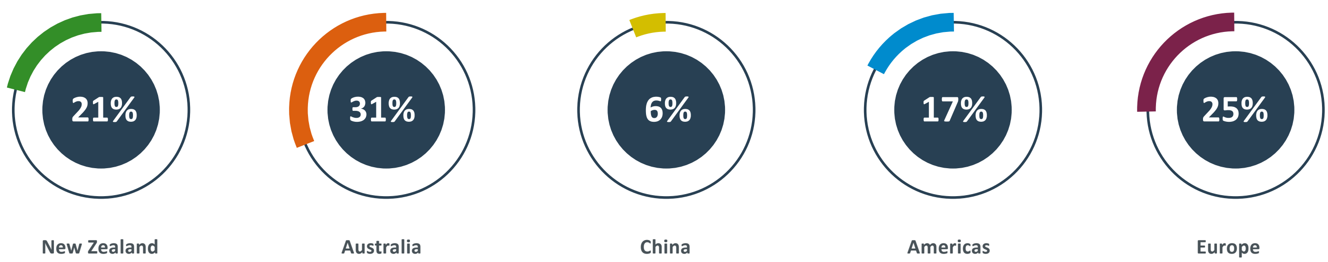
The results demonstrate double-digit growth in both revenue and margin, affirming the progress made with the Scott 2025 strategy and as each of the regions reach different stages of their recovery from COVID-19. This has seen forward work programs transition in line with the company's core focus areas and supported by established repeatable products across Rocklabs, BladeStop, Meat Processing and Materials Handling. The shape of the business' sales pipeline has similarly transitioned as the capability of its sales teams matures in line with strategy.

### Forward work progress




While all three of Scott's categories have achieved significant revenue growth, it was the Products category which grew the most (30%), taking its share of total revenue to 23%, up 256 basis points. Rocklabs, Scott's mining products and parts business, together with the BladeStop product revenues into the meat industry, are both showing strong growth on prior year.

## REVENUE BY GEOGRAPHY



Robotic poultry trussing system for Pilgrims Pride, USA.

Service revenues across several key markets have also grown, with the Group up 11%, as the team places increasing importance on executing up-front service level agreements with key customers. Growing the Service category is a strategic priority, which is underpinned by a strong execution plan for FY22 and beyond.

The streamlined operating cost structure now in place following last year's restructuring activity across all regions and Group head office has supported an increase in margins in each of the Scott sectors.

## MEAT SECTOR FOCUS AND DRIVE

One of the most fundamental propositions of the Scott 2025 strategy is to focus our energy, talent and investment in those areas where we believe we have world-leading, proven technology, systems and products. We will also support our customers via an efficient and reliable service offer, which ensures Scott equipment continues to operate at high performance, safety and efficiency, while at the same time underlining our brand integrity.

In the large systems side of our meat business, the team has focused on selling and delivering proven technology in the lamb primal area. This is a large solution, which employs dynamic x-ray vision systems to deliver superior cut accuracy for the lamb processor. Further, this is a proven technology where Scott has a strong reputation in the global marketplace, and the team and experience to deliver these systems efficiently and to standard every time.

Most recent examples of this include the sales into Alliance Lorneville, New Zealand, and Thomas Foods International, Australia. These systems are built at our Dunedin meat centre of excellence and supported by our Christchurch operations where required.

## PRODUCT

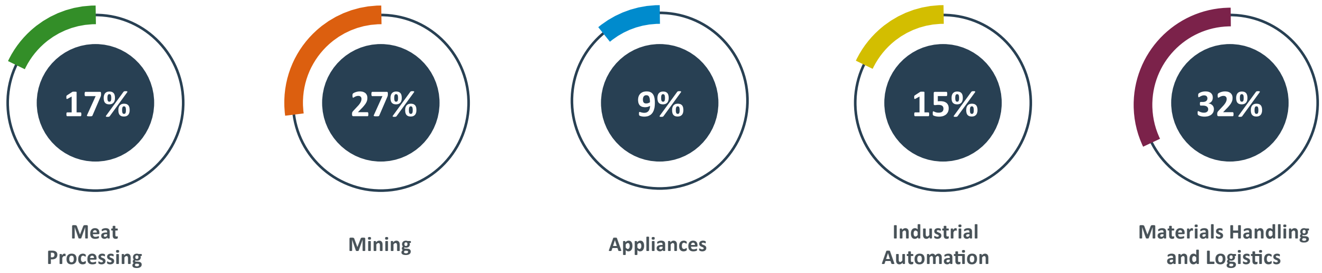
### Meat Processing

Our meat product offering continues to expand as we commercialise existing intellectual property and leading technology, for consistent and efficient deployment to customers around the world.

The standard product in meat is our BladeStop bandsaw. This world-leading technology combines high-quality engineering of the bandsaw with patent protected stopping systems to prevent worker injuries. This part of our meat business is growing strongly and with our new global BladeStop leadership on board to lead our group efforts, we have a clear pathway to deliver significant sector penetration and market share growth in Australia and the United States in particular.

Through our R&D department we are continuing to package other product options where we see sizeable addressable global markets. This includes our recent poultry trussing – a world first in employing robotics to tie rotisserie birds – removing ongoing safety issues (RSI) and freeing-up scarce labour for other roles.

## REVENUE BY INDUSTRY




### Mining

Our mining business continues to move ahead in two key directions. The products business – Rocklabs crushing, splitting, and pulverising equipment, and Reference Materials – continues to trade well across virtually all of its global markets. This strength in demand is a testament to the global reputation of the Rocklabs brand, a talented production and sales team, combined with the continuing high precious metal prices driving capacity and outputs around the world.

The systems-end of our mining business is currently focused on the completion of the large fully-automated laboratory for Rio Tinto in Western Australia. This highly complex project is further challenged by the impact of COVID-19 in Australia, which presents a range of obstacles. Most notable is that of being unable to freely move our team of engineers across the country – from the build and commissioning work in Sydney, to the site works in Western Australia. However, despite these challenges, the team, thanks to a relentless pursuit of excellence, is making good progress towards commissioning in 2022.

We are also making sound progress in the rollout of our Scott Robofuel systems. These robotic refuelling stations allow large mining trucks to be refuelled safely without human intervention and in an efficient manner that keeps trucks circulating without the need to be taken offline.

Looking forward, we will continue to drive our Rocklabs products and Robofuel systems. At the same time we will strategically and thoughtfully expand the semi-automated offering of our laboratory range to bring speed and efficiency to mine operators and independent laboratory managers.

### Materials Handling and Logistics

We have seen ongoing pressure on global distribution and supply chains as a result of COVID-19 and believe this will continue in its aftermath. This in turn drives the ongoing demand for materials handling equipment offered by Scott. This is particulary prevalent in areas such as the e-commerce and essential grocery goods sectors.

In the AGV part of the sector, the automotive industry continues to be one of the largest adopters of unmanned fork-trucks due to the autonomy and efficiency they bring to daily operations. With our strong relationships amongst the global tyre manufacturers, as an example, we see a positive future for our United States based AGV business, Transbotics.

## OUTLOOK

Despite the ongoing disruptions of the global pandemic and the pressures this continues to place on our international operations and travel, the team at Scott has demonstrated strong progress with our new focused strategy. Our priority remains to deliver in our proven areas of expertise across systems, products and service.

With a promising forward work plan and a number of key projects in commmisioning stages we are moving into FY22 with positive momentum.

**John Kippenberger**
*Chief Executive Officer*

John Kippenberger, CEO.

# COVID-19 RESPONSE AND IMPACT

*John Kippenberger - Chief Executive Officer*

I would like to express our sincere gratitude and appreciation to the entire Scott team for the way they have continued to rise to the expansive challenges presented by the ongoing COVID-19 pandemic.

When faced with an ever-changing and largely unpredictable environment, and the impact of the virus on business and travel around the world, our Scott team has remained steadfast in their commitment to achieving the best possible customer outcomes, safely and efficiently.

The disruptions from the pandemic are highly varied across the many continents in which Scott operates. However, the summarised areas of largest impact include:

- Teams working remotely from their colleagues, and from the customer, on complex projects which demand close and effective team integration. At times, we have to accept that the team dislocation will inevitably impact upon business efficiency, despite all efforts to work virtually across our Scott network.
- The time taken to plan and manage travel, whether this be across State borders or between countries and regions of the world. As situations have changed almost daily in some countries, most notably within Australia and in relation to Trans-Tasman travel, the amount of time and energy required to safely move team members around the global Scott Group has been extreme. The commitment from our Scott team members to travel, and in doing so be away from family and home for extended periods of time, is exemplary.
- Commissioning projects in locations, where due to travel restrictions, we are unable to move the most experienced technicians to site. This results in projects taking more time with less efficient commissioning processes, and in many cases, has involved the use of local contractors. Both strategies incur additional operating costs, and deliver a related margin erosion effect to Scott.

At Scott we are positively encouraging our team members to seek full vaccination where they are able. It is our belief that this is the only way to keep our fellow colleagues safe, and for the world to return to a more open travel environment within the foreseeable future.

Again, we thank and honour our team's commitment to continue to drive positive, and safe, business outcomes in these highly challenging COVID-19 times.

> **"When faced with an ever-changing and largely unpredictable environment... our Scott team has remained steadfast in their commitment"**
>
> **John Kippenberger**
> *Chief Executive Officer*


Dunedin team completing FAT (factory acceptance testing) on the Poultry trussing project, which was installed at Pilgrims Pride, USA.


Automated coil supply for cooktop manufacturing.

# ENGINEERING SCOTT TO HIGH PERFORMANCE: AN UPDATE ON THE 2025 STRATEGY

While the new Scott strategy was launched late in FY20, the FY21 financial year presented the first full year opportunity to really embed and operationalise it right across the global business. With a firm emphasis on focus and playing to the organisation's strengths, the team has made great progress.

CEO John Kippenberger says he's had huge admiration for his people over the past financial year as they've adapted in this exceptional environment to really drive the new strategy forward.

"Scott 2025 takes the best of our incredibly rich business and the valuable IP built over our 100 plus year tenure. It creates focus in the areas where we're already successful or have proven technology, and then commercialises it. We then build our R&D on these proven platforms and create a world class service business to support it."

> "THE KEY TO MAKING OUR STRATEGY A REALITY IS, OF COURSE, OUR PEOPLE. I'VE BEEN AWED THIS LAST YEAR BY THE WAY THE ORGANISATION HAS COME TOGETHER IN THE FACE OF THE EXTREME ADVERSITY..."

He continues, noting that a strategy without people is nothing but some words on paper. "The key to making our strategy a reality is, of course, our people. I've been awed this last year by the way the organisation has come together in the face of the extreme adversity that COVID-19 has presented. We have many projects that transcend international borders and historically we'd fly experts into the markets we operate in to deliver these. The resilience and agility the team has shown to find new ways to successfully deliver projects without being on the ground has been a source of great pride. It's the essence of our One Global Team pillar in action."

Overlaid with the massive disruption to global supply chains creating difficulties moving both raw materials and finished product, what the Scott team has achieved in FY21 is no mean feat.


## A YEAR OF CONSIDERABLE PROGRESS IN CHALLENGING TIMES

On a macro level, Scott has made a positive step change in the last year towards becoming a high performing organisation. With the new structure now bedded in, adoption and understanding of the Scott 2025 strategy has accelerated across the organisation. Pleasingly, this is reflected in the financials with revenue, gross margins and profitability all reinforcing the progress.

Diving a little deeper, this progress can also be tracked against each strategic pillar.

## AUTHENTIC CUSTOMER PARTNERSHIPS

Customer relationships have always been important to Scott, but this pillar aims to take these to the next level. “We are looking to move our global relationships to be true partnerships,” says Kippenberger. “This means we have authentic and honest conversations about Scott’s capabilities and proven technologies, including how focusing on these drives an efficient, low risk outcome for all parties. These discussions are moving more towards a five to ten year investment horizon covering multiple plants of each customer. This also helps align Scott’s R&D activities for developing the next generations of our proven base systems and solutions.” Kippenberger adds “We’ve had great feedback on our new approach including introducing step-changes to our project reporting which serves to keep the combined Scott and customer teams aligned and focused at all times during a design and build project.”

## LEADING EDGE TECHNOLOGY

The central philosophy with this pillar is rebalancing the business from a highly complex systems focus, to one which has an increased focus on products and service. In the last year, this mix change has gained great momentum, particularly in the product space with the likes of our mining parts and equipment, and BladeStop. And there is room for huge future growth.

“We will be a big product business in the future,” says Kippenberger. “I’m proud of the progress we’ve made in the last 12 months with mining equipment, BladeStop and Poultry Trussing, and we will continue to add products to our portfolio where we marry our proven expertise with large addressable international markets.

In terms of service, we are still in the early stages of building out this offer and I’m excited about the progress we’ll make here in the coming years.”

## ONE GLOBAL TEAM

The biggest change here has been moving from a centralised to decentralised business model, with Regional Directors responsible for the businesses in each market.

“We couldn’t possibly have foreseen the emergence or impacts of COVID-19 when we developed the new structure to deliver the 2025 strategy, but it has been exactly what we needed to do,” says Kippenberger. “With strong leadership on the ground in each market, we’ve been able to continue embedding and operationalising the strategy over the past 12 months. Further to this, we’ve been able to give each of our people a clear sense of the role they play in delivering it." Cathy Zhang, Regional Director - China, mirrors this sentiment. "It’s helped us to navigate through the ongoing uncertainty of COVID-19 and keep our people well, engaged, and our business moving forward.”

## OPERATIONAL EXCELLENCE

A key part of this pillar is focussed on building and embedding the fundamentals of strong project management into the organisation. In the past 12 months, Scott has continued to invest in developing its people in this space. “Bolstering our project management process and capability creates efficiencies, and we’ve seen this play out in project delivery times, professional customer engagement throughout the project life cycle, and of course through a positive impact on the bottom line,” says Kippenberger.

As well as project management, Scott has introduced a number of other processes and methodologies based on industry best practice to help standardise its operations and protect margins.

## ROBUST GLOBAL PLATFORMS

The central theme of this pillar is having focussed operating units with each functioning as a centre of excellence in a particular area. New Zealand, for example is the centre of excellence for Meat Processing, Belgium and the Czech Republic is the centre of excellence for material handling and logistics. “This has really resonated with our people,” says Kippenberger. “In the past year, they’ve felt able to focus and excel in their areas of expertise, going bigger and deeper, rather than being spread too thin across a wide range of systems and technologies.”

Part of this pillar is also the divestment of non-core business and at the end of August, Scott sold its HTS-110 business undertakings.

### POSITIVE PROGRESS AND CLEAR DIRECTION FOR FY22

Kippenberger is proud of the progress he and his people have made on Engineering Scott to High Performance 2025. “Smart thinking, resilience and grit has seen us make great progress on our 2025 strategy. Despite the challenges of national and international border closures, lockdowns across our different markets at varying levels and times, and global supply chain issues, we’ve managed to come together as one team and progress each of our strategic pillars.”

> **“SMART THINKING, RESILIENCE AND GRIT HAS SEEN US MAKE GREAT PROGRESS ON OUR 2025 STRATEGY. DESPITE THE CHALLENGES... WE’VE MANAGED TO COME TOGETHER AS ONE TEAM”**

Any good leader will also be able to reflect on where things haven’t gone quite right. “When we designed our new structure, we combined the Australian and New Zealand businesses under a single Regional Director. What’s transpired in the last 12 months is that this hasn’t worked as a result of COVID-19 and due to vastly different areas of expertise.”

The team will look to resolve this through the appointment of New Zealand GM, Andrew Arnold, and an Australian GM in early FY22.

On what he’d like to have seen more progress in, Kippenberger’s response is clear. Health and Safety. “We’ve made significant progress in the last year, increasing our near-miss and hazard reporting, reducing our lost time injuries, and bringing the idea of the broader employee wellness into our thinking. But this is an area that we should always demand continuous improvement in. We will continue to put focus here in the years to come to ensure our people and customers are kept safe and happy.”

FY22 looks bright, for the Scott people, customers and shareholders alike. With progress set to continue against the Scott 2025 strategy and the growing appetite for automation across most of Scott’s major sectors, Scott Technology is a company to watch.

> **“It’s helped us to navigate through the ongoing uncertainty of COVID-19 and keep our people well, engaged, and our business moving forward”**

**Cathy Zhang**
*Regional Director - China*

# PROACTIVELY PURSUING SERVICE AND FOSTERING CUSTOMER PARTNERSHIPS AT SCOTT

While providing customers with good service has always been an important part of the Scott business, it has become a real focal point over the past 12 months and has played a fundamental role in continuing to foster authentic customer partnerships – a value that is significant to the business. Jerry McDonough, Head of US Service, says the biggest change has been the level of focus that is put on service.

"We're proactively seeking to become a service business versus reactively doing it when we can. This means we're introducing service earlier in the project process, rather than it being an after-thought. In the US, we're also beginning to build out our service organisation with additional field and back-office support. We are realigning tasks so that individuals are becoming more customer-facing."

Scott's service offerings are segmented into regular service and preventative maintenance. While they are designed to generate revenue, and build solutions and yield, they also help foster strong customer partnerships that are built on trust and transparency.

Chief Financial Officer, Cameron Mathewson, says that customer intimacy, and having inside knowledge of their business, is key to understanding how Scott can continue to adapt its strategy and ensure its service offering is evolving to keep up with customer needs.

> **"WE'RE IN FOR THE LONG HAUL AND WE ARE ALWAYS WANTING TO FIND A SOLUTION WITH OUR CUSTOMERS"**

"The industries we work with mean our customers have machinery that is operating 24 hours, seven days a week, and we need to be able to assist them at all times. The work we've been doing on elevating our service offerings over the past year helps us keep our customers out of trouble, rather than having to get them out of trouble – a situation no one wants. We're continuing to respond to customer feedback in this area, and it's impacting where we focus the changes in our business."

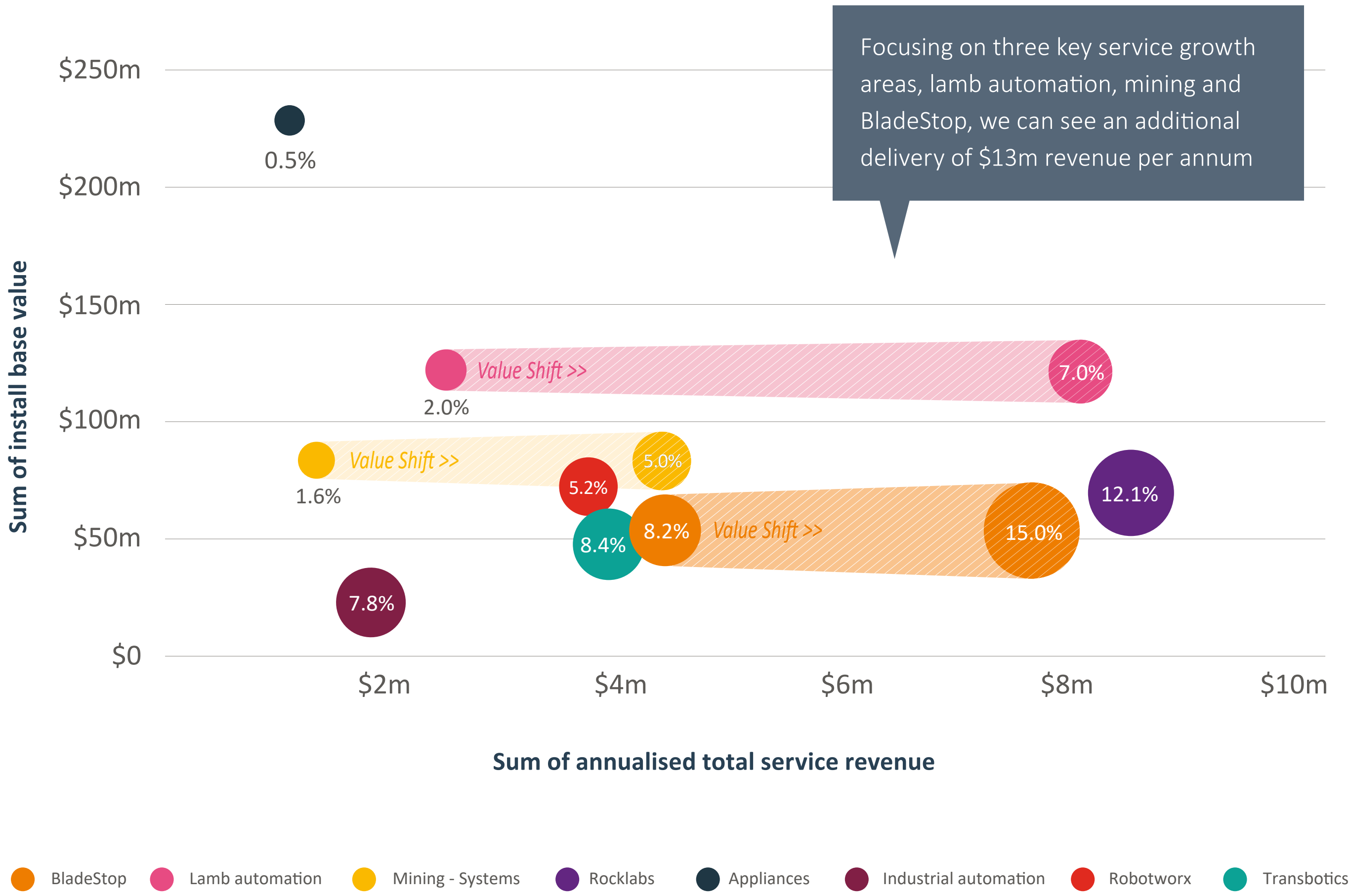
McDonough concurs, adding that "Introducing service during the project point-of-sale, and setting expectations for both Scott and the

> **"We're continuing to respond to customer feedback in this area, and it's impacting where we focus the changes in our business"**

**Cameron Mathewson**
*Chief Financial Officer*

## Service revenue growth is a priority of the Scott 2025 Strategy

Annual service revenue as a percentage of installed machine base




customer, is critical. It helps both parties agree on what service will look like, as well as understanding what their responsibilities are to ensure a successful partnership. Constant communication, and actively listening to our customers' needs, is key."

> **"CONSTANT COMMUNICATION, AND ACTIVELY LISTENING TO OUR CUSTOMERS' NEEDS, IS KEY"**

From a service and customer partnerships perspective, COVID-19 has continued to have an impact on the business globally.

Aaron Vanwalleghem, Regional Director – Europe says "It has been harder to get in front of new customers, and there are different rules surrounding what site access Scott technicians have in each of the different countries where Scott has a presence."

McDonough adds "COVID-19 has forced customer contact to be either virtual or over the phone, site visits happen less frequently for several reasons, and many administrative employees are continuing to work remotely."

Looking to the future and what's in the pipeline for Scott from a service and customer partnerships perspective, Mathewson says the business view is that it's a multi-year horizon.

"There's still work to be done in ironing out all of the fundamentals, and the Executive Team is referring to this as Horizon One. As an immediate next step, we're about to increase the number of service technicians across each country, as well as build a more robust roadmap for our service offering that can be communicated globally. Horizon Two will see us building a platform and methodology for the future, and Horizon Three will focus on service being a strategic offering that is unique to Scott Technology."

Custom unit load AGV for aluminum coils, Novelis Aluminum, China.

# PIVOTING THE SYSTEM, PRODUCT AND SERVICE MIX TO ELEVATE SCOTT'S LEADING EDGE TECHNOLOGY PILLAR

**The central philosophy with the Leading Edge Technology pillar is rebalancing the business from a highly complex systems focus, to one which has an upweighted focus on products and service. This is being referred to as the pivot mix.**

In the last year, this mix change has gained great momentum, particularly in the product space with the likes of BladeStop. Mark Seaton, Research and Development Manager, talks about the business' journey to date, saying it is very early days on this pathway.

"We have been looking at how we manage existing standard products such as the BladeStop product line and determining a benchmark business model that we hope to be able to roll out across the group. This will help us to take full advantage of the benefits of further productisation."

"In Scott terminology, a system is traditionally synonymous with production lines, and a product implies a small stand-alone production unit. Our end goal is for production lines in the future to be at least 80% standardised," says Seaton.

Andrew Arnold, General Manager New Zealand, adds that there has been a change in thinking within the team about what a product is versus a system, and that this change in mindset will take some time.

"Previously, when we've been dealing with a system, it's unique for that customer – it's high risk, it can be challenging, and it can affect your margins. When we talk about pivoting the mix, we want to be more focused on treating our opportunities to ensure we minimise risk."

**"PREVIOUSLY, WHEN WE'VE BEEN DEALING WITH A SYSTEM, IT'S UNIQUE FOR THAT CUSTOMER – IT'S HIGH RISK, IT CAN BE CHALLENGING, AND IT CAN AFFECT YOUR MARGINS"**

"Despite this change in mix, our priority is to ensure our products remain desirable for our customers, as well as niche – we're not in the competitive landscape, we own this space. In our meat processing business in particular, we have a strong point of difference. Our lamb systems and poultry trussing are both good examples of building the same thing over and over. What we have been doing is without competition, so we're in a strong position," says Arnold.

**"WHAT WE HAVE BEEN DOING IS WITHOUT COMPETITION, SO WE'RE IN A STRONG POSITION"**

Seaton agrees, saying that in focusing predominantly on standardised products and systems, the business can avoid extensive reworking during a project or designing from scratch for each new contract, thus being able to price jobs with more certainty.

"There is a lot of internal growth within the sectors that we work with, resulting in significant customisation for each job because of the many different variations of what can be done."

"We're also working to make it easier for our service technicians who can familiarise themselves with a core offering, versus new, customised systems and products each time."

When asked about what's in the pipeline for pivoting the system / product / service mix, Arnold says a change of thinking continues to be critical.

"COVID-19 has had a big impact – business has been hard and it's been challenging to get in front of our customers. But as our business and our way of thinking matures, this mix pivot will become part of our DNA. We want the team to understand how to get the most of out of this mix, as this will impact how we price things and what our margins are, and we ultimately want to do what's best for our customers."

**"As our business and our way of thinking matures, this mix pivot will become part of our DNA"**

**Andrew Arnold**
*General Manager, New Zealand*

# CELEBRATING REGIONAL DIVERSITY ACROSS ONE GLOBAL TEAM

Scott truly is a global business, with employees spread across twelve countries and more than five continents. In order to succeed, it is vital that an effective global Scott 'identity' and culture that focuses on delivering excellence is implemented across every corner of the business.

The close of the FY21 financial year presents an opportunity to reflect on how this key part of the strategy has been initiated and embraced by people at all levels of Scott Technology over the past 12 months.

Core to this pillar is the goal of creating a global Scott 'identity' and culture, while still retaining the strong regional identities that make Scott Technology unique as a business. Having one global strategy has ensured that every employee is working towards the same goal – to deliver excellence and positive customer outcomes – while still allowing the strengths that stem from these regional cultural identities to shine.

Having effective regional leadership and execution is core to achieving this. Casey Jenkins, Director of Marketing and People, says the business is benefitting from strong regional leaders who not only understand the different regional identities, but exemplify how they contribute back to the one global strategy.

"Through our global approach to process we have established a 'Scott way of doing things', however we know that each part of this business has its own cultural differences and strengths. For us, it's about celebrating these differences and appreciating the diversity of thought that they bring."

> **"FOR US, IT'S ABOUT CELEBRATING THESE DIFFERENCES AND APPRECIATING THE DIVERSITY OF THOUGHT THAT THEY BRING"**

Bringing people together across different locations, whether it be physically or digitally, can be challenging and COVID-19 has only exaggerated this. Jenkins explains "Previously we have had to rely on flying people across the world to install new systems, but new connective technologies have given us the ability to remote in the very best expert for the job via augmented reality to work on projects, no matter their physical location.

> **"Putting the wellbeing of our people first is more important now than ever before"**

**Casey Jenkins**
*Director - Marketing and People*

Dunedin team on site installing an automated lamb boning room at Alliance Lorneville, New Zealand.

"Where this hasn't been possible and it's been critical to have people on the ground, we've effectively managed to overcome the challenges of the pandemic, ensuring that our employees that needed to do essential international travel, into the United States for example, were able to do this safely."

Scott has made significant progress in its company-wide health and safety culture over the past 12 months. "We are particularly proud of our efforts in the safety and wellbeing space," says Jenkins. "Putting the wellbeing of our people first is more important now than ever before. To begin embedding this into our company culture, we've implemented wellbeing training using external specialists, offered every employee a paid wellbeing day off and complimentary confidential counselling, and brought on a new Health and Safety Manager, who is a facilitated mental health first aid trainer. This is just the beginning, but it's so important that our people have the tools to recognise the early warning signs and direct someone to help, or even just how to lean into a conversation with a colleague to make sure they're okay."

When dealing with critical risk, a strong emphasis on workplace safety remains paramount. "We've increased our focus on reporting incidents and hazards. In fact, we actually encourage our people to celebrate reporting near misses. This has improved safety culture and subsequently seen a large increase in near miss and hazard reporting as well as a 63% decrease in incidents at Scott over the past year."

Looking to the future, this continued focus on putting people first will be vital to business success. "Our people are incredibly smart. It is truly their skills and strengths that set Scott apart. They have a highly sought-after skill set, yet 20% of our hires are internal promotions. This is something we're incredibly proud of, but we can still continue to build on this to foster talent through pathways to amazing career opportunities. Continuing to develop our people is key," says Jenkins.

"Ultimately, we want to stay close to our people – whether it be through our increased focus on safety and wellbeing, or development opportunities and leadership training. We want to create a culture where every single person is empowered to add value, every single day."

# LEADING A SUSTAINABLE FUTURE

At Scott we are passionate about pursuing a long-term sustainable future together with our customers, communities and wider stakeholders. We recognise that our collective responsibility extends beyond commercial outcomes, and it includes our relationship with our people, and the planet.

In the last 12 months, the Scott team, led by Director of Marketing and People Casey Jenkins, has worked to develop an ESG (Environmental, Social and Governance) Framework, which will help to improve both financial and non-financial performance. As part of this, Scott has committed to a series of long-term sustainability goals that have been defined as People, Purpose and Place. Each pillar is aligned with UN Sustainable Development Goals.

> **"SCOTT CAN PLAY ITS PART IN BUILDING A BRIGHTER, MORE SUSTAINABLE WORLD FOR GENERATIONS TO COME"**

Jenkins says that it was imperative the new sustainability strategy should be driven by the organisation's people and that the goals had a global perspective. "In order to deliver a truly global strategy and outcomes, we've set up a sustainability committee, which includes employees from our sites all around the world. These people, and the wider business, are passionate about working together so that Scott can play its part in building a brighter, more sustainable world for generations to come."

Each sustainability pillar is being led by a different member of the executive team. Jenkins, with her role and experiences, says it made sense for her to lead the People pillar.

"**People** is about building an engaged, diverse, and talented workforce. It focuses on retention and recruitment which is a priority for our people-led business. This is supported by a commitment to maintaining a safe and inclusive working environment for all our people."

**Purpose** refers to the recipients of our solutions and services – Scott's customers and shareholders. It covers the importance of building meaningful customer relationships, which is a key foundation of the Scott 2025 strategy. This pillar also highlights Scott's commitment to growing a profitable business focused on long term growth and positive shareholder return. This pillar is led by Chief Financial Officer, Cameron Mathewson.

**Place** outlines the organisation's commitment to the environment and ensures it develops and encourages sustainable business practices. Our focus on Sustainability ensures that Scott is partnering with employees, customers, suppliers that share our values. This pillar is led by Aaron Vanwalleghem, Regional Director – Europe.

"We're at the beginning of our sustainability journey and the framework we have developed is very much a starting point for Scott to continue building on. Each issue will be expanded upon as our sustainability strategy matures and as different issues become material to our business and to our stakeholders," says Jenkins.

## OUR SUSTAINABILITY FRAMEWORK

### PEOPLE

Executive Lead
**Casey Jenkins**

WHAT DOES THIS LOOK LIKE?

Employee retention
Global recruitment
Employee health and safety
Gender diversity

SDGS Sustainable Development

Good Health and Wellbeing
Gender Equality
Decent Work and Economic Growth

### PURPOSE

Executive Lead
**Cameron Mathewson**

WHAT DOES THIS LOOK LIKE?

Customer satisfaction
Financial performance

SDGS Sustainable Development

Decent Work and Economic Growth
Industrial, Innovation and Infrastructure
Responsible Consumption and Production

### PLACE

Executive Lead
**Aaron Vanwalleghem**

WHAT DOES THIS LOOK LIKE?

Sustainable procurement
Environmental management

SDGS Sustainable Development

Climate Action
Responsible Consumption and Production

**"Our focus on Sustainability ensures that Scott is partnering with employees, customers and suppliers that share our values"**

**Aaron Vanwalleghem**
*Regional Director - Europe*

# OUR BOARD

**Stuart McLauchlan**
*Chairman and Independent Director*

**John Kippenberger**
*Chief Executive Officer*

**Edison Alvares**
*Director*

**Alan Byers**
*Director*

**Derek Charge**
*Independent Director*

**Brent Eastwood**
*Director*

**John Thorman**
*Independent Director*

**John Berry**
*Alternate Director*

*Full profiles available on the Scott website at www.scottautomation.com/investor-relations/governance*

# FINANCIAL REPORT

*For the year ended 31 August 2021*

## INDEX TO THE FINANCIAL STATEMENTS



### KEY

Key judgements and other judgements made

Accounting policy

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 August 2021*

| | Notes | 2021 $'000s | 2020 $'000s |
|---|---|---|---|
| Revenue | A1 | 216,234 | 186,073 |
| Other operating income | A1 | 2,118 | 3,389 |
| Share of joint ventures' net surplus | E4 | 796 | 149 |
| Raw materials, consumables used and operating expenses | | (132,811) | (118,023) |
| Employee benefits expense | | (64,225) | (71,377) |
| **OPERATING EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION, IMPAIRMENT OF ASSETS AND RESTRUCTURING EXPENSES (OPERATING EBITDA)** | | **22,112** | **211** |
| Impairment of assets | B8 | - | (7,600) |
| Restructuring expenses | E2 | - | (4,257) |
| **OPERATING EARNINGS / (LOSS) BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)** | | **22,112** | **(11,646)** |
| Interest revenue | | 102 | 191 |
| Depreciation and amortisation | B4, B6, C5 | (8,836) | (9,898) |
| Finance costs | | (1,380) | (2,093) |
| **NET PROFIT / (LOSS) BEFORE TAX** | | **11,998** | **(23,446)** |
| Taxation (expense) / benefit | A2 | (2,471) | 5,943 |
| **NET PROFIT / (LOSS) FOR THE YEAR AFTER TAX** | | **9,527** | **(17,503)** |
| **Other comprehensive (loss) / income** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Translation of foreign operations | | (3,370) | (1,136) |
| **TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR NET OF TAX** | | **6,157** | **(18,639)** |
| *Net profit / (loss) for the year after tax is attributable to:* | | | |
| Members of the parent entity (used in the calculation of earnings per share) | | 9,624 | (17,331) |
| Non-controlling interests | | (97) | (172) |
| | | **9,527** | **(17,503)** |
| *Total comprehensive income is attributable to:* | | | |
| Members of the parent entity | | 6,254 | (18,467) |
| Non-controlling interests | | (97) | (172) |
| | | **6,157** | **(18,639)** |

| | Note | 2021 Cents per share | 2020 Cents per share |
|---|---|---|---|
| **Earnings per share (weighted average shares on issue):** | | | |
| Basic | C2 | 12.3 | (22.2) |
| Diluted | C2 | 12.3 | (22.2) |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 August 2021*

| | Note | Fully paid ordinary shares $'000s | Retained earnings $'000s | Foreign currency translation reserve $'000s | Non-controlling interests $'000s | Total $'000s |
|---|---|---|---|---|---|---|
| **Balance at 31 August 2019** | | **80,073** | **31,949** | **745** | **(35)** | **112,732** |
| Net (loss) / profit for the year after tax | | - | (17,331) | - | (172) | (17,503) |
| Other comprehensive (loss) / income for the year net of tax | | - | - | (1,136) | - | (1,136) |
| Dividends paid (4.0 cents per share) | | - | (3,102) | - | - | (3,102) |
| Issue of shares under dividend reinvestment plan | C1 | 1,749 | - | - | - | 1,749 |
| **Balance at 31 August 2020** | | **81,822** | **11,516** | **(391)** | **(207)** | **92,740** |
| Net profit / (loss) for the year after tax | | - | 9,624 | - | (97) | 9,527 |
| Other comprehensive (loss) / income for the year net of tax | | - | - | (3,370) | - | (3,370) |
| Dividends paid (2.0 cents per share) | | - | (1,581) | - | - | (1,581) |
| Issue of shares under dividend reinvestment plan | C1 | 879 | - | - | - | 879 |
| **Balance at 31 August 2021** | | **82,701** | **19,559** | **(3,761)** | **(304)** | **98,195** |

# CONSOLIDATED BALANCE SHEET

*as at 31 August 2021*

| | | Notes | 2021 $'000s | 2020 $'000s |
|---|---|---|---|---|
| **Current assets** | Cash and cash equivalents | | 12,242 | 7,745 |
| | Trade debtors | B1 | 27,485 | 23,429 |
| | Other financial assets | D1 | 663 | 1,032 |
| | Sundry debtors | | 5,170 | 2,575 |
| | Inventories | B2 | 23,125 | 22,682 |
| | Contract assets | B3 | 24,487 | 25,381 |
| | Receivable from joint ventures | E5 | - | 767 |
| | **TOTAL CURRENT ASSETS** | | **93,172** | **83,611** |
| **Non-current assets** | Property, plant and equipment | B4 | 17,741 | 18,298 |
| | Investment in joint ventures | E4 | 348 | 1,223 |
| | Other financial assets | D1 | 37 | 4 |
| | Goodwill | B5 | 55,171 | 57,316 |
| | Deferred tax | A2 | 5,428 | 5,865 |
| | Intangible assets | B6 | 10,874 | 13,721 |
| | Development assets | B9 | 2,210 | - |
| | Right of use assets | C5 | 9,523 | 13,072 |
| | **TOTAL NON-CURRENT ASSETS** | | **101,332** | **109,499** |
| | **TOTAL ASSETS** | | **194,504** | **193,110** |
| **Current liabilities** | Trade creditors and accruals | C4 | 30,095 | 24,033 |
| | Lease liabilities | C5 | 2,900 | 3,818 |
| | Other financial liabilities | D1 | 714 | 972 |
| | Contract liabilities | B3 | 22,739 | 29,052 |
| | Employee entitlements | C6, C8 | 8,282 | 7,815 |
| | Provision for warranty | C7 | 1,230 | 1,874 |
| | Taxation payable | | 1,236 | 92 |
| | Payable to joint ventures | E5 | 108 | 431 |
| | Current portion of term loans | C3 | 737 | 3,719 |
| | Deferred settlement on purchase of business | E1 | 1,327 | 1,376 |
| | Onerous contracts provision | C9 | 7,962 | 7,699 |
| | **TOTAL CURRENT LIABILITIES** | | **77,330** | **80,881** |
| **Non-current liabilities** | Other financial liabilities | D1 | 696 | 814 |
| | Employee entitlements | C6, C8 | 712 | 696 |
| | Lease liabilities | C5 | 7,388 | 10,008 |
| | Term loans | C3 | 10,183 | 7,466 |
| | Deferred settlement on purchase of business | E1 | - | 505 |
| | **TOTAL NON-CURRENT LIABILITIES** | | **18,979** | **19,489** |
| **Equity** | Share capital | C1 | 82,701 | 81,822 |
| | Retained earnings | | 19,559 | 11,516 |
| | Foreign currency translation reserve | | (3,761) | (391) |
| | **Equity attributable to equity holders of the parent** | | **98,499** | **92,947** |
| | Non-controlling interests | | (304) | (207) |
| | **TOTAL EQUITY** | | **98,195** | **92,740** |
| | **TOTAL LIABILITIES AND EQUITY** | | **194,504** | **193,110** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 August 2021*

| | | Note | 2021 $'000s | 2020 $'000s |
|---|---|---|---|---|
| **Cash flows from operating activities** | *Cash was provided from / (applied to):* | | | |
| | Receipts from operations | | 208,146 | 218,083 |
| | Interest received | | 102 | 191 |
| | COVID-19 wage subsidies received | | 591 | 3,614 |
| | Payments to suppliers and employees | | (194,583) | (201,651) |
| | Taxation paid | | (830) | (674) |
| | **Net cash inflow from operating activities** | F1 | **13,426** | **19,563** |
| **Cash flows (to) / from investing activities** | *Cash was provided from / (applied to):* | | | |
| | Purchase of property, plant, equipment and intangible assets | | (2,303) | (3,206) |
| | Sale of property, plant and equipment | | 209 | 2,807 |
| | Dividend received from joint venture | | - | 298 |
| | Proceeds from advances with joint ventures | | - | 824 |
| | Divestment of joint venture | | 1,215 | - |
| | Sale of HTS | | 768 | - |
| | Purchase of development asset | B9 | (2,210) | - |
| | Purchase of business | E1 | (457) | (514) |
| | Sale / (purchase) of investments | | - | (20) |
| | **Net cash (outflow) / inflow from investing activities** | | **(2,778)** | **189** |
| **Cash flows to financing activities** | *Cash was provided from / (applied to):* | | | |
| | Repayment of borrowings | | (10,175) | (3,574) |
| | Dividends paid | | (702) | (1,353) |
| | Proceeds from borrowings | | 10,119 | 3,264 |
| | Lease payments | | (4,007) | (4,176) |
| | Interest paid | | (1,386) | (1,431) |
| | **Net cash (outflow) from financing activities** | | **(6,151)** | **(7,270)** |
| | Net increase in cash held | | 4,497 | 12,482 |
| | Add cash and cash equivalents at start of year | | 7,745 | (4,737) |
| | **Balance at end of year** | | **12,242** | **7,745** |
| | *Comprised of:* | | | |
| | Cash and bank balances / (bank overdraft) | | 12,242 | 7,745 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 August 2021*

## SUMMARY OF ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The consolidated financial statements presented are those of Scott Technology Limited ("Company") and its subsidiaries ("Group").

The Company is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 and its annual financial statements comply with these Acts.

The Group's principal activities are the design, manufacture, sales and servicing of automated and robotic production lines and processes for a wide variety of industries in New Zealand and abroad.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and, for the purposes of complying with GAAP, it is a for-profit entity. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Board of Directors on 21 October 2021.

### BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 August 2021 and the comparative information presented in these financial statements for the year ended 31 August 2020.

There have been no changes in accounting policy during the year.

The information is presented in thousands of New Zealand dollars, which is the functional currency of the Company and the presentation currency of the Group.

### CRITICAL JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the Directors in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year include:

- Estimating the percentage of completion for systems contracts (Note A1).
- Provisions for losses relating to contract assets (Note B3).
- Goodwill impairment (Note B5).

### SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial report are set out within the particular note to which they relate. These policies have been consistently applied unless otherwise stated.

### CONSOLIDATION OF SUBSIDIARIES

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company and its subsidiaries as defined by NZ IFRS 10 Consolidated Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year, are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

## STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The Group has adopted all mandatory new and amended standards and interpretations. None had a material impact on these financial statements.

## STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of the consolidated financial statements, certain new standards and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Of these, amendments to NZ IAS 37 Onerous Contracts - Cost of Fulfilling a Contract and amendment to NZ IAS 12 are assessed as relevant to the Group.  The forthcoming requirements of amendments to NZ IAS 37 requires the onerous contract costs to include both incremental costs and an allocation of other direct costs (overheads). Amendment to NZ IAS 12 clarifies the deferred tax treatment of certain transactions. The amendments will have no material impact on the Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on, or after, the effective date of the new standard. These standards are not expected to have a material effect on the Group's consolidated financial statements when they are adopted.

## RECLASSIFICATIONS

### Segment reporting - products and sources of revenue

The Group's chief operating decision maker (the Board) and its executives examine and manage the Group's performance from a product and geographic perspective. In 2020, the Group redefined its segments and Cash Generating Units (CGUs) with how it managed its business and separated its reporting segment of Asia and Europe into two separate segments. In 2021, the Group redefined its sources of revenue from contracts with customers.

As a result, the previously reported products from which the Group derives its revenue of long term contracts, standard

Czech service team with one of their new service vans.

equipment, and short term products and service work were made to align with the new strategy document and how the Group had redefined its principal products and sources of revenue. The revised classifications for revenue sources are by systems, products and services. The new classification is included in Note A1 Revenue.

The main impact of this reclassification is a reallocation of revenue between the old and new categories particularly, standard equipment, and short term products and service work. Comparative figures in Note A1 Revenue have been restated in line with current year reporting.

## GOODS AND SERVICES TAX AND VALUE ADDED TAX ("GST")

All items in the Consolidated Balance Sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the Consolidated Statement of Comprehensive Income are stated exclusive of GST.

Cash flows are included in the Consolidated Statement of Cash Flows on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates which is its functional currency. For the purpose of the consolidated financial statements, the results and position of each group entity are expressed in New Zealand dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Zealand dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity, and attributed to non-controlling interests as appropriate.

## NON-GAAP FINANCIAL INFORMATION

The Group uses operating earnings / (loss) before interest, tax, and depreciation and amortisation, impairment of assets and restructuring expenses (operating EBITDA) and operating earnings / (loss) before interest, tax, depreciation and amortisation (EBITDA) to describe financial performance as it considers these line items provide a better measure of underlying business performance.

These non-GAAP measures are not prepared in accordance with New Zealand Equivalent to International Financial Reporting Standards (NZ IFRS) and may not be compatible to similarly titled amounts reported by other entities.

Belgium team testing a compact robot palletising unit.

# SECTION A: FINANCIAL PERFORMANCE

# A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES

## (A) ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

The Group derives revenue from the following sources:

- Systems
- Products
- Services

**Revenue recognition – systems**

The Group designs, manufactures and sells customised automation and robotic systems for use in a wide range of industries under fixed-price contracts. The contracts are often for periods in excess of twelve months although shorter periods can also apply. These contracts are specific to each customer and the Group is restricted by these contracts in its ability to redirect the products to another customer. The Group, through these contracts, has an enforceable right to payment when agreed milestones are met for performance completed up to a point in time.

*Policy*

Revenue on fixed price contracts is recognised over the term of the contract period using the input method based on percentage of completion. At balance date, an assessment is made of the percentage of completion based on the costs associated with the work done to date relative to the total forecast cost to complete. Included in revenue is the value attributed to work completed, which includes direct costs, overhead and profit, where this is allowable under the contract.

Scope variations that may potentially lead to additional revenue are only recognised when certain.

The customer is obligated to pay a fixed amount when a contractual milestone is met. At this time, a receivable is recognised as the invoice is raised. If the revenue recognised by the Group exceeds the amounts invoiced, a contract asset is recognised. If the amounts invoiced exceed the revenue recognised, a contract liability is recognised. The transaction price is the fixed price per the contract.

The incremental costs to obtain a contract where the contract period is less than 12 months is expensed to the profit and loss under the practical expedient provisions of IFRS 15.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see Note C7).

*Judgement*

The estimation of percentage of completion relies on the Directors estimating costs to complete systems contracts.  If the costs incurred to complete the systems contracts differ from the estimates completed by management, the Directors could be over, or under estimating the percentage of completion on the project, and consequently revenue and profit to date may also be over, or under estimated.

**Revenue recognition – products**

The Group manufactures and sells a range of standalone automation and robotic equipment for use in a wide range of industries, including:

- Rock crushers, pulverisers, ringmills and reference materials under the "Rocklabs" brand for use by mining companies and laboratories.
- Bandsaw safety equipment under the "BladeStop" brand, primarily for use by meat processors.
- New and refurbished industrial robots under the "RobotWorx" brand.

### Policy

Revenue is recognised in full at a point in time when control of the products has transferred, being either when the products are shipped to, or received by the customer, or installed at the customer's premises, depending on the terms of the contract.

A receivable is recognised when either a deposit is due on receipt of a customer's order or when the products are shipped to the customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see Note C7).

**Revenue recognition – services**

The Group earns revenue from after sales service activities associated with the equipment manufactured and sold by the Group, including spare parts, repairs, routine or scheduled maintenance, upgrades, remote monitoring and the operation of a 24/7 helpline. Most of these activities are on an ad hoc, as required basis, while some of these activities are covered by an agreement for services to be provided over a specified period of time.

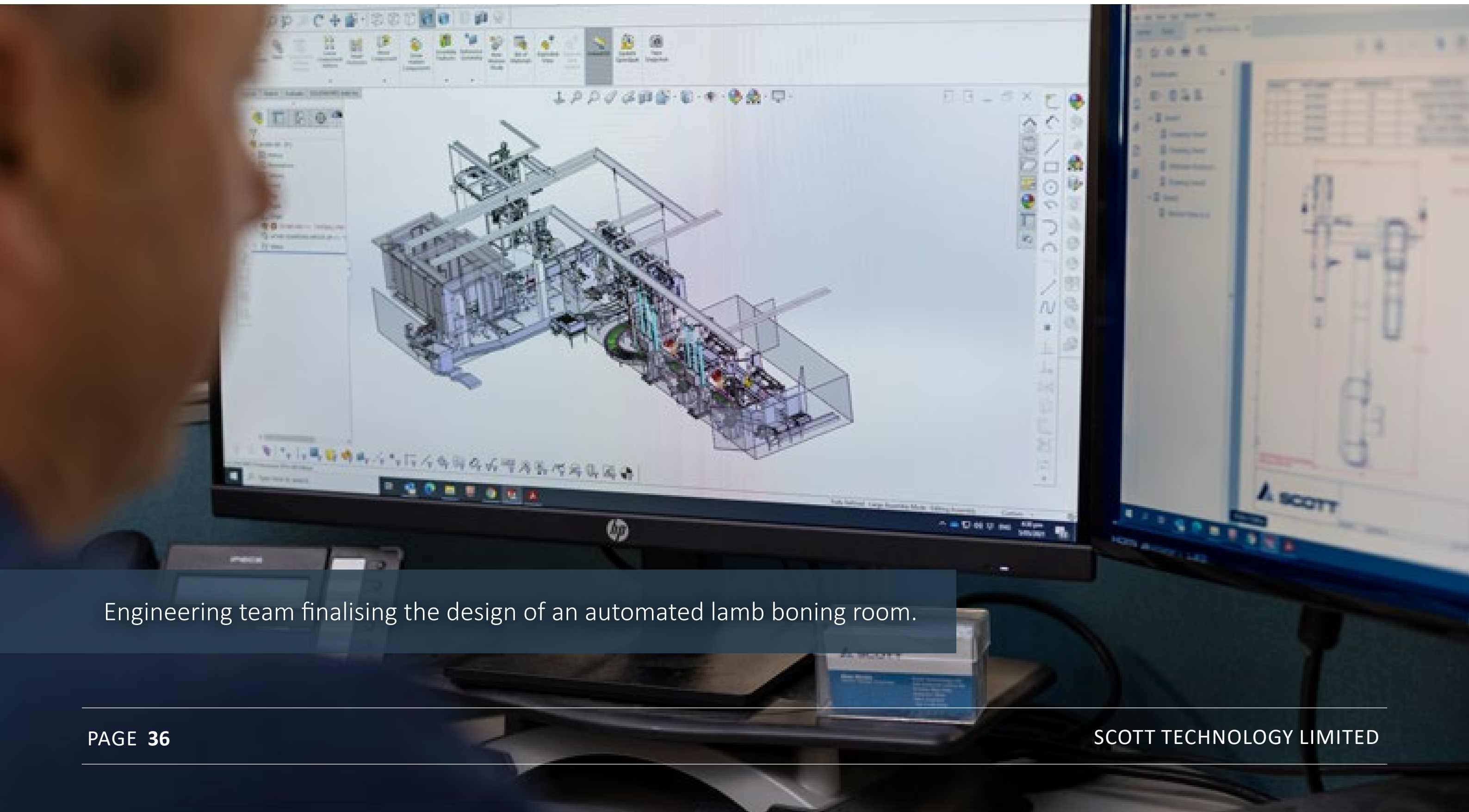
### Policy

Revenue under service contracts is recognised at a point in time when the service is delivered or performed, depending on the terms of the contract.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see Note C7).

**Disaggregation of revenue from contracts with customers**

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major geographic manufacturing regions (segments) and revenue streams. This is consistent with the revenue information disclosed for each reportable segment under NZ IFRS 8 Operating Segments, (see Note A3).




Engineering team finalising the design of an automated lamb boning room.

**Year Ended 31 August 2021**

| | | Systems | Products | Services | Total |
|---|---|---|---|---|---|
| | | $'000s | $'000s | $'000s | $'000s |
| **Australasia manufacturing** | Segment revenue | 61,417 | 33,527 | 19,782 | 114,726 |
| | Inter-segment revenue | 516 | (4,661) | 1,479 | (2,666) |
| | **Revenue from external customers** | **61,933** | **28,866** | **21,261** | **112,060** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 28,866 | 21,261 | 50,127 |
| | - Over time | 61,933 | - | - | 61,933 |
| | | **61,933** | **28,866** | **21,261** | **112,060** |
| **Americas manufacturing** | Segment revenue | 8,702 | 12,593 | 11,914 | 33,209 |
| | Inter-segment revenue | 1,118 | 4,560 | (1,639) | 4,039 |
| | **Revenue from external customers** | **9,820** | **17,153** | **10,275** | **37,248** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 17,153 | 10,275 | 27,428 |
| | - Over time | 9,820 | - | - | 9,820 |
| | | **9,820** | **17,153** | **10,275** | **37,248** |
| **Europe manufacturing** | Segment revenue | 34,403 | 3,770 | 17,076 | 55,249 |
| | Inter-segment revenue | (1,510) | 82 | 160 | (1,268) |
| | **Revenue from external customers** | **32,893** | **3,852** | **17,236** | **53,981** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 3,852 | 17,236 | 21,088 |
| | - Over time | 32,893 | - | - | 32,893 |
| | | **32,893** | **3,852** | **17,236** | **53,981** |
| **China manufacturing** | Segment revenue | 12,542 | 508 | - | 13,050 |
| | Inter-segment revenue | (124) | 19 | - | (105) |
| | **Revenue from external customers** | **12,418** | **527** | **-** | **12,945** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 527 | - | 527 |
| | - Over time | 12,418 | - | - | 12,418 |
| | | **12,418** | **527** | **-** | **12,945** |
| **Total manufacturing** | Segment revenue | 117,064 | 50,398 | 48,772 | 216,234 |
| | Inter-segment revenue | - | - | - | - |
| | **Revenue from external customers** | **117,064** | **50,398** | **48,772** | **216,234** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 50,398 | 48,772 | 99,170 |
| | - Over time | 117,064 | - | - | 117,064 |
| | | **117,064** | **50,398** | **48,772** | **216,234** |

**Year Ended 31 August 2020**

| | | Systems $'000s | Products $'000s | Services $'000s | Total $'000s |
|---|---|---|---|---|---|
| **Australasia manufacturing** | Segment revenue | 35,259 | 18,730 | 21,854 | 75,843 |
| | Inter-segment revenue | (3,340) | (2,551) | 1,483 | (4,408) |
| | **Revenue from external customers** | **31,919** | **16,179** | **23,337** | **71,435** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 16,179 | 23,337 | 39,516 |
| | - Over time | 31,919 | - | - | 31,919 |
| | | **31,919** | **16,179** | **23,337** | **71,435** |
| **Americas manufacturing** | Segment revenue | 16,658 | 13,662 | 8,662 | 38,982 |
| | Inter-segment revenue | 2,975 | 1,536 | (1,733) | 2,778 |
| | **Revenue from external customers** | **19,633** | **15,198** | **6,929** | **41,760** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 15,198 | 6,929 | 22,127 |
| | - Over time | 19,633 | - | - | 19,633 |
| | | **19,633** | **15,198** | **6,929** | **41,760** |
| **Europe manufacturing** | Segment revenue | 46,272 | 6,033 | 13,443 | 65,748 |
| | Inter-segment revenue | 289 | 1,138 | 250 | 1,677 |
| | **Revenue from external customers** | **46,561** | **7,171** | **13,693** | **67,425** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 7,171 | 13,693 | 20,864 |
| | - Over time | 46,561 | - | - | 46,561 |
| | | **46,561** | **7,171** | **13,693** | **67,425** |
| **China manufacturing** | Segment revenue | 5,298 | 202 | - | 5,500 |
| | Inter-segment revenue | 76 | (123) | - | (47) |
| | **Revenue from external customers** | **5,374** | **79** | **-** | **5,453** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 79 | - | 79 |
| | - Over time | 5,374 | - | - | 5,374 |
| | | **5,374** | **79** | **-** | **5,453** |
| **Total manufacturing** | Segment revenue | 103,487 | 38,627 | 43,959 | 186,073 |
| | Inter-segment revenue | - | - | - | - |
| | **Revenue from external customers** | **103,487** | **38,627** | **43,959** | **186,073** |
| | *Timing of revenue recognition* | | | | |
| | - At a point in time | - | 38,627 | 43,959 | 82,586 |
| | - Over time | 103,487 | - | - | 103,487 |
| | | **103,487** | **38,627** | **43,959** | **186,073** |

### Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

Revenue recognised included in the contract liability balance at the beginning of the period.

| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| Fixed price contracts for long term projects | 15,409 | 15,571 |

There was no revenue recognised from performance obligations satisfied in previous periods on long term projects.

### Unsatisfied long term fixed price project contracts

The following table shows unsatisfied performance obligations resulting from fixed price long term project contracts.

| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| Aggregate amount of the transaction price allocated to long term fixed price project contracts that are partially or fully unsatisfied as at 31 August 2021 | 71,302 | 85,297 |

Management expects that 94% of the transaction price allocated to the unsatisfied contracts as of 31 August 2021 will be recognised as revenue during the next reporting period ($67 million) (2020: 95% of the transaction price allocated to the unsatisfied contracts as of 31 August 2020 will be recognised as revenue during the next reporting period ($81 million)). The remaining 6% ($4 million) (2020: 5% ($4 million)) will be recognised in the following financial year.

## (B) OTHER OPERATING INCOME

### Government grants

*Policy*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as other income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| Rental income | 74 | 217 |
| Government grants related to research and development | 625 | 67 |
| COVID-19 wage subsidies | 1,351 | 2,777 |
| Gain on sale of property, plant and equipment | 68 | 328 |
| | **2,118** | **3,389** |

The Group receives grant revenue related to research and development through its Australian subsidary Scott Automation and Robotics Pty Ltd. Any tax credits claimed are offset against any tax expense.

Government wage subsidies were claimed in New Zealand by Scott Technology NZ Limited and in Australia Scott Automation and Robotics Pty Ltd, as a result of COVID-19 and the impact on the New Zealand and Australian businesses. The total of the subsidies recognised as revenue in FY21 was $1.4m (2020: $2.8m).

The Australian wage subsidy ended on 30 September 2020 and no further extension has been obtained.

## (C) OPERATING EXPENSES

| | | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|---|
| **Audit services:** | Group Audit | 412 | 422 |
| **Deloitte Limited** | Other assurance services | - | - |
| | **Total remuneration for audit services** | **412** | **422** |
| **Non-audit services: Deloitte Limited** | Taxation services | 261 | 66 |
| | **Total remuneration for non-audit services** | **261** | **66** |

The auditor of the Group is Deloitte Limited.

| | | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|---|
| **Other separately** | Directors' fees | 255 | 250 |
| **disclosed expenses:** | Superannuation scheme contributions | 5,762 | 7,009 |
| | Foreign exchange loss | 1,706 | - |
| | Unrealised fair value losses on foreign exchange derivatives | 521 | 82 |
| | Fair value losses on derivatives held as fair value hedges | - | 890 |
| | Unrealised fair value losses on interest rate swap contracts | - | - |
| | *and after crediting:* | | |
| | Foreign exchange gains | - | 450 |
| | Fair value gains on firm commitments | - | 1,036 |
| | Unrealised fair value gains on foreign exchange derivatives | 132 | 146 |
| | Unrealised fair value gains on interest rate swap contracts | 155 | 146 |

SECTION A: FINANCIAL PERFORMANCE

# A2. INCOME TAXES

## Income tax recognised in net surplus

*Policy*

Current tax is calculated by reference to the amount of income taxes payable or receivable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| **Net profit / (loss) before tax** | **11,998** | **(23,446)** |
| Income tax expense / (benefit) calculated at 28% (2020: 28%) | 3,359 | (6,565) |
| Non-deductible expenses / non-assessable income | (642) | 1,469 |
| Research and development tax credits claimed (Australia) | - | (1,167) |
| (Over) / under provision of income tax in previous year | (246) | 569 |
| Change in tax policy | - | (249) |
| **Taxation expense / (benefit)** | **2,471** | **(5,943)** |
| *Represented by:* | | |
| Current tax | 2,034 | 548 |
| Deferred tax | 437 | (6,491) |
| | **2,471** | **(5,943)** |

## Prima facie tax rate

The prima facie tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2021 income tax year.

## Deferred tax balances

*Policy*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or in equity.

| 2021 | | Opening balance $'000s | Charged to income $'000s | Charged to other comprehensive income $'000s | Acquisition of subsidiary/ business $'000s | Closing balance $'000s |
|---|---|---|---|---|---|---|
| **Gross deferred tax assets:** | Trade debtors | 324 | (161) | - | - | 163 |
| | Other financial assets | 97 | (60) | - | - | 37 |
| | Employee entitlements | 998 | 424 | - | - | 1,422 |
| | Provisions | 3,832 | (2,297) | - | - | 1,535 |
| | Tax losses | 2,793 | 1,836 | - | - | 4,629 |
| | Leases | 274 | (12) | - | - | 262 |
| | Inventories | 358 | 334 | - | - | 692 |
| | | **8,676** | **64** | **-** | **-** | **8,740** |
| **Gross deferred tax liabilities:** | Property, plant and equipment | (1,020) | (564) | - | - | (1,584) |
| | Intangible assets | (1,791) | 63 | - | - | (1,728) |
| | | **(2,811)** | **(501)** | **-** | **-** | **(3,312)** |
| | | **5,865** | **(437)** | **-** | **-** | **5,428** |

At the reporting date, the Group has unused gross tax losses of $16.5m (2020: $10.0m) available to offset against future profits. A deferred tax asset has been recognised in respect of $4.6m (2020: $2.8m) of such losses.

It is considered probable that there will be future taxable profits available in the relevant jurisdictions to allow the Group to utilise these losses.

| 2020 | | Opening balance $'000s | Charged to income $'000s | Charged to other comprehensive income $'000s | Acquisition of subsidiary/ business $'000s | Closing balance $'000s |
|---|---|---|---|---|---|---|
| **Gross deferred tax assets:** | Trade debtors | 401 | (77) | - | - | 324 |
| | Other financial assets | 948 | (851) | - | - | 97 |
| | Employee entitlements | 1,224 | (226) | - | - | 998 |
| | Provisions | 789 | 3,043 | - | - | 3,832 |
| | Tax losses | 37 | 2,756 | - | - | 2,793 |
| | Leases | 134 | 140 | - | - | 274 |
| | Inventories | (367) | 725 | - | - | 358 |
| | | **3,166** | **5,510** | **-** | **-** | **8,676** |
| **Gross deferred tax liabilities:** | Property, plant and equipment | (1,669) | 649 | - | - | (1,020) |
| | Intangible assets | (2,123) | 332 | - | - | (1,791) |
| | | **(3,792)** | **981** | **-** | **-** | **(2,811)** |
| | | **(626)** | **6,491** | **-** | **-** | **5,865** |

## Imputation credit account balances

| | 2021 $'000s | 2020 $'000s |
|---|---|---|
| Imputation credits available to shareholders | - | - |

The above amounts represent the balance of the imputation credit account at the end of the reporting period adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax;
- Imputation debits that will arise from the payment of dividends.

Availability of these credits is subject to continuity of ownership requirements.

## SECTION A: FINANCIAL PERFORMANCE

# A3. SEGMENT INFORMATION

*Policy*

NZ IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Board) in order to allocate resources to the segments and to assess its performance.

The Group's Board allocates resources and assesses performance of the Group by manufacturing base, therefore under NZ IFRS 8 the Group's reportable segments are:

- Australasia manufacturing
- Americas manufacturing
- Europe manufacturing
- China manufacturing

Australasia is reported as a single segment due to the integrated nature of customers, management, manufacturing, sales and financing activities across New Zealand and Australia.

Americas is reported as a single segment due to the integrated nature of customers, management, manufacturing, sales and financing activities across North and South America.

Europe is reported as a single segment due to the integrated nature of customers, management, manufacturing, sales and financing activities across Europe.

China is reported as a single segment due to the integrated nature of customers, management, manufacturing, sales and financing activities across China.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment. For the purposes of NZ IFRS 8, allocations are based on the operating results by segment. The Group does not allocate certain resources (such as senior executive management time) and central administration costs by segment for internal reporting purposes as these allocations would not result in a meaningful and comparable measure of profitability by segment.

| 2021 | Australasia manufacturing $'000s | Americas manufacturing $'000s | Europe manufacturing $'000s | China manufacturing $'000s | Unallocated $'000s | Total $'000s |
|---|---|---|---|---|---|---|
| **Revenue** | **112,060** | **37,248** | **53,981** | **12,945** | **-** | **216,234** |
| Segment profit | 19,447 | 4,117 | 6,275 | 2,514 | - | 32,353 |
| Impairment of assets | - | - | - | - | - | - |
| Restructuring provision | - | - | - | - | - | - |
| Depreciation and amortisation | (3,792) | (601) | (3,991) | (79) | (373) | (8,836) |
| Share of net surplus in joint ventures | 796 | - | - | - | - | 796 |
| Interest revenue | - | - | 3 | 99 | - | 102 |
| Central administration costs | - | - | - | - | (11,037) | (11,037) |
| Finance costs | (160) | (194) | (392) | - | (634) | (1,380) |
| **Net profit / (loss) before taxation** | **16,291** | **3,322** | **1,895** | **2,534** | **(12,044)** | **11,998** |
| Taxation (expense) / benefit | (1,112) | (737) | (501) | (121) | - | (2,471) |
| **Net profit / (loss) after taxation** | **15,179** | **2,585** | **1,394** | **2,413** | **(12,044)** | **9,527** |

| 2020 | Australasia manufacturing $'000s | Americas manufacturing $'000s | Europe manufacturing $'000s | China manufacturing $'000s | Unallocated $'000s | Total $'000s |
|---|---|---|---|---|---|---|
| **Revenue** | **71,435** | **41,760** | **67,425** | **5,453** | **-** | **186,073** |
| Segment profit | 330 | 2,971 | 3,393 | (196) | - | 6,498 |
| Impairment of assets | (7,600) | - | - | - | - | (7,600) |
| Restructuring provision | (1,291) | - | (2,966) | - | - | (4,257) |
| Depreciation and amortisation | (3,985) | (751) | (4,668) | (52) | (442) | (9,898) |
| Share of net surplus / (deficit) in joint ventures | (69) | 287 | (69) | - | - | 149 |
| Interest revenue | 86 | - | - | 98 | 7 | 191 |
| Central administration costs | - | - | - | - | (6,436) | (6,436) |
| Finance costs | (215) | (294) | (471) | - | (1,113) | (2,093) |
| **Net (loss) / profit before taxation** | **(12,744)** | **2,213** | **(4,781)** | **(150)** | **(7,984)** | **(23,446)** |
| Taxation benefit / (expense) | 5,804 | (478) | 356 | 451 | (190) | 5,943 |
| **Net (loss) / profit after taxation** | **(6,940)** | **1,735** | **(4,425)** | **301** | **(8,174)** | **(17,503)** |

Revenue reported above represents revenue generated from external customers. Inter-segment sales, which are eliminated on consolidation, were $12.0 million for the year ended 31 August 2021 (2020: $5.0 million).

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs and investment revenue.

## Industry information

The Group focuses its marketing on five principal industries: appliances, materials handling and logistics, meat processing, mining, and industrial automation.

| The Group's revenue from external customers by industry is detailed below: | 2021 $'000s | 2020 $'000s |
|---|---|---|
| Appliances | 19,597 | 20,058 |
| Materials handling and logistics | 68,158 | 51,528 |
| Meat processing | 36,706 | 29,013 |
| Mining | 58,383 | 33,006 |
| Industrial automation | 33,390 | 52,468 |
| | **216,234** | **186,073** |

## Geographical information

| The Group sells into eight principal geographical areas. The Group's revenue from external customers by geographical location (of the customer) is detailed below: | 2021 $'000s | 2020 $'000s |
|---|---|---|
| New Zealand (country of domicile) | 14,161 | 6,651 |
| Australia and Pacific Islands | 53,919 | 32,714 |
| North America, including Mexico | 56,348 | 56,142 |
| South America | 5,416 | 2,975 |
| Asia | 21,933 | 10,088 |
| Europe | 56,745 | 66,919 |
| Russia and former states | 4,696 | 7,035 |
| Africa and Middle East | 3,016 | 3,549 |
| | **216,234** | **186,073** |

The Group holds non-current assets in geographical areas outside of New Zealand, the country of domicile. These non-current assets are held in the following locations:

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Australia | 21,803 | 23,305 |
| USA | 16,634 | 17,904 |
| Europe | 29,033 | 33,548 |
| China | 907 | 578 |
| | **68,377** | **75,335** |

### Information about major customers

Sales to the Group's largest single customer, who is from the Australasia manufacturing segment and the mining industry, accounted for approximately 13.1% of total Group sales (2020: Australasia manufacturing segment and the mining industry 2.9%).

# SECTION B: ASSETS

# B1. TRADE DEBTORS

*Policy*

Trade debtors are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any provision for expected credit losses. The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure of default.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor's current financial position, adjusted for factors that are specific to the conditions of the industry in which the debtor operates and an assessment of both the current, as well as the forecast, direction of conditions at the reporting date.

Provision for expected credit losses is recognised in profit or loss.

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Trade debtors | 28,069 | 24,715 |
| Allowance for expected credit losses | (584) | (1,286) |
| | **27,485** | **23,429** |

### Credit losses in profit and loss

The allowance for expected credit losses recognised in the profit and loss during the year was $(0.7) million (2020: $0.2 miilion).

### Credit period

The credit period on sales of goods ranges from 30 to 120 days depending on the terms negotiated by the customer for large contracts. No interest is charged on trade debtors.

### Impairment of financial assets

In relation to the impairment of financial assets, NZ IFRS 9 requires an expected credit loss model to be used. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Under NZ IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised.

The calculation of impairment losses impacts the way the Group calculates the bad debts provision, now termed the allowance for expected credit loss. The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade debtors.

To measure the expected credit losses, trade debtors, other financial assets, sundry debtors and contract assets have been grouped based on their shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade debtors for the same type of contracts.

A provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk. In addition, the company has increased the credit loss allowance for anticipated losses from specific customers. On that basis, the credit loss allowance as at 31 August 2021 was determined as follows;

## Provision matrix

| | Australasia | | Americas | | China | | Europe | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s |
| **Debtors** | | | | | | | | | | |
| Current-30 days | 10,615 | 5,820 | 4,848 | 2,875 | 2,053 | 703 | 5,510 | 3,769 | 23,026 | 13,167 |
| 31-60 days | 195 | 2,435 | 524 | 254 | - | 186 | 350 | 2,450 | 1,069 | 5,325 |
| 61-90 days | 217 | 1,209 | 135 | 286 | - | - | 284 | 607 | 636 | 2,102 |
| Over 91 days | 795 | 1,512 | 1,006 | 477 | 124 | 61 | 1,413 | 2,071 | 3,338 | 4,121 |
| **Total debtors** | **11,822** | **10,976** | **6,513** | **3,892** | **2,177** | **950** | **7,557** | **8,897** | **28,069** | **24,715** |
| **Contract assets** | 15,177 | 16,679 | 781 | 436 | 3,487 | 1,780 | 5,042 | 6,486 | 24,487 | 25,381 |
| **Total assets** | **26,999** | **27,655** | **7,294** | **4,328** | **5,664** | **2,730** | **12,599** | **15,383** | **52,556** | **50,096** |
| Allowance based on expected credit loss | - | - | - | - | - | - | - | - | - | - |
| Expected credit loss on individually assessed balances | (548) | (1,132) | (36) | (37) | - | - | - | (117) | (584) | (1,286) |
| **Credit loss allowance** | **(548)** | **(1,132)** | **(36)** | **(37)** | **-** | **-** | **-** | **(117)** | **(584)** | **(1,286)** |

Trade debtors and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has not experienced delays in payment receipts as a result of COVID-19. COVID-19 has, however, been taken into consideration when completing the expected credit losses calculations for FY20 and FY21.

### SECTION B: ASSETS

# B2. INVENTORIES

*Policy*

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale. Provision for slow moving and obsolete inventories is assessed by the Group as part of the ongoing financial reporting. Obsolescence is assessed based on the time the inventory has been held and the likelihood of future sales of the inventory.

| | **2021** $'000s | **2020** $'000s |
|---|---|---|
| Raw materials | 11,930 | 10,951 |
| Work in progress | 7,046 | 4,419 |
| Finished goods | 5,860 | 8,247 |
| Provision for obsolete inventory | (1,711) | (935) |
| | 23,125 | 22,682 |

### Write downs

The cost of inventories recognised as an expense during the year includes $0.8 million (2020: $0.9 million) in respect of write downs of inventory to net realisable value and write offs of obsolete inventory.

### SECTION B: ASSETS

# B3. CONTRACT ASSETS / LIABILITIES

*Policy*

Contract assets are balances due from customers under fixed price project contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to a trade debtor at the point at which it is invoiced to the customer.

Contract liabilities relating to fixed price project contracts are balances due to customers under fixed price project contracts. These arise if a particular milestone payment exceeds the revenue recognised to date.

Deferred revenue arises from short term projects where the Group receives payments from customers in advance of delivering the asset to the customer.

*Judgement*

Determining the level of provisions to include against contract assets and liabilities requires an estimation of the costs to complete for the fixed price contracts. If the costs incurred to complete the contracts differ from the estimates completed by management, the Directors could be over or underestimating the contract assets or contract liabilities.

### Assets and liabilities related to contracts with customers

The Group becomes entitled to invoice customers for long term projects when certain milestones are met. These milestones and cashflows are agreed upfront with the customer when the contract is signed. When a particular milestone is reached, the customer is sent an invoice and any revenue previously recognised as a contract asset is reclassified to trade receivables at this time. If the invoice milestone payment exceeds the revenue recognised under the percentage of completion method, the Group will recognise a contract liability for the difference.

The majority of fixed price contracts are not considered to have a significant financing component under the percentage of completion method as the period between the recognition of revenue and the milestone payments is usually less than one year.

However, two contracts contain a potential financing component. The financing component has been taken into consideration when calculating the revenue for each individual contract.

| | **2021** | **2020** |
|---|---:|---:|
| | $'000s | $'000s |
| Contract assets | 24,487 | 25,381 |
| Contract liabilities | (17,214) | (25,313) |
| Deferred revenue | (5,525) | (3,739) |
| | **1,748** | **(3,671)** |

Contract assets and contract liabilities include provisions where the likelihood of cost overruns are expected as a result of factors such as the complexity of the projects and additional costs for commissioning and installation as a result of travel restrictions from COVID-19.

## SECTION B: ASSETS

# B4. PROPERTY, PLANT AND EQUIPMENT

*Policy*

All items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all, or part, of a purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimated useful lives are used in the calculation of depreciation:

- Buildings 40 years
- Plant, equipment and vehicles 1 - 13 years

| | **Freehold land at cost** | **Freehold buildings at cost** | **Plant, equipment and vehicles at cost** | **Total** |
|---|---:|---:|---:|---:|
| | $'000s | $'000s | $'000s | $'000s |
| **Gross carrying amount** | | | | |
| As at 31 August 2019 | 2,432 | 12,435 | 27,288 | 42,155 |
| Transfer from PPE held for sale | - | - | 345 | 345 |
| Additions | - | 330 | 2,811 | 3,141 |
| Disposals | - | - | (3,142) | (3,142) |
| Translation of amounts held in foreign currency | - | (23) | 115 | 92 |
| **As at 31 August 2020** | **2,432** | **12,742** | **27,417** | **42,591** |

| | Freehold land at cost | Freehold buildings at cost | Plant, equipment and vehicles at cost | Total |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| Additions | - | 197 | 2,011 | 2,208 |
| Disposals | - | (8) | (3,102) | (3,110) |
| Translation of amounts held in foreign currency | - | 80 | (406) | (326) |
| **As at 31 August 2021** | **2,432** | **13,011** | **25,920** | **41,363** |
| **Accumulated depreciation and impairment** | | | | |
| As at 31 August 2019 | - | 2,634 | 19,262 | 21,896 |
| Disposals | - | - | (1,008) | (1,008) |
| Depreciation expense | - | 399 | 2,575 | 2,974 |
| Translation of amounts held in foreign currency | - | (72) | 503 | 431 |
| **As at 31 August 2020** | **-** | **2,961** | **21,332** | **24,293** |
| Disposals | - | (7) | (2,869) | (2,876) |
| Depreciation expense | - | 471 | 1,946 | 2,417 |
| Translation of amounts held in foreign currency | - | 96 | (308) | (212) |
| **As at 31 August 2021** | **-** | **3,521** | **20,101** | **23,622** |
| **Net book value** | | | | |
| **As at 31 August 2020** | **2,432** | **9,781** | **6,085** | **18,298** |
| **As at 31 August 2021** | **2,432** | **9,490** | **5,819** | **17,741** |

## SECTION B: ASSETS

# B5. GOODWILL

### *Policy*

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and identifiable intangible assets, liabilities and contingent liabilities of the subsidiary recognised at the time of acquisition of a business or subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost, less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

| | 2021 | 2020 |
|---|---|---|
| **Gross carrying amount** | $'000s | $'000s |
| Balance at beginning of financial year | 57,316 | 57,951 |
| Translation of goodwill amounts held in foreign currency | (2,145) | (635) |
| **Balance at end of financial year** | **55,171** | **57,316** |

*Judgement*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows, particularly in relation to future project wins and market conditions, expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

## Impairment testing summary

For the purposes of preparing these financial statements, the Board has reviewed the intangible assets and impairment model and determined that there is no impairment of any intangible assets in the current year, or in prior periods based upon the inputs and assumptions made for each Cash Generating Unit (CGU).

Sensitivity analysis has been performed on the impairment model to determine how sensitive the model is to any changes to inputs, specifically around the cash flow forecasts. The sensitivity analysis showed no reasonably possible scenarios resulting in impairment for Australasia, Americas or China manufacturing.

A heightened degree of focus has been given to the European CGU, due to the lack of historical data from recent acquisitions whilst within the Scott Group and the impacts that Brexit and COVID-19 continue to have on Europe in the current year. The impairment model includes assumptions around the post-Brexit and post-COVID-19 recovery, resulting in an expectation that the European CGU will improve its Earnings Before Interest and Tax (EBIT) by NZ$3.8m in 2022 and then adjusting for annualised growth after that date. The Board consider this a conservative estimate of forecast growth given the changes made to the Europe business in the prior year. Sensitivity analysis has showed that if the improvement in the net result from 2022 onwards is NZ$3.0m rather than the NZ$3.8m assumed and no subsequent recovery in earnings is made, the model would result in nil headroom. Sensitivity analysis also showed that if the upper limit of the discount rate range was used the model would result in nil headroom. The Board is satisified that the assumptions included in the model are reasonable and the lower level of the sensitivity analysis is unlikely to be realised.

## Allocation of goodwill to cash-generating units

The Group's cash-generating units are:

- Australasia manufacturing
- Americas manufacturing
- Europe manufacturing
- China manufacturing

**Australasia** is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing, sales and financing activities across New Zealand and Australia.

**Americas** is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing, sales and financing activities across North and South America.

**Europe** is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing, sales and financing activities across Europe

**China** is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing, sales and financing activities across China.

Goodwill has been allocated for impairment testing purposes to the cash-generating units:

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Australasia manufacturing | 23,678 | 24,370 |
| Americas manufacturing | 13,734 | 14,318 |
| Europe manufacturing | 17,404 | 18,278 |
| China manufacturing | 355 | 350 |
| | **55,171** | **57,316** |

## Impairment model inputs by region

The recoverable amount of each cash-generating unit is determined based on a value in use calculation which uses cashflow projections based on financial budgets and forecasts covering a five-year period. The inputs for each of the CGU's have been listed below.

| Australasia | 2021 | 2020 |
|---|---|---|
| Annual growth rate | 2.5% | 2.5% |
| Terminal growth rate | 2.0% | 2.0% |
| Pre-tax discount rate | 11.0% | 11.0% |

Australasia cashflow projections during the budget and forecast period are based on historical gross margins during the budget and forecast period. The rate of revenue and materials price inflation during 2021 of 2.5% (2020: 2.5%) reflects the effect of COVID-19 on global sales over the five year period. Cash flows beyond that five year period have been extrapolated using a steady 2.0% p.a. growth rate (2020: 2.0%). The pre-tax discount rate calculated in 2021 is 11.0% (2020: 11.0%).

The Australasian CGU has sufficient historical data to support the cash flow assumptions included in the impairment model and management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Australisian cash-generating unit.

| Americas | 2021 | 2020 |
|---|---|---|
| Annual growth rate | 2.4% | 2.0% |
| Terminal growth rate | 2.0% | 1.5% |
| Pre-tax discount rate | 10.6% | 10.6% |

Americas cashflow projections during the budget and forecast period are based on historical gross margins where available, during the budget and forecast period. Where historical data is not easily comparable for recent acquistions, recent sales, forward work and sales piplelines have been used to assist with projections. There is sufficient headroom in the model to support the carrying amount of the goodwill.

The rate of revenue and materials price inflation during 2021 of 2.4% (2020: 2.0%) reflects the effect of COVID-19 on global sales over the five year period, albeit with a slight recovery in 2021. Cash flows beyond that five year period have been extrapolated using a steady 2.0% p.a. growth rate (2020: 1.5%). The pre-tax discount rate calculated in 2021 is 10.6% (2020: 10.6%). Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the American cash-generating unit.

| Europe | 2021 | 2020 |
|---|---|---|
| Annual growth rate | 1.5% | 1.8% |
| Terminal growth rate | 1.0% | 1.3% |
| Pre-tax discount rate | 9.7% | 9.7% |

Europe cashflow projections during the budget and forecast period are based on historical gross margins during the budget and forecast period. The rate of revenue and materials price inflation during 2021 of 1.5% (2020: 1.8%) reflects the effect of COVID-19 on global sales over the five year period. Cash flows beyond that five year period have been extrapolated using a steady 1.0% p.a. growth rate (2020: 1.3%). The pre-tax discount rate calculated in 2021 is 9.7% (2020: 9.7%).

As noted above, the European CGU has received a heightened degree of focus for the impairment testing due to the lack of historical data that is not easily comparable, Brexit and COVID-19. The key assumptions in the impairment test relate to achieving forecast EBIT and the discount rate used.

| China | 2021 | 2020 |
|---|---|---|
| Annual growth rate | 2.5% | 2.5% |
| Terminal growth rate | 2.0% | 2.0% |
| Pre-tax discount rate | 13.5% | 13.5% |

China cashflow projections during the budget and forecast period are based on historical gross margins during the budget and forecast period. The rate of revenue and materials price inflation during 2021 of 2.5% (2020: 2.5%) reflects the effect of COVID-19 on global sales over the five year period. Cash flows beyond that five year period have been extrapolated using a steady 2.0% p.a. growth rate (2020: 2.0%). The pre-tax discount rate calculated in 2021 is 13.5% (2020: 13.5%).

The China CGU has sufficient historical data to support the assumptions included in the impairment model and management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the China cash-generating unit.

## SECTION B: ASSETS

# B6. INTANGIBLE ASSETS

### *Policy*

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over their estimated useful lives. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

Intangible assets that are acquired in a business combination and recognised separately from goodwill are initially recognised at fair value at the acquisition date, which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are recognised on the same basis as intangible assets that are acquired separately.

At each balance sheet date, the Group reviews the carrying amounts of its non financial tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Goodwill is tested for impairment annually. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value, less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of a cash-generating unit, (CGU), is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

| | Conveyor and palletiser technology at cost $000's | BladeStop technology at cost $'000s | URLs at cost $'000s | Non-compete at cost $'000s | HTS technology at cost $'000s | Centrifuge technology at cost $'000s | Automated grading technology at cost $'000s | Patents and other $'000s | Total $'000s |
|---|---|---|---|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | | | | | |
| As at 31 August 2019 | 6,234 | 10,663 | 2,064 | 79 | 403 | 340 | 1,626 | 88 | 21,497 |
| Additions | 65 | - | - | - | - | - | - | - | 65 |
| Disposals | (344) | - | - | - | - | - | - | - | (344) |
| Foreign translation difference | 21 | 270 | (135) | (5) | - | - | 11 | (1) | 161 |
| **As at 31 August 2020** | **5,976** | **10,933** | **1,929** | **74** | **403** | **340** | **1,637** | **87** | **21,379** |
| Additions | 16 | - | - | - | - | - | - | 79 | 95 |
| Disposals | - | - | - | - | (403) | - | - | - | (403) |
| Foreign translation difference | (368) | (546) | (79) | (2) | - | - | (94) | 4 | (1,085) |
| **As at 31 August 2021** | **5,624** | **10,387** | **1,850** | **72** | **-** | **340** | **1,543** | **170** | **19,986** |
| **Accumulated amortisation and impairment** | | | | | | | | | |
| As at 31 August 2019 | 712 | 3,888 | - | 36 | 403 | 60 | 62 | 16 | 5,177 |
| Amortisation expense | 746 | 1,367 | - | 6 | - | 26 | 231 | 3 | 2,379 |
| Foreign translation difference | 5 | 99 | - | (2) | - | - | - | - | 102 |
| **As at 31 August 2020** | **1,463** | **5,354** | **-** | **40** | **403** | **86** | **293** | **19** | **7,658** |
| Amortisation expense | 767 | 1,333 | - | 6 | - | 26 | 192 | 19 | 2,343 |
| Disposals | - | - | - | - | (403) | - | - | - | (403) |
| Foreign translation difference | (148) | (303) | - | (2) | - | - | (34) | 1 | (486) |
| **As at 31 August 2021** | **2,082** | **6,384** | **-** | **44** | **-** | **112** | **451** | **39** | **9,112** |
| **Net book value** | | | | | | | | | |
| **As at 31 August 2020** | **4,513** | **5,579** | **1,929** | **34** | **-** | **254** | **1,344** | **68** | **13,721** |
| As at 31 August 2021 | 3,542 | 4,003 | 1,850 | 28 | - | 228 | 1,092 | 131 | 10,874 |

## Assets

Intangible assets comprise:

- Conveyor and palletiser technology used in the materials handling industry, purchased through the acquisition of the Alvey business in April 2018, is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of ten years.
- BladeStop bandsaw safety technology purchased in October 2017, which is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of eight years.
- Domain names (URLs) and a non-compete arrangement resulting from the purchase of the RobotWorx business in May 2014.
- Intangible assets associated with the RobotWorx non-compete arrangement are being amortised on a straight line basis over a fifteen year period, while intangible assets related to the URLs are indefinite life intangibles as the rights to the URLs are held indefinitely and are assessed for impairment annually.
- Intellectual Property associated with current leads and flux pumps which were largely acquired on the purchase of HTS-110 Limited have now been sold with HTS-110 in August 2021.
- Centrifuge technology used in the honey and fish oil industry purchased through the acquisition of the other joint venture partners' interests in Scott Separation Technology Limited in May 2017, is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of thirteen years.
- Automated grading technology used in the meat industry purchased through the acquisition of Normaclass in May 2019, and is being amortised on a straight line basis over an estimated useful life at the time of purchase of ten years.

SECTION B: ASSETS

# B7. RESEARCH AND DEVELOPMENT COSTS

*Policy*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the asset so that it will be available for use or sale
- The intention to complete the asset and use or sell it
- The ability to use or sell the asset
- How the asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development to use or sell the asset.
- The ability to measure reliably the expenditure attributable to the asset during the development.

SECTION B: ASSETS

# B8. IMPAIRMENT OF ASSETS

| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| Impairment of Scott LED assets | - | 168 |
| Impairment of Investment in Veritide Limited | - | 420 |
| Impairment of Scott Dairy development asset | - | 3,370 |
| Impairment of other development assets | - | 3,642 |
| | **-** | **7,600** |

During FY20 the Group underwent a restructure and revised its corporate strategy. As a result, certain development and other assets were deemed not in line with the updated strategy. A decision was taken to cease work on these developments and other assets, and the assets fully impaired.

All of the impaired assets relate to the Australasia segment.

The recoverable amount of each asset after impairment was nil on the basis there was no alternative for sale or residual value in the assets.

SECTION B: ASSETS

# B9. DEVELOPMENT ASSETS

*Policy*

Development assets exist where the Group is working on developments with the intention to meet an end customer's needs, but no contract exists with that end customer. Revenue is not recognised on these projects until a contract with a customer is formed and all the costs incurred will sit on the balance sheet until a conclusion is reached. These projects have a large portion research and development and are undertaken with the view that the Group will be able to realise future sales on these products.

At the end of each reporting period, an assessment is made of these development assets for indicators of impairment using the mix of external and internal indicators included under NZ IAS 36. Where there are indicators of impairment, these are expensed in the period to which they relate.

| | | Meat development assets $'000s | Mining development assets $'000s | Total $'000s |
|---|---|---|---|---|
| **Gross carrying amount** | **As at 31 August 2019** | **6,786** | **-** | **6,786** |
| | Additions | 226 | - | 226 |
| | Impairment | (7,012) | - | (7,012) |
| | Foreign translation difference | - | - | - |
| | **As at 31 August 2020** | - | - | - |
| | Additions | 1,576 | 634 | 2,210 |
| | Disposals | - | - | - |
| | Foreign translation difference | - | - | - |
| | **As at 31 August 2021** | **1,576** | **634** | **2,210** |
| **Accumulated depreciation and impairment** | **As at 31 August 2020** | **-** | **-** | **-** |
| | Amortisation expense | - | - | - |
| | Foreign translation difference | - | - | - |
| | **As at 31 August 2021** | **-** | **-** | **-** |
| **Net book value** | As at 31 August 2020 | - | - | - |
| | **As at 31 August 2021** | **1,576** | **634** | **2,210** |

The meat development assets relate to work being completed on producing systems to automated processing solutions for pork and chickens. Work has also been completed on updating design drawings for a lamb processing system. All meat development assets relate to the Australasia segment. These assets will be amortised over future sales.

In FY20, the decision was made to impair the value of the pork processing system due to the degree of complexity and concerns about the commercial viability of this project. In 2021 discussions with commercial partners have progressed and the development has been restarted. As the development is still ongoing, management has not reversed the impairment booked in 2020 on this project. This project is also disclosed in E5.

Mining development assets relate to work completed in a large project to develop two products that will be able to be sold as future products. All mining development assets relate to the Australasia segment. These assets will be amortised over future sales.

# SECTION C: CAPITAL AND FUNDING

## C1. SHARE CAPITAL

*Policy*

Equity instruments issued by the Group are recorded at the proceeds received, net of issue costs.

| | 2021 Number | 2020 Number | 2021 $'000s | 2020 $'000s |
|---|---|---|---|---|
| Fully paid ordinary shares at beginning of financial year | 78,311,032 | 77,544,752 | 81,822 | 80,073 |
| Issue of shares under dividend reinvestment plan | 354,803 | 766,280 | 879 | 1,749 |
| Balance at end of financial year | 78,665,835 | 78,311,032 | 82,701 | 81,822 |

All shares have equal voting rights and participate equally in any dividend distribution or any surplus on the winding up of the Group.

## SECTION C: CAPITAL AND FUNDING

# C2. EARNINGS AND NET TANGIBLE ASSETS PER SHARE

### Earnings per share from continuing operations

| | 2021<br>Cents per share | 2020<br>Cents per share |
|---|---|---|
| Basic | 12.3 | (22.2) |
| Diluted | 12.3 | (22.2) |

| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| Net profit / (loss) for the year used in the calculation of basic and diluted earnings per share from continuing operations | 9,624 | (17,331) |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share from continuing operations | 78,421 | 78,129 |

### Non-GAAP information

| **Net tangible assets per ordinary share** | 2021<br>Cents per share | 2020<br>Cents per share |
|---|---|---|
| Basic | 31.2 | 20.2 |
| Diluted | 31.2 | 20.2 |

| | Note | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|---|
| Ordinary shares at year end used in the calculation of net tangible assets per ordinary share | C1 | 78,666 | 78,311 |
| Net tangible assets (net assets excluding goodwill, intangible assets, development assets and deferred tax) | | 24,512 | 15,838 |

## SECTION C: CAPITAL AND FUNDING

# C3. BORROWINGS

*Policy*

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

| | 2021<br>NZD$'000s | 2020<br>NZD$'000s |
|---|---|---|
| Current | 737 | 3,719 |
| Non-current | 10,183 | 7,466 |
| **Total term loans** | **10,920** | **11,185** |

| | 2021 | 2020 |
|---|---|---|
| **Maturity profile of non-current portion** | NZD$'000s | NZD$'000s |
| One to two years | 10,039 | 5,266 |
| Two to three years | 78 | 1,824 |
| Three to five years | 66 | 376 |
| | **10,183** | **7,466** |

Interest rates applicable to 31 August 2021 on the bank term loans ranged from 1.8% to 8.5% p.a. (2020: 1.8% to 8.5% p.a.)

| *The carrying amounts of the Group's borrowings are denominated in the following currencies:* | 2021 Facility NZD$'000s | 2021 Utilised NZD$'000s | 2020 Facility NZD$'000s | 2020 Utilised NZD$'000s |
|---|---|---|---|---|
| New Zealand Dollar | 18,000 | 8,000 | 14,634 | 6,635 |
| United States Dollar | 3,416 | 1,952 | 2,600 | 2,459 |
| European Euros | 1,848 | 748 | 3,426 | 1,933 |
| Czech Koruna | 730 | 220 | 378 | 158 |
| | **23,994** | **10,920** | **21,038** | **11,185** |

| *The Group also has access to the following working capital facilities:* | 2021 Facility NZD$'000s | 2021 Utilised NZD$'000s | 2020 Facility NZD$'000s | 2020 Utilised NZD$'000s |
|---|---|---|---|---|
| New Zealand Dollar | 12,000 | - | 12,500 | 7,391 |
| United States Dollar | 356 | - | 1,484 | - |
| European Euros | 3,635 | 706 | 1,943 | - |
| Czech Koruna | 658 | - | 1,078 | - |
| | **16,649** | **706** | **17,005** | **7,391** |

## Borrowing facilities

Borrowings shown above include bank debt and vehicle financing.

Borrowing facilities include bank overdraft, term loans, credit card facilities which are included in cash and cash equivalents, trade creditors and accruals and bank guarantees and bonds which are included in contingent liabilities.

The main source of financing for the Group is through ANZ Bank in New Zealand. The total of the ANZ Bank New Zealand Limited current facility agreement for borrowings and working capital is NZ$23.4m (2020: NZ$19.7m), of which NZ$13.5m was unutilised at 31 August 2021 (2020: NZ$5.2m).

The bank facilities of ANZ Bank New Zealand Limited are secured by general security agreements over all the present and after acquired property of Scott Technology Limited and certain subsidiaries, and therefore associated property, plant and equipment assests are pledged as security for these facilities. The bank facilities from ANZ Bank New Zealand Limited are also secured by mortgages over the properties at 630 Kaikorai Valley Road Dunedin, 10 Maces Road Christchurch and 1B Quadrant Drive Lower Hutt.

The Group also has borrowing facilities through KBC Bank in Belgium with a total facility for borrowings and working capital of EUR 3.0m (2020: EUR 3.0m), of which EUR 2.6m was unutilised at 31 August 2021 (2020: EUR 1.9m).

The bank facilities from KBC Bank are secured by a registered pledge on the business assets of Scott Automation NV for a total of EUR 3.8m, (2020: EUR 3.8m), and a registered pledge on the bank guarantees line of 50% of any amount exceeding EUR 3.5m (2020: EUR 3.5m).

Other borrowing facilities include a US$0.3m, (2020: US$1.0m), line of credit from BB&T Bank not utilised at 31 August 2021 or 31 August 2020, and a CZK 10.0m, (2020: CZK 10.0 m), overdraft facility not utilised at 31 August 2021 or 31 August 2020.

Due to the uncertainty of the impact of COVID-19, the Group entered into an agreement with JBS Australia Pty Ltd in March 2020 to obtain access to a revolving credit facility up to a maximum amount of NZ$10m. The expiry date of this facility is 31 August 2022. This facility is not utilised at 31 August 2021, (2020: NZ$2.0m).

## SECTION C: CAPITAL AND FUNDING

# C4. TRADE CREDITORS AND ACCRUALS

### *Policy*

Trade creditors are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Trade creditors | 20,261 | 15,143 |
| Accruals | 9,834 | 8,890 |
| | **30,095** | **24,033** |

### Terms

All trade creditors are current and paid within the terms agreed with individual suppliers.

## SECTION C: CAPITAL AND FUNDING

# C5. LEASES

### *Policy*

The Group assess whether a contract is, or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases, defined as leases with a lease term of 12 months or less, and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If the rate cannot be readily determined, the Group uses its incremental borrowing rate (IBR). The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the liability, using the effective interest method, and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at, or before, the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term or useful life of the underlying asset. The Group applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Intangible assets policy in Note B6.

*Judgement*

The estimation of the IBR relies on the Directors considering the credit risk of the Group. If the credit risk faced by the Group differs from what is estimated, the IBR may differ, and consequently the future net present value of the lease cash flows may be over or understated.

The determination of lease term relies on the Directors view of the likelihood of any lease renewal options being renewed. If the lease renewal options are included and then not taken up, or are not included and are taken up, the net present value of the lease cash flows may be over, or understated.

The Group leases several assets, including buildings, cars and machinery. The average lease term is 3.7 years (2020: 3.7 years).

The Group has options to purchase certain equipment at the conclusion of their current lease term. As management is undecided on the outcome of these transactions, the purchase price has not been included in the lease liability calculations.

## Right-of-use assets

| | | Buildings | Plant | Vehicles | Group |
|---|---|---|---|---|---|
| | | $'000s | $'000s | $'000s | $'000s |
| **Cost** | **Balance 31 August 2019** | **16,621** | **533** | **3,676** | **20,830** |
| | Additions | 343 | 1 | 545 | 889 |
| | Disposals | (730) | (150) | (503) | (1,383) |
| | Translation of leases held in foreign currency | (134) | (5) | 17 | (122) |
| | **As at 31 August 2020** | **16,100** | **379** | **3,735** | **20,214** |
| | Additions | 910 | 89 | 556 | 1,555 |
| | Disposals | (2,104) | (105) | (1,265) | (3,474) |
| | Translation of leases held in foreign currency | (612) | (10) | (157) | (779) |
| | **As at 31 August 2021** | **14,294** | **353** | **2,869** | **17,516** |
| **Depreciation** | **Balance 31 August 2019** | **2,469** | **240** | **1,125** | **3,834** |
| | Depreciation expense | 3,241 | 160 | 1,144 | 4,545 |
| | Disposals | (683) | (150) | (445) | (1,278) |
| | Translation of leases held in foreign currency | 30 | (3) | 14 | 41 |
| | **Balance 31 August 2020** | **5,057** | **247** | **1,838** | **7,142** |
| | Depreciation expense | 3,034 | 122 | 920 | 4,076 |
| | Disposals | (1,856) | (105) | (968) | (2,929) |
| | Translation of leases held in foreign currency | (212) | (6) | (78) | (296) |
| | **As at 31 August 2021** | **6,023** | **258** | **1,712** | **7,993** |
| As at 31 August 2020 | | 11,043 | 132 | 1,897 | 13,072 |
| As at 31 August 2021 | | 8,271 | 95 | 1,157 | 9,523 |

## Amounts recognised in profit and loss and cash flow statement

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Total cash outflow for leases | 4,007 | 4,176 |
| Interest expense on lease liabilities | 509 | 662 |
| Expense relating to short-term liabilities | 496 | 448 |

As at 31 August 2021, the Group is committed to $0.5 million (2020: $0.2 million) for short-term leases.

| | | 2021 | 2020 |
|---|---|---|---|
| | | $'000s | $'000s |
| **Lease liabilities** | Current liability | 2,900 | 3,818 |
| | Non-current liability | 7,388 | 10,008 |
| | **Total** | **10,288** | **13,826** |
| **Maturity analysis** | Not later than 1 year | 2,900 | 3,818 |
| | Later than 1 year and not later than 5 years | 5,310 | 7,189 |
| | Later than 5 years | 2,078 | 2,819 |
| | | **10,288** | **13,826** |

### SECTION C: CAPITAL AND FUNDING

## C6. EMPLOYEE BENEFITS

*Policy*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave, share based payment arrangements, and short term incentives when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

### SECTION C: CAPITAL AND FUNDING

## C7. PROVISION FOR WARRANTY

*Policy*

The provision for warranty claims represents the present value of the Directors' best estimate of the future outflow of economic benefits that will be required under the Group's 12 month warranty programme for certain equipment. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Balance at 1 September | 1,874 | 1,546 |
| Additional provisions (derecognised) / recognised | (644) | 328 |
| **Balance at 31 August** | **1,230** | **1,874** |

### Obligation

The provision for warranty reflects an obligation for after sales service work in relation to completed contracts and products sold to customers. The provision is expected to be utilised within twelve months of balance date, however, this timing is uncertain and dependent upon the actual level of after sales service work required.

## SECTION C: CAPITAL AND FUNDING

# C8. PERFORMANCE BASED COMPENSATION

*Policy*

For cash-settled performance based compensation, a liability is recognised for the amount payable based on on-target performance against set performance measures. For long term incentives (which include the payment of a monetary amount after a period of approximately three years of continuous full time employment), the payment amount is determined by the differential between the Company's share price at the beginning of the scheme and at the end of the reporting period, after adjusting for any events that affects the share price, such as capital reconstruction, bonus issues or dividends. Accordingly, at the end of each reporting period, until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

### Details of arrangement

The Group has short term and long term incentives in place for certain executives and senior employees of the Group. Short term incentives (STI) are annual performance based compensation linked directly to individual and company performance while long term incentives (LTI) are payable to executives and senior employees who are members of the LTI and remain in employment with the Group at the vesting dates (after 3 years). On the vesting date, those members of the LTI will be granted a cash incentive based on the movement in Scott Technology Limited's share price from the beginning of the scheme to the vesting date.

At balance date there is a liability of $0.5 million (2020: $0.1 million) included in employee entitlements in the balance sheet. The impact of the movement in the liability on profit for the year was a $0.4 million increase (2020: $0.1 million decrease) and is included in the employee benefits expenses.

No shares, or share options, in Scott Technology Limited are issued under either incentive scheme.

## SECTION C: CAPITAL AND FUNDING

# C9. ONEROUS CONTRACT PROVISION

*Policy*

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The onerous contract provision relates to the expected losses on certain long term projects in progress as at 31 August. The onerous contract provisions are based on management's best estimate to complete the projects in progress. The completion of work required is typically expected in the next 12 months.

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Balance at 1 September | 7,699 | 4,236 |
| Additional provisions expensed to the profit and loss during the year | 4,069 | 3,599 |
| Utilisation of provisions | (3,806) | (136) |
| **Balance at 31 August** | **7,962** | **7,699** |

# SECTION D: RISK MANAGEMENT

## D1. FINANCIAL INSTRUMENTS

*Policy*

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition depends on the nature of the hedge relationship.

The Group designates certain derivatives as hedges of the fair value of firm commitments (fair value hedge) or as hedges of forecast future sales (cash flow hedge). Open firm commitments reflect contractual agreements to provide goods to customers at an agreed price denominated in a foreign currency on specified future dates.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other gains / (losses).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other expenses line.

Amounts recognised in the hedging reserve are reclassified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the hedging reserve are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires, or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is recognised immediately in profit or loss.

### Financial risk management objectives

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits are reviewed on a continuous basis. The Group does not enter into, or trade financial instruments, including derivative financial instruments, for speculative purpose.

## Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2020.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital and retaiined earnings.

The Group has sufficient liquid assets to fund the operations of the business. To the extent that additional working capital funding is required the Group has bank facilities available as disclosed in Note C3. Where the Group requires funding for a significant capital acquisition, seperate funding facilities are established, provided the Directors consider that the Group has adequate equity to support these facilities.

## Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward foreign exchange contracts to hedge the exchange rate risk arising on the export of manufactured products.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

## Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. There are no open cash flow hedges at balance date. The carrying amounts in New Zealand Dollars of the Group’s foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | $’000s | $’000s | $’000s | $’000s |
| United States Dollar | 14,003 | 17,275 | 7,003 | 8,218 |
| Euros | 11,404 | 13,624 | 8,219 | 10,559 |
| Australian Dollar | 7,126 | 8,739 | 14,117 | 6,714 |
| Japanese Yen | 50 | - | - | 105 |
| Great Britain Pound | 587 | 309 | 28 | 64 |
| Chinese Yuan | 2,771 | 4,512 | 2,974 | 674 |
| Canadian Dollar | 37 | - | - | - |
| Czech Koruna | 662 | 365 | 1,382 | 5,239 |
| Swedish Krona | - | - | 143 | - |
| Singaporean Dollar | - | - | 645 | 165 |
| | **36,640** | **44,824** | **34,511** | **31,738** |

### Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions. These are presented in other financial assets or other financial liabilities in the balance sheet.

For hedges of firm commitments, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the forward contracts, which is not reflected in the fair value of the hedged item attributable to changes in foreign exchange rates. No other sources of ineffectiveness emerged from these hedging relationships.

From time to time the Group will enter into collar options to cover forecast sales and purchases. These are not hedge accounted.

| **Assets** | **2021** $'000s | **2020** $'000s |
|---|---|---|
| *At fair value:* | | |
| Fair value hedge of open firm commitments | 324 | 728 |
| Foreign currency forward contracts held as effective fair value hedges | 375 | 162 |
| Foreign exchange derivatives | 1 | 146 |
| | **700** | **1,036** |
| *Represented by:* | | |
| Current financial assets | 663 | 1,032 |
| Non current financial assets | 37 | 4 |
| | **700** | **1,036** |

| **Liabilities** | **2021** $'000s | **2020** $'000s |
|---|---|---|
| *At fair value:* | | |
| Fair value hedge of open firm commitments | 375 | 162 |
| Foreign currency forward contracts held as effective fair value hedges | 324 | 728 |
| Foreign exchange derivatives | 52 | 82 |
| Interest rate swap contracts | 659 | 814 |
| | **1,410** | **1,786** |
| *Represented by:* | | |
| Current financial liabilities | 714 | 972 |
| Non current financial liabilities | 696 | 814 |
| | **1,410** | **1,786** |

The fair value of foreign exchange contracts outstanding is recognised as other financial assets/liabilities.

## Outstanding forward foreign currency contracts

| | Average Fx Rate | | Nominal value | | Fair value | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | | | $'000s | $'000s | $'000s | $'000s |
| Sell US Dollars | 0.6921 | 0.6491 | 7,502 | 7,981 | (11) | 20 |
| Sell Australian Dollars | 0.9281 | 0.9626 | 5,550 | 13,380 | (173) | (579) |
| Sell British Pounds | - | 0.4914 | - | 417 | - | 11 |
| Sell Canadian Dollars | - | 0.8812 | - | 108 | - | - |
| Sell Euro | - | 0.5719 | - | 1,070 | - | (17) |
| Buy Australian Dollars | - | 0.9747 | - | 958 | - | 63 |
| Buy Euro | 0.5689 | - | 6,572 | - | 236 | - |
| (AUD) Buy Euro | 0.6221 | - | 5,452 | - | (52) | - |
| | | | **25,076** | **23,914** | **-** | **(502)** |

## Outstanding forward foreign currency contracts maturity profile

| | Nominal value | | Fair value | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | $'000s | $'000s | $'000s | $'000s |
| 0 to 3 months | 7,906 | 9,984 | (209) | (206) |
| 3 to 6 months | 8,188 | 9,062 | 144 | (173) |
| 6 to 9 months | 4,573 | 2,801 | 35 | (47) |
| 9 to 12 months | 3,164 | 1,854 | 5 | (72) |
| Greater than 12 months | 1,245 | 213 | 25 | (4) |
| | **25,076** | **23,914** | **-** | **(502)** |

## Foreign currency sensitivity analysis

The Group is mainly exposed to the United States Dollar, the Euro, the Australian Dollar and the Chinese Yuan.

The following table details the Group's sensitivity to a 10% increase and decrease in the New Zealand Dollar against the relevant foreign currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and equity where the New Zealand Dollar weakens 10% against the relevant currency.

These movements are mainly attributable to the exposure to outstanding foreign currency bank accounts, receivables, payables and derivatives at year end in the Group.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

| | **10% increase in New Zealand Dollar** | | **10% decrease in New Zealand Dollar** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | $'000s | $'000s | $'000s | $'000s |
| United States Dollar | (636) | (625) | 636 | 625 |
| Euro | (1,774) | (253) | 1,774 | 253 |
| Australian Dollar | 750 | (198) | (750) | 198 |
| Japanese Yen | (4) | 10 | 4 | (10) |
| Great Britain Pound | (51) | (25) | 51 | 25 |
| Chinese Yuan | 18 | (384) | (18) | 384 |
| Canadian Dollar | (3) | 11 | 3 | (11) |
| Czech Koruna | 65 | 487 | (65) | (487) |
| Swedish Krona | 8 | - | (8) | - |
| Singaporean Dollar | 59 | 17 | (59) | (17) |

## Credit risk management

In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions. The Group has a credit policy which is used to manage this exposure to credit risk, including requiring payment prior to shipping to high credit risk countries and customers, and customer credit checks. The Group, as a result of the industries in which they operate, can be exposed to significant concentrations of credit risk from trade receivables and counterparty risk with the bank in relation to the outstanding forward exchange contracts. They do not require any collateral or security to support financial instruments as these represent deposits with, or loans to, banks and other financial institutions with high credit ratings.

At year end the amount receivable from the five largest trade debtors is $5.7 million (2020: $5.7 million).

The maximum credit risk of on balance sheet financial instruments is their carrying amount.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

## Liquidity and interest rate risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note C3 are details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

There is no reasonably possible movement in interest rates that could have a material impact on the financial statements.

## Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued floating rate debt. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at 31 August 2021.

The interest rate swap contract obligation was taken over through the acquisition of the Alvey business. The loan facility is not currently being used.

**Outstanding receive floating pay fixed contracts**

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| | % | % | $'000s | $'000s | $'000s | $'000s |
| 5 years + | 2.70% | 2.70% | 2,886 | 3,164 | (659) | (814) |

The following table details the Group's remaining undiscounted contractual maturity for its non derivative financial liabilities. The tables below have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The tables include both interest and principal cash flows.

| | Weighted average effective interest rate | On demand | Less than 1 year | 1-2 years | 2-3 years | 3-5 years | 5+ years | Total |
|---|---|---|---|---|---|---|---|---|
| | % | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s |
| **2021 financial liabilities** | | | | | | | | |
| Lease liabilities | 4.25% | - | 3,271 | 2,580 | 1,488 | 1,863 | 2,311 | 11,513 |
| Term loans | 3.29% | - | 761 | 10,369 | 81 | 68 | - | 11,279 |
| Deferred settlement on purchase of business | - | - | 1,327 | - | - | - | - | 1,327 |
| Payable to joint ventures | - | - | 108 | - | - | - | - | 108 |
| Trade creditors and accruals | - | 30,095 | - | - | - | - | - | 30,095 |
| | | **30,095** | **5,467** | **12,949** | **1,569** | **1,931** | **2,311** | **54,322** |
| **2020 financial liabilities** | | | | | | | | |
| Lease liabilities | 4.32% | - | 3,983 | 2,816 | 2,324 | 2,355 | 2,946 | 14,424 |
| Term loans | 3.44% | - | 3,846 | 5,447 | 1,887 | 389 | - | 11,569 |
| Deferred settlement on purchase of business | - | - | 1,376 | 505 | - | - | - | 1,881 |
| Payable to joint ventures | - | - | 431 | - | - | - | - | 431 |
| Trade creditors and accruals | - | 24,033 | - | - | - | - | - | 24,033 |
| | | **24,033** | **9,636** | **8,768** | **4,211** | **2,744** | **2,946** | **52,338** |

The Group has access to financing facilities, of which the total unused amount is $29.0 million at the balance sheet date, (2020: $19.5 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

## Fair value measurements recognised in the balance sheet

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of forward exchange contracts and options is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity and options of the contract using a market rate of interest.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 on the degree to which fair value is observable:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| **2021** | | | | |
| **Financial assets at fair value through profit and loss** | | | | |
| Fair value hedge of open firm commitments | - | 324 | - | 324 |
| Foreign currency forward contracts held as effective fair value hedges | - | 375 | - | 375 |
| Foreign exchange derivatives | - | 1 | - | 1 |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Fair value hedge of open firm commitments | - | (375) | - | (375) |
| Foreign currency forward contracts held as effective fair value hedges | - | (324) | - | (324) |
| Foreign exchange derivatives | - | (52) | - | (52) |
| Interest rate swap contracts | - | (659) | - | (659) |
| | **-** | **(710)** | **-** | **(710)** |
| **2020** | | | | |
| **Financial assets at fair value through profit and loss** | | | | |
| Fair value hedge of open firm commitments | - | 728 | - | 728 |
| Foreign currency forward contracts held as effective fair value hedges | - | 162 | - | 162 |
| Foreign exchange derivatives | - | 146 | - | 146 |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Fair value hedge of open firm commitments | - | (162) | - | (162) |
| Foreign currency forward contracts held as effective fair value hedges | - | (728) | - | (728) |
| Foreign exchange derivatives | - | (82) | - | (82) |
| Interest rate swap contracts | - | (814) | - | (814) |
| | **-** | **(750)** | **-** | **(750)** |

## Fair value

The fair value of financial instruments not already measured at fair value approximates their carrying value.

# SECTION E: GROUP STRUCTURE AND SUBSIDIARIES

## E1. ACQUISITION OF BUSINESS

### Deferred settlement

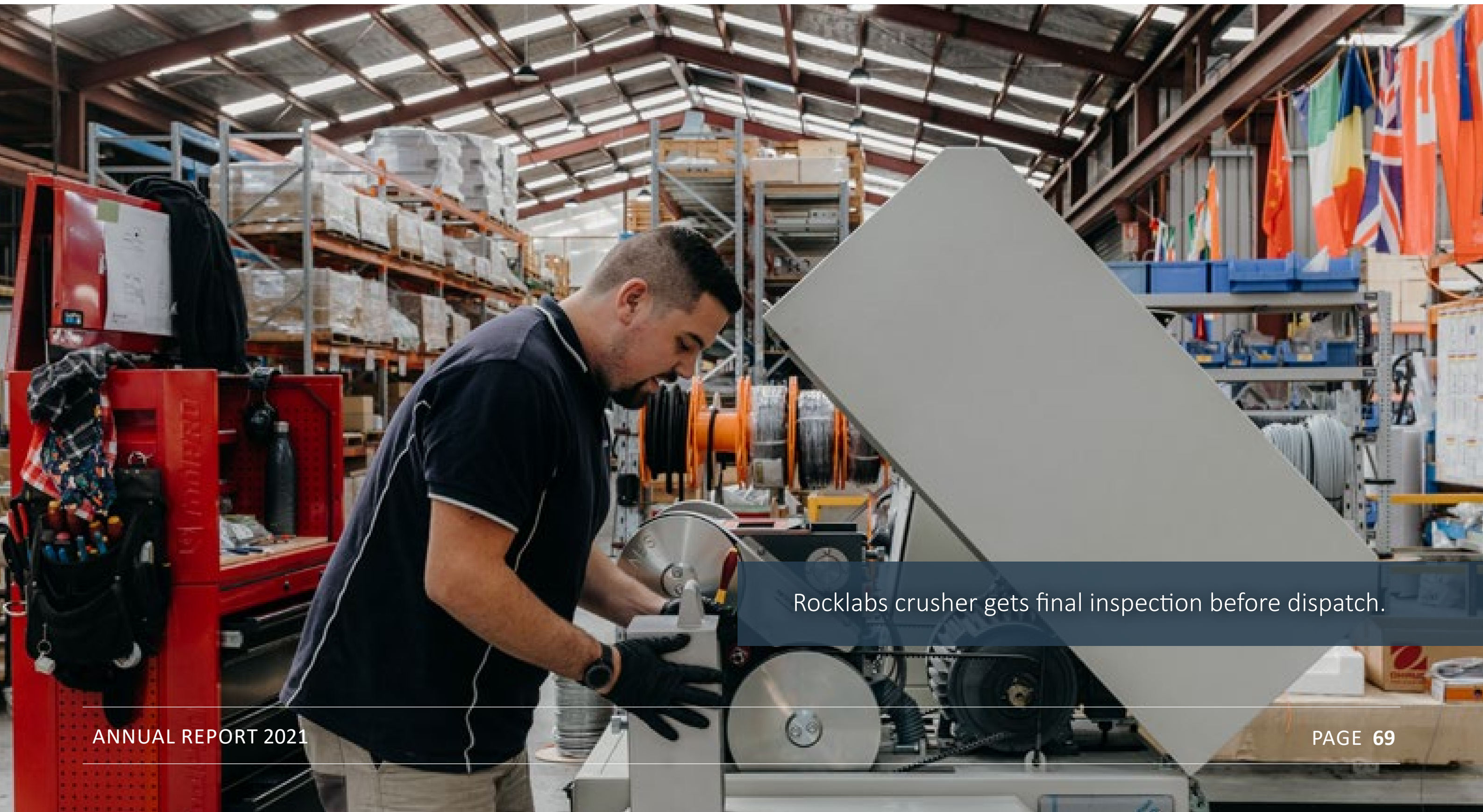
| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| Balance at 1 September | 1,881 | 2,385 |
| Payment of deferred consideration | (457) | (514) |
| Movement in balances held in foreign currency | (97) | 10 |
| **Balance at 31 August** | **1,327** | **1,881** |
| | | |
| Current | 1,327 | 1,376 |
| Non-current | - | 505 |
| **Total Deferred Settlement** | **1,327** | **1,881** |
| | | |
| *Made up of:* | | |
| Transbotics | 484 | 994 |
| Normaclass | 843 | 887 |
| | **1,327** | **1,881** |

### SECTION E: GROUP STRUCTURE AND SUBSIDIARIES

## E2. RESTRUCTURING EXPENSES

In the 2020 period expenditure was incurred from the restructuring of operations in Germany and New Zealand.

There were no restructuring costs incurred in the current year.



Rocklabs crusher gets final inspection before dispatch.

## SECTION E: GROUP STRUCTURE AND SUBSIDIARIES

# E3. SUBSIDIARIES

| | | | 2021 % | 2020 % |
|---|---|---|---|---|
| *Parent entity* | | | | |
| Scott Technology Limited | 31 August | New Zealand | n/a | n/a |
| *New Zealand trading subsidiaries* | | | | |
| Scott Technology NZ Limited | 31 August | New Zealand | 100 | 100 |
| Scott Automation Limited | 31 August | New Zealand | 100 | 100 |
| Scott Technology USA Limited | 31 August | New Zealand | 100 | 100 |
| QMT General Partner Limited | 31 August | New Zealand | 93 | 93 |
| QMT New Zealand Limited Partnership | 31 August | New Zealand | 92 | 92 |
| Scott Technology Americas Limited | 31 August | New Zealand | 100 | 100 |
| Scott Technology Europe Limited | 31 August | New Zealand | 100 | 100 |
| *New Zealand non-trading Subsidiaries* | | | | |
| Scott LED Limited | 31 August | New Zealand | 100 | 100 |
| Rocklabs Limited | 31 August | New Zealand | 100 | 100 |
| *Overseas subsidiaries* | | | | |
| Scott Technology Australia Pty Ltd | 31 August | Australia | 100 | 100 |
| Applied Sorting Technologies Pty Ltd (**) | 31 August | Australia | - | 100 |
| Scott Automation and Robotics Pty Ltd | 31 August | Australia | 100 | 100 |
| Scott Systems International Incorporated | 31 August | USA | 100 | 100 |
| Scott Systems (Qingdao) Co Limited | 31 December (*) | China | 95 | 95 |
| Scott Technology GmbH | 31 August | Germany | 100 | 100 |
| Scott Technology Belgium bvba | 31 August | Belgium | 100 | 100 |
| Scott Automation NV | 31 August | Belgium | 100 | 100 |
| FLS Group bvba | 31 August | Belgium | 100 | 100 |
| FLS Systems NV | 31 August | Belgium | 100 | 100 |
| Alvey do Brazil Comercio de Maquinas de Automacao | 31 December (*) | Brazil | 100 | 100 |
| Scott Automation a.s. | 31 August | Czech Republic | 100 | 100 |
| Scott Automation SAS | 31 August | France | 100 | 100 |
| Scott Automation Limited | 31 August | United Kingdom | 100 | 100 |
| Normaclass | 31 August | France | 100 | 100 |
| Rivercan S.A. | 31 December (*) | Uruguay | 100 | 100 |

(*) Determined by local regulatory requirements.
(**) Liquidated in 2021

## SECTION E: GROUP STRUCTURE AND SUBSIDIARIES

# E4. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Interests in joint ventures

*Policy*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. In assessing the Group's share of the profit or loss, or other comprehensive income of the joint venture, the Group's share of any unrealised profits or losses on transactions between Group companies and the joint venture is eliminated. Dividends or distributions received from a joint venture reduce the carrying amount of the investment in that joint venture in the Group financial statements. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture, the Group discontinues its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture until the date it ceases to be a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying value of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

| Joint ventures | Country of incorporation | Ownership interest 2021 % | Ownership interest 2020 % | Carrying value 2021 $'000s | Carrying value 2020 $'000s |
|---|---|---|---|---|---|
| Robotic Technologies Limited (i) | New Zealand | 50 | 50 | 348 | 267 |
| Scott Technology Euro Limited (ii) | Ireland | - | 50 | - | 66 |
| Scott Technology S.A. (iii) | Chile | - | 50 | - | 137 |
| Rocklabs Automation Canada Limited (iv) | Canada | - | 50 | - | 753 |
| **Balance at 31 August** | | | | **348** | **1,223** |

*(i) Scott Technology Limited's joint venture with Silver Fern Farms Limited, Robotic Technologies Limited (RTL), was formed in October 2003 and has a balance date of 31 August. RTL's principal activity is the marketing and development of (primarily) lamb meat processing equipment and the management of the intellectual property associated with these developments. Scott Technology Limited's share of RTL's net profit was $81,000 (2020: share of net deficit $68,000).*

*(ii) Scott Technology Euro Limited (STEL) is a European sales agency for Scott Technology Limited and is a joint venture between Scott Technology Limited and Industrial Process Solution of Italy. STEL was formed in 2009 and has a balance date of 31 August. Scott Technology Limited's share of STEL's net deficit was $Nil (2020: share of net deficit $69,000). STEL is no longer trading and was liquidated in March 2021. The Group incurred a loss on $72,000 upon liquidation.*

(iii) *Scott Technology S.A. (STSA) is a joint venture between Scott Technology Limited and Canadian private company STG Holdings Limited. STSA commenced trading in June 2014 and has a balance date of 31 August. STSA is a sales agency for mining equipment in the Americas and is based in Chile. Scott Technology Limited's share of STSA's net surplus was $37,000 (2020: share of net surplus $66,000). In August 2021, Scott Technology Limited sold its share in Scott Technology S.A. to STG Holdings Limited. The Group incurred a loss of $137,000 for this transaction.*

(iv) *Rocklabs Automation Canada Limited (RAC) is a joint venture between Scott Technology Limited and Canadian private company STG Holdings Limited. RAC commenced trading in 2013 and has a balance date of 31 August. RAC is a sales agency for mining equipment in North America. Scott Technology Limited's share of RAC's net profit was $677,000 (2020: $220,000) and RAC did not pay a dividend (2020: $298,000). In August 2021, the Group sold its 50% share in Rocklabs Automation Canada Limited to STG Holdings Limited. The Group incurred a loss of $157,000 for this transaction.*

| **Carrying value of equity accounted investments:** | **2021** $'000s | **2020** $'000s |
|---|---|---|
| Balance at 1 September | 1,223 | 1,372 |
| Share of net surplus | 796 | 149 |
| Share of dividends | - | (298) |
| Divestment of interest in joint venture | (1,671) | - |
| **Balance at 31 August** | **348** | **1,223** |

| **Summarised statement of comprehensive income of joint ventures from continuing operations:** | **Joint ventures** **2021** $'000s | **2020** $'000s |
|---|---|---|
| Income | 9,894 | 5,072 |
| Expenses | (8,302) | (4,774) |
| Net surplus and total comprehensive income | 1,592 | 298 |
| **Group share of net surplus** | **796** | **149** |

| **Summarised balance sheets of joint ventures:** | **Joint ventures** **2021** $'000s | **2020** $'000s |
|---|---|---|
| Current assets | 1,882 | 3,153 |
| Non-current assets | 300 | 996 |
| Current liabilities | (1,486) | (1,106) |
| Non-current liabilities | - | (801) |
| Net assets | 696 | 2,242 |
| **Group share of net assets** | **348** | **1,121** |

RTL does not have any contingent assets, contingent liabilities or commitments for capital expenditure.
The Group is not jointly and severally liable for any of the joint ventures' liabilities.

## SECTION E: GROUP STRUCTURE AND SUBSIDIARIES

# E5. RELATED PARTY TRANSACTIONS

| Joint ventures | 2021 $'000s | 2020 $'000s |
|---|---|---|
| Project work undertaken by the Group for RTL | 197 | 296 |
| Administration, sales and marketing fees charged by the Group to RTL | 198 | 214 |
| Sales revenue received by RTL from the Group | 558 | 389 |
| Advance from RTL to Scott Technology | (108) | (426) |
| Interest charged by RTL to Scott Technology on advance | 66 | 101 |
| Administration fees charged by the Group to STEL | - | - |
| Commission received by STEL from the Group | - | - |
| Advance from STEL to Scott Technology | - | 2 |
| Project work undertaken by the Group for STSA | - | 424 |
| Advance from Scott Technology to STSA | - | 765 |
| Project work undertaken by the Group for RAC | - | 3,305 |
| Advance from Scott Technology to RAC | - | (5) |

### Advances

Advances to/from joint ventures are unsecured, interest free and repayable on demand.

### Directors

S J McLauchlan was a trustee of the Scott Technology Employee Share Purchase Scheme. All of the shares in this scheme have been disposed in 2021 and the scheme has been liquidated. An amount of $0.1 million was recognised in the profit and loss. The balance of the interest free advance owing to the scheme at 31 August 2021 was $Nil (2020: $7,694).

### Substantial shareholders

JBS Australia Pty Ltd owns a 52.02% shareholding in Scott Technology Limited (2020: 51.9%). The Group has recognised sales to JBS companies of $6.9 million (2020: $6.8 million), the majority of which are sales of BladeStop machines, and has made purchases from JBS Companies of $Nil (2020: $Nil). As at balance date the Group had $1.0 million receivable from JBS Companies (2020: $1.3 million).

The Group has a revolving credit facility with JBS. Refer to Note C3 for details.

In the 2020 period, the Group had been working on an development project with the intention of securing a contract for the system with JBS in the USA. The Group had not been able to meet the performance criteria of this project, and as a result, this project was written off during the 2020 financial year. This project is included in the FY20 impairment of development assets balance in Note B9. In the 2021 period, negotiations have re-started for this project and work has been re-commenced in this financial period.

Dividends paid to JBS amounted to $0.8 million (2020: $1.6 million). All dividends have been reinvested in Scott Technology Limited under a dividend reinvestment plan.

### Terms and conditions

Transactions relating to dividends, calls on shares and subscriptions for new shares are on the same terms and conditions that applied to other shareholders.

Goods sold to related parties during the year are based on price lists in force and terms that would be available to third parties.

Outstanding balances are unsecured and repayable in cash.

# SECTION F: OTHER DISCLOSURES

## F1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

*Policy*

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive income.

Definition of terms used in the statement of cash flows:

Cash includes cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value, net of bank overdrafts.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity.

| | 2021<br>$'000s | 2020<br>$'000s |
|---|---|---|
| **Net profit / (loss) after tax for the year** | **9,527** | **(17,503)** |
| **Adjustments for non-cash items:** | | |
| Depreciation and amortisation | 8,836 | 9,898 |
| Net gain on sale of property, plant and equipment | (68) | (328) |
| Deferred tax | 437 | (6,491) |
| Share of net loss/(surplus) of joint ventures and associates | (796) | (149) |
| Interest expense | 1,380 | 1,431 |
| | **9,789** | **4,361** |
| **Add/(less) movement in working capital:** | | |
| Trade debtors | (4,056) | 15,564 |
| Other financial assets – derivatives | 336 | 180 |
| Sundry debtors | (2,595) | 629 |
| Inventories | (443) | (123) |
| Contract assets | 894 | 17,455 |
| Contract liabilities | (6,313) | - |
| Development assets | - | 6,786 |
| Onerous contract provision | 263 | 3,463 |
| Taxation payable | 1,144 | (126) |
| Trade creditors and accruals | 6,062 | (7,024) |
| Other financial liabilities – derivatives | (376) | (1,724) |
| Employee entitlements | 483 | (2,726) |
| Provision for warranty | (644) | 328 |
| | **(5,245)** | **32,682** |
| **Movements in working capital disclosed in investing/financing activities:** | | |
| Working capital relating to sale / (purchase) of business and non controlling interest | (97) | 10 |
| Movement in foreign exchange translation reserve relating to working capital | (548) | 13 |
| **Net cash inflow from operating activities** | **13,426** | **19,563** |

### Reconciliation of movement in debt facilities

| | Balance at 1 September | Additions | Disposals | Drawings | Repayment | Translation of foreign exchange | Balance at 31 August |
|---|---|---|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s | $'000s |
| **2021** | | | | | | | |
| Bank loans | 11,185 | - | - | 10,119 | (10,175) | (209) | 10,920 |
| Lease liabilities | 13,826 | 1,555 | (563) | - | (4,007) | (523) | 10,288 |
| | **25,011** | **1,555** | **(563)** | **10,119** | **(14,182)** | **(732)** | **21,208** |
| **2020** | | | | | | | |
| Bank loans | 11,667 | - | - | 3,264 | (3,574) | (172) | 11,185 |
| Lease liabilities | 17,392 | 889 | (107) | - | (4,176) | (172) | 13,826 |
| | **29,059** | **889** | **(107)** | **3,264** | **(7,750)** | **(344)** | **25,011** |

## SECTION F: OTHER DISCLOSURES

# F2. CONTINGENT LIABILITIES

| | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Payment guarantees and performance bonds | 30,370 | 26,272 |
| Stock Exchange bond | 75 | 75 |
| Maximum contract penalty clause exposure | 5,692 | 7,041 |

Payment guarantees are provided to customers in respect of advance payments received by the Group for contract work in progress, while performance bonds are provided to some customers for a period of up to one year from final acceptance of the equipment.

Scott Technology Limited has a payment bond to the value of $75,000 (2020: $75,000) in place with ANZ Bank New Zealand Limited in favour of the New Zealand Stock Exchange.

The Group has exposure to penalty clauses on its projects. These clauses relate to delivery criteria and are becoming increasingly common in international contractual agreements. There is a clearly defined sequence of events that needs to occur before penalty clauses are imposed.

## SECTION F: OTHER DISCLOSURES

# F3. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel include the Directors of the Company, the Chief Executive and his direct reports.

| The compensation of the executives, is set out below: | 2021 | 2020 |
|---|---|---|
| | $'000s | $'000s |
| Short term benefits – employees | 1,924 | 667 |
| Short term benefits – Executive Director | 1,803 | 524 |
| Post employment benefits | 10 | - |
| Long term benefits – employees | 288 | - |
| Long term benefits – Executive Director | 129 | - |
| | **4,154** | **1,191** |
| **Directors' remuneration** | **255** | **250** |

Detailed remuneration disclosures are provided in the remuneration statement on pages 93 to 94.

### SECTION F: OTHER DISCLOSURES

## F4. COVID-19 IMPACT

COVID-19 continues to have a significant impact on the global economy. As a global organisation with operations in multiple jurisdictions, the Group has been impacted in numerous ways and continues to assess the impact on the Group on a regular basis.

The Group took fast and decisive action to protect the health and safety of the employees and the financial integrity of the Group. The actions taken included:

- Putting the health and wellbeing of all employees and their families first. This continues to be the priority,
- Following all government regulations, including limiting access to sites,
- Enabling employees to work from home where required, possible and viable,
- Deferring all non-essential capital expenditure and limited all discretionary expenditure,
- Accessing available government support for employees globally,
- Suspending dividend payments in 2020,
- Securing an additional funding line from our majority shareholder, JBS Australia Pty Ltd, and
- Releasing and implementing a revised strategy and restructured the Group's global operations to right-size the business and reduce the overall cost base.

The Group has sufficient headroom in its currrent banking facilities including finalising negotiations with Scott's major banking partner, ANZ Bank New Zealand Limited, to ensure the Group continues to have access to sufficient debt facilities for future investment needs.

While COVID-19 continues to provide uncertainties within the day to day operations of the Group, the measures taken, together with the renewed strategy for future years, have resulted in a much improved underlying performance for the year, increased balance sheet resilience and a stronger cash position.

The Board believes that the actions taken by the Group, along with the continued support of ANZ Bank New Zealand Limited and JBS Australia Pty Ltd, will ensure Scott continues to be in a good position to manage the on-going impacts from COVID-19.

### SECTION F: OTHER DISCLOSURES

## F5. SUBSEQUENT EVENTS

On 21 October 2021 the Board of Directors approved a final dividend of four cents per share to be paid for the 2021 year. (2020: nil)

# INDEPENDENT AUDITOR'S REPORT

*For the year ended 31 August 2021*

Deloitte.

## TO THE SHAREHOLDERS OF SCOTT TECHNOLOGY LIMITED

### Opinion

We have audited the consolidated financial statements of Scott Technology Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 August 2021, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 28 to 76, present fairly, in all material respects, the consolidated financial position of the Group as at, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

### Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $950,000 (2020: $780,000).

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Recognition of Profit on Systems Contracts** | |
| The Group's most significant revenue stream relates to contracts for designing and manufacturing customised automation and robotic systems for customers in various industries ("systems contracts"). Revenue on systems contracts is recognised over the term of the contract period using the input method based on management's estimate of the percentage of completion of the individual contracts as detailed in Note A1. An estimate of the percentage of completion is based on costs associated with the work done to date relative to the total forecast costs to complete.<br>There is a significant level of judgement involved in the recognition of revenue and profit on systems contracts driven by factors which arise throughout the life of the project requiring estimation, and contract conditions differing between projects. For these reasons, we have identified this area as a key audit matter. | We assessed the group's processes and controls around preparation/ calculation of the percentage of completion.<br>For a sample of projects in place at the end of the prior year, we compared the current year actual results to prior year forecasts to assess the reliability of management estimates relating to the cost of completion.<br>For a sample of contracts, we performed the following procedures:<br>• Assessed whether the key estimates made by management reflect the terms and conditions of the contract;<br>• Evaluated cost to complete forecasts by challenging management's key assumptions and comparing revenue recognition calculations to project cost forecasts prepared by project managers;<br>• Obtained evidence of scope variations and claims and verified that these have not been included in management's determination of revenue recognition until agreed with the customer; and<br>• Tested the costs incurred on systems contracts during the year to validate the costs and assess whether they have been applied to contracts appropriately. |
| **Goodwill Impairment Assessment – Europe cash generating unit** | |
| As at 31 August 2021, there is $55.2 million (2020: $57.3 million) of goodwill included on the balance sheet of the Group as detailed in Note B5. The balance is held across four cash generating units (CGUs). $17.4 million (2020: $18.3 million) of the goodwill balance is allocated to the Europe CGU.<br>NZ IAS 36: *Impairment of Assets* requires the Group to complete an impairment test related to goodwill annually. The Group tests for impairment by determining the recoverable amount of the cash generating units to which the goodwill is allocated and comparing the recoverable amounts of the CGUs to their carrying values.<br>The recoverable amount of each CGU is based on value in use which is determined using a discounted cash flow calculation. This calculation is subjective, and requires the use of judgement, primarily in respect of:<br>• Annualised forecast cash flows for the 5 year forecast period (using the budget for the first year of the forecast period)<br>• Discount rates<br>• Annual growth rates<br>• Terminal growth rates<br>We have included the impairment assessment of goodwill relating to the Europe CGU as key audit matter due to the significance of the balance to the financial statements, the lower level of headroom relative to the other cash generating units and the level of judgements and estimates required in preparing the value in use model. | We considered whether the Group's methodology for assessing impairment of the Europe cash generating unit is compliant with NZ IAS 36. We focused on testing and challenging the suitability of the model and reasonableness of the assumptions used by the Group in conducting their impairment review.<br>Our procedures included, among others:<br>• Agreeing first year forecast cashflows to Board approved budgets;<br>• Challenging the reliability of the Group's revenue and expense growth rates to historical forecasts and actual results. This also included consideration of Covid 19 on both forecast revenue and profitability of the Europe CGU;<br>• Assessing reasonabless of key assumptions and changes from the previous years; and<br>• Assessing management's determination of cash generating units and our understanding of the Group's business and operating environment.<br>We used our internal valuation experts to assist with evaluating the models and challenging the Group's key assumptions. The procedures of the specialist included:<br>• Evaluating the appropriateness of the model;<br>• Testing the mathematical integrity of the model; and,<br>• Comparing the Group's annualised and terminal growth rates to market data.<br>We evaluated the sensitivity analysis performed by management to consider the extent to which a change in one or more of the key assumptions could give rise to impairment in the goodwill. We note that this analysis resulted in additional disclosure in the financial statements relating to the Europe CGU. |

## Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

## Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

## Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

**Andrew Dick,**
**Partner for Deloitte Limited**
Auckland, New Zealand
21 October 2021


Pal 4.0 installed for a dairy product producer, Poland.

# STATEMENT OF CORPORATE GOVERNANCE

*For the year ended 31 August 2021*

## CORPORATE GOVERNANCE

Scott Technology Limited (Scott) believes in the benefit of strong corporate governance and the value it provides for our shareholders, customers, employees and other stakeholders. The Board is ultimately responsible for ensuring that the Company maintains high ethical standards and corporate governance practices. The Company is striving to ensure its corporate governance practices are in line with best practice and the NZX Corporate Governance Code (NZX Code). Any exceptions to this are identified where appropriate under Principles 1 to 8 below.

The key corporate governance documents referred to in this report are available on Scott's website:

www.scottautomation.com/en/investor-centre/governance

## PRINCIPLE 1
## CODE OF ETHICAL BEHAVIOUR

The Board is committed to maintaining the highest standards of behaviour and accountability. Scott's Code of Conduct is the framework of standards by which the Directors, senior management and employees are expected to conduct their professional lives. It is intended to support decision-making that is consistent with Scott's values, business goals and legal and policy obligations, rather than to prescribe an exhaustive list of acceptable and non-acceptable behaviour.

As part of the induction process, new employees receive a copy of the Code of Conduct, which is accessible to all employees on the Scott intranet and the Company website. The Code was most recently reviewed in 2020.

The Company also has an Ethics Line Policy which provides a confidential online reporting system that allows employees to report suspected breaches of law or company policies as well as other serious concerns they may have. The purpose of the policy is to protect an employee who wishes to raise concerns from reprisals or victimisation for reporting their concerns.

Scott supports the integrity of New Zealand's financial markets and has a Financial Product Trading Policy to mitigate the risk of insider trading by employees and Directors. In addition to these policy and guidelines, more specific and stringent rules also apply to trading in Scott Technology Limited's securities by Directors and certain employees who are more likely to be exposed to material information relating to Scott. A Director or senior manager is obliged to advise the NZX promptly if they trade in the Company's shares.

The Directors' shareholdings and all trading of shares during the year by the Directors are disclosed under Directors' Interests on pages 89-90 of the Annual Report.

## PRINCIPLE 2
## BOARD COMPOSITION AND PERFORMANCE

The Board of Directors operates under a written charter, which outlines the roles and responsibilities of the Board. The charter complies with the relevant recommendations in the NZX Corporate Governance Code and is available on the company website.

The primary responsibilities of the Board include:

- Ensure the Company's goals are clearly established and that strategies are in place for achieving them.
- Establish policies for strengthening the performance of the Company and ensure that management is proactively seeking to build the business.
- Monitor the performance of management.
- Appoint the CEO and set the terms of the CEO's employment agreement.
- Ensure the Company's financial statements are true and fair and conform with the law.
- Ensure the Company adheres to high standards of ethics and corporate behaviour.
- Ensure the Company has appropriate risk management / regulatory compliance policies in place.

### BOARD COMPOSITION AS AT 31 AUGUST 2021

The Board composition reflects the majority shareholding of the company, with 52.02% held by JBS Australia Pty Limited. As at 31 August 2021, the Board comprises three Independent Directors, three Directors representing JBS

Australia Pty Limited and one Executive Director. The Chair of the Board is an Independent Director.

| | |
|---|---|
| Stuart McLauchlan | Independent Chair |
| Derek Charge | Independent Director |
| John Thorman | Independent Director |
| Brent Eastwood | Non-executive Director representing JBS Australia Pty Limited |
| Edison Alvares | Non-executive Director representing JBS Australia Pty Limited |
| Alan Byers | Non-executive Director representing JBS Australia Pty Limited |
| John Kippenberger | Executive Director/CEO |
| John Berry | Alternative non-executive Director representing JBS Australia Pty Limited |

In order for a Director to be deemed Independent, the Board has determined that he/she must not be an executive of Scott Technology nor an executive, or Director of JBS Australia Pty Limited and must have no disqualifying relationships. Independence will be determined by reference to the NZX Listing Rules and the NZX Corporate Governance Code.

Further details on each Director, including their interests, qualifications and shareholdings, is provided in the Annual Report and on the Company's website.

## DIRECTOR APPOINTMENT

Membership, rotation and retirement of Directors is determined in accordance with the Company Constitution and NZX Listing Rules.

Directors will retire and may stand for re-election by shareholders every three years. A Director appointed since the previous annual meeting holds office only until the next annual meeting but is eligible for re-election at that meeting. The Board asks for Director nominations each year prior to the Annual Shareholders Meeting, in accordance with the constitution of the Company and the NZX Listing Rules.

The Governance, Remuneration and Nominations Committee undertakes the process for nominating and appointing Directors on behalf of the Board and makes appropriate recommendations to the Board, in line with the Committee's Terms of Reference. New Board members enter into written agreements with the Company, setting out the terms of their appointment.

The Board has a skills matrix and Directors are selected on individual skills, qualifications, experience and contribution to the Company. The Board believes that all current Directors offer valuable and complementary skill sets.


The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board's expertise and has a personality that is compatible with the other Directors.

The company encourages all Directors to undertake appropriate training and education to ensure they remain up to date on how to best perform their duties as Directors.

Day-to-day management of Scott is delegated to the CEO and the senior management team, in line with the company's delegated authority framework.

Management is responsible for providing information of sufficient content, quality and timeliness as the Board considers necessary to allow the Board to effectively discharge its duties. In addition, all Directors have access to management to discuss issues or obtain information on specific areas in relation to matters to be discussed at Board meetings, or other areas as they consider appropriate. With the prior approval of the Chair, each Director also has the right to seek independent legal and other professional advice at the Company's expense about any aspect of the Company's operations or undertakings to assist in fulfilling their duties and responsibilities as Directors.

The Board regularly evaluates its own collective and individual performance, processes and procedures, including those of sub committees. Through this process, the Board identifies any training opportunities for the individual Directors to ensure they have relevant and up-to-date skills for performing their role.

### DIVERSITY

The Board has a Diversity Policy which outlines Scott's commitment to providing an inclusive and diverse working environment.

Diversity initiatives are applicable, but not limited, to our practices and policies on recruitment and selection; compensation and benefits; professional development and training; promotions; transfers; social and recreational programs; restructures; and terminations.

The Board believes the principles of the Diversity Policy were upheld in FY21, and is working towards setting measurable objectives to support its focus on diversity and inclusion. The following initiatives are in place to support Scott's diversity plan:

- Anti-bullying and harassment policy.
- Ethics hotline where employees can anonymously report anything they believe to be unethical or discriminatory.
- Wellbeing plan that focuses on the long-term wellbeing and engagement of our people.
- Employee surveys.

As at 31 August 2021, Scott had 622 employees of which 14% were female and 86% were male (31 August 2020: 613 Scott employees, 15% female, 85% male).

| | | **2020** | | **2021** |
|---|---|---|---|---|
| *As at 31 August* | Female | Male | Female | Male |
| Directors, including the CEO | 0 | 8 | 0 | 8 |
| Officers* | 3 | 4 | 2 | 5 |

* *Officers include all members of the Executive Team who report to the CEO.*

# PRINCIPLE 3
# BOARD COMMITTEES

The Board has delegated a number of responsibilities to committees to assist in the execution of the Board's duties. However, any recommendations made by committees are recommendations to the Board and the Board retains ultimate responsibility for the functions of its committees. Each committee operates under specific terms of reference, which are reviewed regularly and approved by the Board.

The Board has four standing committees. A separate Independent Directors' committee meets if needed. Responsibilities of each committee are detailed in committee charters which are available on the company website. Management attends committee meetings only at the invitation of the committee.

| | |
|---|---|
| Audit and Financial Risk Committee | John Thorman (chair)<br>Stuart McLauchlan<br>Edison Alvares |
| Health and Safety Committee | Stuart McLauchlan (chair)<br>Full Board |
| Governance, Remuneration and Nominations Committee | Stuart McLauchlan (chair)<br>Derek Charge<br>John Thorman |
| Treasury Committee | Stuart McLauchlan (chair)<br>John Kippenberger<br>Edison Alvares |

### AUDIT AND FINANCIAL RISK COMMITTEE (AFRC)

The objective of the Audit and Financial Risk Committee (AFRC) is to assist the Board in discharging its responsibilities for financial reporting and risk and financial/secretarial compliance.

The AFRC must consist of at least three Directors and a majority of Independent Directors. The chair of the AFRC is John Thorman, who is an Independent Director and is not the Board Chair. Stuart McLauchlan is a Fellow and John Thorman a Member of Chartered Accountants Australia and New Zealand (CAANZ).

The Committee generally invites the Chief Executive Officer, Chief Financial Officer and the external auditors to attend AFRC meetings as appropriate. The Committee also meets and receives regular reports from the external auditors without management present, concerning any matters which arise in connection with the performance of their role.

## HEALTH AND SAFETY COMMITTEE

The Board recognises the critical role health and safety forms as part of Scott's day-to-day operations and its focus is on ensuring a safety-first culture across all business operations. Health and safety is deemed an 'all of Board' responsibility and all Directors are members of the Health and Safety Committee. The Committee assists the Board in discharging its responsibilities in overseeing and reviewing health and safety matters arising out of Scott's activities and the impact of these activities on employees, contractors and visitors to Scott.

## GOVERNANCE, REMUNERATION AND NOMINATIONS COMMITTEE

The Governance, Remuneration and Nominations Committee assists the Board in establishing remuneration policies and practices for the Company, and to also assist in discharging the Board's responsibilities relative to remuneration-setting and review of, the Company's Chief Executive Officer and Directors. The Committee also undertakes the process for nominating and appointing Directors on behalf of the Board and makes appropriate recommendations to the Board.

Due to a conflict of interest in being the majority shareholder, JBS Australia Pty Ltd and their Board representatives abstain from voting on the appointment of Independent Directors.

## TREASURY COMMITTEE

The role of the Treasury Committee is to oversee the treasury management processes to ensure the integrity, transparency and adequacy of the Group's investments, borrowings, hedging, balance sheet management and treasury risk management in accordance with Group Treasury policies.

## INDEPENDENT DIRECTORS' COMMITTEE

The Independent Directors' Committee is convened as needed and consists of Independent Directors who address significant conflicts of interest and any other matters referred by the Board. Scott has protocols that set out the procedures to be followed if there is a takeover offer. These procedures are set out in the Takeover Response Protocols that have been adopted by the Board.

## BOARD MEETINGS AND ATTENDANCE

Director attendance at Board and Committee meetings during FY21 were as follows:

| | Board | Audit and Financial Risk Committee | Health and Safety Committee | Governance, Remuneration and Nominations Committee |
|---|---|---|---|---|
| **Total Number of Meetings** | **6** | **3** | **6** | **2** |
| Stuart McLauchlan | 6 | 3 | 6 | 2 |
| Brent Eastwood | 4 | 1 | 4 | - |
| Edison Alvares | 6 | 2 | 6 | - |
| Alan Byers | 6 | 1 | 6 | - |
| John Berry (alternate) | 3 | 1 | 3 | - |
| John Thorman | 6 | 3 | 6 | 2 |
| Derek Charge | 6 | - | 6 | 2 |
| John Kippenberger | 6 | 3 | 6 | - |

# PRINCIPLE 4
# REPORTING AND DISCLOSURE

The Board is committed to providing accurate, adequate and timely information both to existing shareholders and to the market generally. This enables all investors to make informed decisions about the Company.

Scott, as a company listed on the NZX Main Board, has an obligation to comply with the disclosure requirements under the NZX Main Board Listing Rules. Scott recognises that these requirements aim to provide equal access for all investors or potential investors to material price-sensitive information concerning issuers or their financial products. This, in turn, promotes confidence in the market.

Scott's Continuous Disclosure Policy outlines the obligations of Scott and relevant Scott personnel in satisfying the disclosure requirements. It also covers other related matters including external communications by Scott.

Scott publishes its key governance and other relevant documents in the investor centre of the Company's website at www.scottautomation.com/en/investor-centre/governance

All significant announcements made to the NZX and reports issued are also posted on the Company's website.

### FINANCIAL REPORTING

Scott's management team is responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies and internal controls. These are designed to ensure compliance with accounting standards, applicable laws and regulations.

The Audit and Financial Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews the full and half year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed, and for which the Committee has responsibility, were addressed during the reporting period.

For FY21, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The CEO and CFO have confirmed in writing to the Board that the company's external financial reports present a true and fair view in all material aspects.

Scott's full and half year financial statements are available on the Company's website.

### NON-FINANCIAL REPORTING

In FY20, Scott introduced a new five-year strategy which builds on five foundational pillars. Scott believes these pillars enhance the long term sustainability of the company and support the company's licence to operate. The company discusses its strategy and progress against objectives in the Annual Report and other investor presentations and communications.

The company has policies that support environmental, social and governance concerns and is in the process of formulating a formal ESG framework. Material matters that may impact on or influence the long term sustainability of the company are considered and managed as part of the risk management process.

# PRINCIPLE 5
# REMUNERATION

Scott's remuneration philosophy promotes the Company's shared performance culture with the aim of achieving sustained growth within the business, both in terms of corporate size and the quality of equipment and services provided to our customers. The philosophy also emphases the fundamental value of all our employees and their role in attaining sustained growth through fair and balanced remuneration practice.

The Governance, Remuneration and Nominations Committee makes recommendations to the Board on remuneration matters, particularly remuneration of Directors and senior executives, including the CEO.

### DIRECTOR REMUNERATION

Details of individual Directors' remuneration for the year are on page 93 of the Annual Report.

The total Director remuneration pool of $300,000 was last approved by shareholders at the 2012 annual meeting. The Board is responsible for the setting of individual Directors' fees in accordance with the permitted pool. Any proposed increases in non-executive Director fees and remuneration are put to shareholders for approval.

In FY21, the approved remuneration for each role was as follows:

| | **Fees per annum** (NZ$) |
|---|---|
| Board chair | $105,000 |
| Independent Director | $52,500 |
| Audit and Financial Risk Committee Chair | $10,000 |
| Audit and Financial Risk Committee Member | $5,000 |
| Health and Safety Committee Chair | $10,000 |
| Health and Safety Committee Member | $5,000 |
| Governance, Remuneration and Nominations Committee Chair | $5,000 |
| Governance, Remuneration and Nominations Committee Member | $2,500 |

No fees were paid to Directors representing JBS Australia Pty Ltd.

### EXECUTIVE REMUNERATION

The remuneration of the CEO and the executive team is determined by the significance of their role and industry benchmarking. The total remuneration is made up of fixed remuneration and short-term cash-based incentives, plus long term incentives.

The short-term incentives are at-risk payments that reward performance. They are designed to motivate and incentivise senior employees in the delivery of performance. The amount payable is determined annually. The payment of the short-term incentive depends on achieving certain results and outcomes. Performance over the financial year is measured against 'stretch' performance targets. The performance metrics differ with each role. The levels and appropriateness of these incentives and weighting are reviewed each year.

The senior management phantom share scheme is a long-term incentive linked to the Company's share price which aligns the long-term interests of both senior management and shareholders, as well as acting as a retention incentive to senior management.

Further details of the CEO and executive remuneration can be viewed on page 93 of the Annual Report.

# PRINCIPLE 6
# RISK MANAGEMENT

The Board is responsible for overseeing the Company's system of internal controls to manage key risks and have overall responsibility for managing risk.

The Company maintains a group risk register to identify and manage risk. Specific health and safety risk registers for each site are separately maintained given the significance of this area to the business. The senior executive team is responsible for maintaining the risk registers.

Through the Audit and Financial Risk Committee, the Board considers the recommendations and advice of external auditors in relation to financial risk, and ensures that those recommendations are investigated and, where considered necessary, appropriate action is taken. Financial statements are prepared monthly and are reviewed by the Board progressively during the year to monitor management's performance against budget goals and objectives.

A structured framework is in place for capital expenditure, including appropriate authorisation and approval levels which place a high emphasis on commercial logic for the investment. The Board has set limits to management's ability to incur expenditure, enter contracts and acquire or dispose of assets.

The Board requires managers to identify and respond to risk exposures and key business risks are formally reviewed by the Board.

Crisis plans are in place along with agreed protocols on actions to be taken in crisis scenarios.

## HEALTH AND SAFETY

The Board recognises that effective management of health and safety is essential for the operation of a successful business. Its intent is to prevent harm and promote wellbeing for employees, contractors, customers and suppliers. The Health and Safety Committee charter outlines the Board's responsibilities and approach in regards to health and safety matters.

Specific protocols include:

- Well established Health and Safety management systems and processes in the workplace, fully supported by the Executive Team and Board.
- Processes and documents are reviewed and audited on a regular basis as part of our continuous improvement program through the HS Strategic programme.
- Dedicated health and safety coordinators on each site, fully supported and well informed with the legislation and law changes.
- In-house competency-based training program that utilises both in-house expertise and external certified trainers to ensure our employees are safe to operate in our workshop and on customer sites.
- Health and safety measures which are monitored and regularly reviewed.

Scott's Lost Time Injury Frequency Rate (LTIFR) was 3.47 as at the end of August 2021, (8.68 as at the end of September 2020), below the industry benchmark for specialised equipment manufacture of 14.5 (Sourced through Safework Australia).

## CYBER SECURITY

The Board recognises the critical role of cyber security and the importance of having appropriate systems and processes in place to protect the Company's data, including financial, employee, engineering, supplier and customer data.

# PRINCIPLE 7
# AUDITORS

The Audit and Financial Risk Committee makes recommendations to the Board on the appointment of the external auditor as set out in the charter. The Committee also monitors the independence and effectiveness of the external auditor and reviews and approves any non-audit services performed by the external auditor.

The Committee regularly meets with the external auditor to approve the terms of engagement, audit partner rotation (at least every 5 years), the audit fee, and to review and provide feedback on the annual audit plan. Every year, a comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken. The assessment uses an external auditors' assessment tool, which is internationally recognised and endorsed by the Independent Directors Council. The Committee routinely has time with Scott's external auditor, Deloitte, without management present.

For the financial year ended 31 August 2021, Deloitte was the external auditor for Scott Technology Limited. Deloitte was re-appointed under the Companies Act 1993 at the 2020 Annual Meeting.

All audit work is separated from non-audit services to ensure that appropriate independence is maintained. Other services provided by Deloitte were non-audit related and involved the provision of advice rather than recommendations. These were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work. The amount of fees paid to Deloitte for audit and non-audit work in FY21 are detailed on page 40 of the Annual Report.

The last audit partner rotation was in 2021. Deloitte attends the Company's Annual Meeting.

Scott has a number of internal controls, including controls for computerised information systems, security, business continuity management, insurance, health and safety, conflicts of interest and prevention and identification of fraud. Scott does not have an internal audit function.

# PRINCIPLE 8
# SHAREHOLDER RIGHTS AND RELATIONS

The Company seeks to ensure that investors understand its activities by communicating effectively with them and providing access to clear and balanced information.

The Company website www.scottautomation.com provides an overview of the business and information about Scott. This information includes details of operational sites, latest news, investor information, key corporate governance information and copies of significant NZX announcements. The website also provides profiles of the Directors and the senior management team.

All shareholders are given the opportunity to elect to receive electronic communications from the company. Copies of previous annual reports, financial statements and results presentations are available on the website.

Shareholders are encouraged to attend the Annual Meeting and may raise matters for discussion at this event, and vote on major decisions which affect the Company. The Company aims to publish notices of Annual Meetings on its website at least 20 business days before the meeting each year. Voting is by poll.

In additional to shareholders Scott has a wide range of stakeholders and maintains open communication channels for all audiences including brokers, the investing community and the New Zealand Shareholders' Association, as well as its employees, suppliers and customers. In particular, Scott's Chief Executive Officer and Chief Financial Officer develop strong relationships with the investor community and ensure shareholders are kept informed. Scott has a number of policies which uphold stakeholder interests.

# STATUTORY INFORMATION

*For the year ended 31 August 2021*

## DIRECTORS' INTERESTS

The Company maintains an Interests Register in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

No interest disclosures for the purposes of section140(1) were given during the year ended 31 August 2021.

The following are general disclosures of interest given by Directors of the company under section 140(2) of the Companies Act 1993.

**Stuart McLauchlan**

| | |
|---|---|
| Chairman | New Zealand Sports Hall of Fame |
| Chairman | Analog Digital Instruments Ltd ("Group Instruments") |
| Chairman | Otago Community Hospice |
| Chairman | The New Zealand Whisky Co. Ltd |
| Chairman | Woodworks Southern Ltd |
| Chairman | Skyline Healthcare Group Ltd |
| Partner/Director | GS McLauchlan and Co Ltd |
| Director | Argosy Property Ltd |
| Director | Cargill Hotel 2002 Ltd |
| Director | Dunedin Casinos Ltd |
| Director | EBOS Group Ltd |
| Director | Scenic Hotel Group Ltd |
| Director | Orari Street Properties Ltd |
| Director | Rosebery Holdings Ltd |
| Director | B Pac NZ |
| Director | South Link Education Trust |

**John Kippenberger**

| | |
|---|---|
| Director | Robotic Technologies Limited |

**Brent Eastwood**

| | |
|---|---|
| Chief Executive and Director | JBS Australia Pty Ltd and associated companies |
| Director | Afoofa Development Pty Ltd |
| Director | Andrews Meat Industries Pty Ltd |
| Director | Enunga Enterprises Pty Ltd |
| Director | Premier Beehive NZ |
| Member | Business Council of Australia |

**Derek Charge**

| | |
|---|---|
| Director | Charge Advisory Ltd |
| Director | Larooma Farm Holdings Pty Limited |
| Director | SWS Lawyers Pty Ltd |
| Director | Whisky Tasmania Ltd |
| Director | Hellyers Road Distillery Pty Ltd |

**John Thorman**

| | |
|---|---|
| Director | Corporate Services New Zealand Ltd |
| Director | East Pacific Telecommunications Company Ltd |
| Director | TNX Ltd |
| Director | Fairfield TIR New Zealand Ltd |
| Director | Kitaki Nominees Ltd |
| Director | Kitaki Ventures GP Ltd |
| Director | Heilig Assets Ltd |
| Director | Starnow GP Ltd |
| Director | CSNZ Trustees Ltd |
| Director | Proactive Software Ltd |
| Director | P A S Holding Ltd |
| Director | GAP II NZ GP Ltd |
| Director | Liveops New Zealand Ltd |
| Director | Global Outsourcing Team (NZ) Ltd |
| Director | Healthlink Group Investments Ltd |
| Director | Konnect Net Investments Ltd |
| Director | Primer Technologies New Zealand Ltd |
| Director | Blackbird GP NZ Ltd |
| Director | Blackbird Ventures NZ Ltd |

**Edison Alvares**

| | |
|---|---|
| Director | JBS Australia Pty Ltd and associated companies |
| Director | Andrews Meat Industries Pty Ltd Director |
| Director | Premier Beehive NZ Director |

**John Berry**
*(alternate for Brent Eastwood, Edison Alvares and Alan Byers)*

| | |
|---|---|
| Chairman | Australian Meat Processor Corporation Chairman |
| Director | JBS Australia Pty Ltd and associated companies |
| Director | Andrews Meat Industries Pty Ltd Director |
| Director | Premier Beehive NZ Director |

**Alan Byers**

*Nothing to declare*

## DIRECTORS' RELEVANT INTERESTS IN SHARES AS AT 31 AUGUST 2021

In accordance with the NZX Listing Rules, as at 31 August 2021, ordinary shares in the Company in which each Director has a relevant interest are specified in the table below.

| Director | | 2021 | 2020 |
|---|---|---|---|
| S McLauchlan | Indirect/beneficial interest | 484,602 | 479,639 |
| | Non-beneficial interest* | - | 17,779 |
| J Kippenberger | Legal and beneficial interest | 73,232 | 43,000 |
| J Thorman | Indirect/beneficial interest | 5,000 | - |
| D Charge | Indirect/beneficial interest | 5,000 | - |
| H Eastwood | Non-beneficial interest** | 40,923,700 | 40,612,443 |
| E Alvares | Non-beneficial interest** | 40,923,700 | 40,612,443 |
| J Berry | Non-beneficial interest** | 40,923,700 | 40,612,443 |

* *The non-beneficially held shares that were held by S McLauchlan were in his capacity as trustee for the Scott Technology Employee Share Purchase Scheme. This scheme has been wound up in 2021.*

** *The non-beneficially held shares H Eastwood, E Alvares and J Berry are in their capacity as directors of JBS Australia Pty Ltd, the majority shareholder of the Group.*

## SHARE DEALINGS OF DIRECTORS

The details of disclosures by Directors of acquisitions or disposals by Directors of relevant interests in ordinary shares of the Company during the financial year ended 31 August 2021, in accordance with section 148(2) of the Companies Act 1993, are shown below.

| Director | Nature of relevant interest | Number of shares acquired (disposed) | Date | Consideration paid / (received) ($) |
|---|---|---|---|---|
| J Berry | *Issue of ordinary shares pursuant to the Company's dividend reinvestment plan to JBS Australia Pty Ltd, being a person that acts in accordance with the directions and instructions of the director in relation to the Company's ordinary shares (jointly with other directors of JBS Australia Pty Ltd).* | 311,257* | 10 May 2021 | 771,636 |
| E Alvares | *Issue of ordinary shares pursuant to the Company's dividend reinvestment plan to JBS Australia Pty Ltd, being a person that acts in accordance with the directions and instructions of the director in relation to the Company's ordinary shares (jointly with other directors of JBS Australia Pty Ltd).* | 311,257* | 10 May 2021 | 771,636 |
| H Eastwood | *Issue of ordinary shares pursuant to the Company's dividend reinvestment plan to JBS Australia Pty Ltd, being a person that acts in accordance with the directions and instructions of the director in relation to the Company's ordinary shares (jointly with other directors of JBS Australia Pty Ltd).* | 311,257* | 10 May 2021 | 771,636 |
| S McLauchlan | *Issue of ordinary shares pursuant to the Company's dividend reinvestment plan to Roseberry Holdings Limited, being a person over whom the director has power and control.* | 2,184 | 10 May 2021 | 5,415 |
| | *Off-market disposal of ordinary shares as trustee of the Scott Technology Employee Share Purchase Scheme in connection with the winding up of that scheme.* | (17,779) | 26 July 2021 | (56,535) |
| | *Power to exercise, or control the exercise of, a right to vote attached to ordinary shares acquired through an off-market acquisition by the registered holder with whom there is a personal relationship.* | 2,779 | 26 July 2021 | 7,642 |
| J Kippenberger | *Issue of ordinary shares pursuant to the Company's dividend reinvestment plan.* | 232 | 10 May 2021 | 576 |

| Director | Nature of relevant interest | Number of shares acquired (disposed) | Date | Consideration paid / received ($) |
|---|---|---|---|---|
| J Kippenberger *(continued)* | *On-market acquisition of ordinary shares* | 10,000 | 18 June 2021 | 25,889 |
| | *On-market acquisition of ordinary shares* | 5,000 | 22 June 2021 | 12,874 |
| | *On-market acquisition of ordinary shares* | 2,906 | 23 June 2021 | 7,487 |
| | *On-market acquisition of ordinary shares* | 25 | 25 June 2021 | 74 |
| | *On-market acquisition of ordinary shares* | 2,069 | 28 June 2021 | 5,333 |
| | *On-market acquisition of ordinary shares* | 5,000 | 29 June 2021 | 12,610 |
| | *On-market acquisition of ordinary shares* | 5,000 | 5-July 2021 | 12,750 |
| J Thorman | *Power to exercise, or control the exercise of, a right to vote attached to ordinary shares acquired through an off-market acquisition by the registered holder with whom there is a personal relationship.* | 5,000 | 26 July 2021 | 13,750 |
| D Charge | *Power to exercise, or control the exercise of, a right to vote attached to ordinary shares acquired through an off-market acquisition by the registered holder with whom there is a personal relationship.* | 5,000 | 26 July 2021 | 13,750 |

* *The non-beneficially held shares H Eastwood, E Alvares and J Berry are in their capacity as directors of JBS Australia Pty Ltd, the majority shareholder of the Group.*

## USE OF COMPANY INFORMATION

The Company received no notices from Directors wishing to use Company information received in their capacity as Directors, which would not have ordinarily been available.

## DIRECTORS AND OFFICERS INSURANCE

In accordance with the Companies Act 1993 and the constitution of the Company, Scott Technology Limited indemnifies and insures its Directors and Officers, including Directors and Officers of subsidiary companies within the Group, in respect of liability incurred for any act or omission in their capacity as a Director or Officer of the Company. This insurance includes defence costs. If an act or omission was to occur that was covered by this insurance, the Company would pay the liability of the act or omission and be reimbursed by the insurer.

## SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 31 August 2021.

No subsidiary has Directors who are not Directors of Scott Technology Limited or employees of the Group.

The remuneration and other benefits of such Directors are included in the Directors Remuneration section of this report and the remuneration and other benefits of employees totalling NZ$100,000 or more during the year ended 31 August 2021 are included in the relevant bandings for remuneration on page 94.

No remuneration is paid to any Director of a subsidiary company for their position as Director of that subsidiary company.

The persons who held office as Directors of subsidiary companies at 31 August 2021 are as follows:

| Subsidiary company | Directors |
|---|---|
| Scott Technology NZ Limited | Stuart McLauchlan, John Kippenberger, Cameron Mathewson, Chris Steedman* |
| Scott Automation Limited | Stuart McLauchlan, Cameron Mathewson, Chris Steedman* |
| Scott Technology USA Limited | Cameron Mathewson, Kate Rankin, Chris Steedman* |
| QMT General Partner Limited | Cameron Mathewson, Kate Rankin, Chris Steedman* |
| QMT New Zealand Limited Partnership | QMT General Partner Limited |
| Scott Technology Americas Limited | Cameron Mathewson, Kate Rankin, Chris Steedman* |

## SUBSIDIARY COMPANY DIRECTORS CONTINUED

| Subsidiary company | Directors |
|---|---|
| Scott Technology Europe Limited | Cameron Mathewson, Kate Rankin, Chris Steedman* |
| Scott LED Limited | Cameron Mathewson, Kate Rankin |
| Rocklabs Limited | Cameron Mathewson, Kate Rankin, Chris Steedman* |
| Scott Technology Australia Pty Ltd | Twain Drewett, Steve Russell, Chris Steedman* |
| Scott Automation and Robotics Pty Ltd | Twain Drewett, Steve Russell, Kate Rankin, Chris Steedman* |
| Scott Systems International Incorporated | Tony Joyce, Kate Rankin |
| Scott Systems (Qingdao) Co Limited | Chris Hopkins, Henry Pan |
| Scott Automation GmbH | Aaron Vanwalleghem BV |
| Scott Technology Belgium bvba | Aaron Vanwalleghem BV, Cameron Mathewson, Jonas Vromant, MEL-ADMI Consulting CommV* |
| Scott Automation NV | Aaron Vanwalleghem BV, Cameron Mathewson, Jonas Vromant, Chris Hopkins* |
| FLS Group bvba | Aaron Vanwalleghem BV, Kate Rankin, Jonas Vromant, Richard Jenman* |
| FLS Systems NV | Aaron Vanwalleghem BV, Kate Rankin, Frederic Hermier, Richard Jenman* |
| Alvey do Brazil Comercio de Maquinas de Automacao | N/A |
| Scott Automation a.s. | Aaron Vanwalleghem BV, Kate Rankin, Pavel Cevela, Vladimir Stoklas, Chris Hopkins*, Richard Jenman* |
| Scott Automation SAS | Aaron Vanwalleghem BV, Jonas Vromant, Chris Hopkins*, Richard Jenman* |
| Scott Automation Limited | Aaron Vanwalleghem BV, Kate Rankin, Chris Hopkins*, Richard Jenman* |
| Normaclass s.a.s. | Aaron Vanwalleghem BV |
| Rivercan S.A. | N/A |

* *ceased to hold office during the period.*

Other than as set out in the Directors Interest table above, no interest disclosures for the purposes of section 140 (1) were given by any director of a subsidiary during the year ended 31 August 2021.

## TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2021

| Rank | Registered shareholder | Number of shares | % of total shares in the company |
|---|---|---|---|
| 1 | JBS Australia Pty Limited | 40,923,700 | 52.02 |
| 2 | Oakwood Securities Limited | 5,500,000 | 6.99 |
| 3 | Russell John Field and Anthony James Palmer | 2,000,000 | 2.54 |
| 4 | Accident Compensation Corporation | 1,991,807 | 2.53 |
| 5 | JBWERE (NZ) Nominees Limited | 1,641,981 | 2.09 |
| 6 | Leveraged Equities Finance Limited | 1,634,344 | 2.08 |
| 7 | Custodial Services Limited | 1,061,630 | 1.35 |
| 8 | Citibank Nominees (NZ) Ltd | 918,372 | 1.17 |
| 9 | Forsyth Barr Custodians Limited | 860,517 | 1.09 |
| 10 | BNP Paribas Nominees NZ Limited Bpss40 | 801,799 | 1.02 |
| 11 | Jack William Allan and Helen Lynnette Allan | 535,000 | 0.68 |
| 12 | Forsyth Barr Custodians Limited | 510,741 | 0.65 |
| 13 | Jarden Custodians Limited | 479,982 | 0.61 |
| 14 | New Zealand Depository Nominee | 422,719 | 0.54 |
| 15 | Wairahi Investments Limited | 410,000 | 0.52 |
| 16 | Rosebery Holdings Limited | 406,277 | 0.52 |
| 17 | FNZ Custodians Limited | 329,781 | 0.42 |
| 18 | Gmh 38 Investments Limited | 300,000 | 0.38 |
| 19 | Robert Wong and Cristein Joe Wong | 237,042 | 0.3 |
| 20 | Public Trust Forte Nominees Limited | 228,267 | 0.29 |

## SPREAD OF SHAREHOLDERS AS AT 31 AUGUST 2021

As at 31 August 2021, there were 78,665,835 ordinary shares in the Company on issue which were held as follows:

| Range | Number of ordinary security holders | % of issued capital |
|---|---|---|
| 1-1,000 | 783 | 0.48 |
| 1,001-5,000 | 1169 | 3.88 |
| 5,001-10,000 | 403 | 3.8 |
| 10,001-50,000 | 375 | 9.2 |
| 50,001-100,000 | 29 | 2.68 |
| Greater than 100,000 | 30 | 79.96 |
| **Total Shareholders** | **2,789** | **100%** |

## SUBSTANTIAL PRODUCT HOLDERS

The following substantial product holder information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. These substantial product holders are shareholders who have a relevant interest of 5% or more of a class of quoted voting products of the Company according to the Company's records. As at 31 August 2021, details of the substantial product holders of the Company and their relevant interests in the Company's ordinary shares are as follows. As at the balance date (31 August 2021) there were 78,665,835 ordinary shares in the Company on issue.

| Name of substantial product holder | Number of ordinary voting securities as at 31 August 2021 | % of issued capital |
|---|---|---|
| JBS Australia Pty Ltd | 40,923,700 | 52.02 |
| Oakwood Securities Limited | 5,500,000 | 6.99 |

## DONATIONS

The Group made no donations during the year (2020: $0).

## CREDIT RATING

The Company currently does not have a credit rating.

## WAIVERS FROM NZX LISTING RULES

No waivers were granted by NZX or relied on by the Company during the 12 month period ended 31 August 2021.

Automated order preparation system for the logistics facility of the French army (ELOCA Châtres).

# REMUNERATION

*For the year ended 31 August 2021*

## DIRECTORS' REMUNERATION

Non-Executive Directors received the following Directors' fees from the Company as follows:

| Non-Executive Director | Directors' Fees FY21 NZ$'000s | Directors' Fees FY20 NZ$'000s |
|---|---|---|
| S McLauchlan (Chair) | 125 | 123 |
| J Thorman | 70 | 68 |
| D Charge | 60 | 59 |
| Total | 255 | 250 |

Non-Executive Directors also receive reimbursement for reasonable travel, accommodation and other expenses incurred in the course of performing their duties. Directors' fees exclude GST, where applicable.

Remuneration and meeting costs of Directors representing JBS Australia Pty Ltd are paid directly by the JBS Group of Companies.

## CHIEF EXECUTIVE OFFICER REMUNERATION

The review and approval of the CEO's remuneration is the responsibility of the Board.

The CEO's remuneration comprises:

- A fixed base salary, including Kiwisaver contributions by the Group;
- An at risk short term incentive (STI) payable annually of up to 50% of the base salary subject to agreed upon company and individual key performance indicators;
- A long term incentive (LTI) programme which includes the payment of a monetary amount after a period of approximately three years of continuous full-time employment. The payment amount is determined by the differential between the Company's share price at the beginning of the period and the end of the period, after adjusting for any event that affects the share price, such as capital reconstructions, bonus issues or dividends.

The remuneration of the Chief Executive Officer (CEO) is shown below:

| Chief Executive Officer remuneration | Salary and benefits NZ$'000s | Short term incentive NZ$'000s | Long term incentive NZ$'000s | Total remuneration NZ$'000s |
|---|---|---|---|---|
| **FY21** | | | | |
| John Kippenberger* | 753 | 1,050 | 129 | 1,932 |
| **FY20** | | | | |
| John Kippenberger (29 November 2019 to 31 August 2021) | 524 | - | - | 524 |
| Chris Hopkins (1 September 2019 to 28 November 2019) | 104 | - | - | 104 |

* *The short term incentive includes a FY20 bonus that wasn't approved at the signing of the FY20 accounts.*

## EMPLOYEE REMUNERATION

Employee Remuneration consists of a fixed salary, and on an employee by employee basis, may also include variable or "at-risk" remuneration.

Fixed remuneration includes: an individual's base salary, for core responsibilities, capability and performance, along with any superannuation scheme contributions by the Group and any other health or disability benefits provided by the Group. The base salary is benchmarked to the market.

Variable remuneration includes:

- Short term incentives (STI) that are linked directly to individual and company performance.
- A long term incentive (LTI) programme which includes the payment of a monetary amount after a period of approximately three years of continuous full-time employment. The payment amount is determined by the differential between the Company's share price at the beginning of the period and the end of the period, after adjusting for any event that affects the share price, such as capital reconstructions, bonus issues or dividends.

The table below shows the number of employees and former employees of the Group, not being Directors or CEO of the Group, who, in their capacity as employees, received remuneration and other benefits during the year ended 31 August 2021 totalling at least NZ$100,000. This remuneration includes redundancy payments but excludes any long-term incentives that have not been triggered.

| Salary range | Number of employees |
|---|---|
| $100,000-$110,000 | 48 |
| $110,001-$120,000 | 31 |
| $120,001-$130,000 | 22 |
| $130,001-$140,000 | 26 |
| $140,001-$150,000 | 18 |
| $150,001-$160,000 | 16 |
| $160,001-$170,000 | 10 |
| $170,001-$180,000 | 12 |
| $180,001-$190,000 | 11 |
| $190,001-$200,000 | 3 |
| $200,001-$210,000 | 4 |

| Salary range | Number of employees |
|---|---|
| $210,001-$220,000 | 7 |
| $220,001-$230,000 | 4 |
| $230,001-$240,000 | 4 |
| $240,001-$250,000 | 5 |
| $260,001-$270,000 | 2 |
| $270,001-$280,000 | 2 |
| $280,001-$290,000 | 2 |
| $310,001-$320,000 | 1 |
| $350,001-$360,000 | 1 |
| $400,001+ | 1 |

The Group operates in Australasia, Europe, China and the United States where market remuneration levels differ. Of the employees noted in the table above, 70% are employed by the Group outside New Zealand. The offshore remuneration amounts are converted into New Zealand dollars.

# DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which present fairly, in all material respects, the consolidated financial position of Scott Technology Limited and its subsidiaries ("the Group") as at 31 August 2021 and the results of their operations and cash flows for the year ended 31 August 2021.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied, and are supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable them to ensure that the financial statements comply with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors present the financial statements of Scott Technology Limited for the year ended 31 August 2021.

These financial statements are dated 21 October 2021 and are signed in accordance with a resolution of the Directors made pursuant to section 461(1)(b) of the Financial Markets Conduct Act 2013.

For and behalf of the Directors

**Stuart McLauchlan**
*Chairman and Independent Director*

**John Kippenberger**
*Chief Executive Officer*

# DIRECTORY

## PARENT COMPANY

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Scott Technology Limited
630 Kaikorai Valley Road
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+64 3 478 8110

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New Zealand

*Website*
www.scottautomation.com

*Chairman and Independent Director*
Stuart McLauchlan

*Independent Directors*
John Thorman
Derek Charge

*Directors representing JBS Australia Pty Ltd (Non-Independent Directors)*
Alan Byers
Brent Eastwood
Edison Alvares
John Berry (Alternate Director)

*Chief Executive Officer*
John Kippenberger

## REGIONAL CONTACTS

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## PROFESSIONAL SERVICES

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*Solicitors*
Gallaway Cook Allan

*Auditor*
Deloitte Limited

Rocklabs Certified Reference Materials team producing samples.

ENGINEERING SCOTT TO HIGH PERFORMANCE