

SCOTT TECHNOLOGY LIMITED STATEMENT OF CORPORATE GOVERNANCE

Scott Technology Limited (Scott) believes in the benefit of good corporate governance and the value it provides for our shareholders, customers, staff and other stakeholders.

The Company's approach to applying the recommendations outlined in the NZX Corporate Governance Code (the Code) are set out below. This section is set out in the order of the principles detailed in the Code and explains how Scott is applying the Code's recommendations.

Scott's policy documents referred to in this section are at:

<https://www.scottautomation.com/investor-relations/governance/>

Principle 1 – Code of Ethical Behaviour

“Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.”

Code of Conduct

As part of the Board's commitment to the highest standards of behaviour and accountability, the Company has adopted a Code of Conduct to guide Directors, senior management and employees in carrying out their duties and responsibilities.

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.

The Board approves the Code of Conduct, which covers matters such as:

- Interacting with customers, employees and suppliers
- Accepting gifts or other benefits
- Dealing with conflicts of interest
- Protecting Company assets
- Protecting Company intellectual property
- Complying with laws and policies
- Maintaining confidentiality
- Reporting breaches

New employees receive a copy of the Code of Conduct, which is accessible to all staff on the Scott intranet and the Company website.

The Company has a whistleblower and protected disclosure policy. The purpose of the policy is to protect an employee who wishes to raise concerns of serious wrongdoing from reprisals or victimisation for reporting their concerns.

Financial Product Trading Policy

Scott supports the integrity of New Zealand's financial markets. This integrity is maintained, in part, through the insider trading laws that apply in New Zealand. Scott's financial product trading policy outlines how those laws apply, as well as the rules that Scott has put in place so that those laws are followed.

Directors, certain employees and their related parties, must seek approval from the Company to trade in the Company's shares. Trading is prohibited during the following "black-out" periods:

- 30 days prior to Scott's half year balance date, until the first trading day after the half year results are released to NZX;
- 30 days prior to Scott's year end balance date, until the first trading day after the full year released to NZX; and
- 30 days prior to release of a prospectus for a general public offer of the same class of restricted securities.

The Directors' shareholdings and all trading of shares during the year by the Directors is disclosed in the section of the Annual Report headed Directors' Disclosures. A Director or senior manager is obliged to advise the NZX promptly if they trade in the Company's shares.

Principle 2 – Board Composition and Performance

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

The Board of Directors

The Directors are responsible for the corporate governance practices of the Company. The practices adopted by the Board are prescribed in a Charter that sets out the protocols for how the Board operates.

The Charter complies with the relevant recommendations in the NZX Corporate Governance Code and is reviewed annually.

The Board's primary role is to effectively represent and promote the interests of shareholders with a view to adding long-term value to the Company's shares.

The Board carries out its responsibilities according to the following mandate:

- The Board should consist of a majority of Non-Executive Directors.
- At least a third of the Directors should be independent of management and free from any business or other relationship or circumstance that could materially interfere with the exercise of a Director's independent judgement.
- The Board's Chair should be a Non-Executive Director (and not the Chief Executive).
- Directors should possess a broad range of skills, qualifications and experience and remain up to date on how best to perform their duties as Directors.
- Management must provide information of sufficient content, quality and timeliness as the Board considers necessary to allow the Board to effectively discharge its duties.
- The effectiveness and performance of the Board and its individual members should be re-evaluated annually.

The Board currently comprises two Non-Executive Independent Directors (Stuart McLauchlan (Chair) and John Thorman), three Directors representing JBS Australia Pty Limited (Andre Nogueira, Brent Eastwood and Edison Alvares) who are not Independent Directors and one Executive Director (Chris Hopkins) who is not an Independent Director. John Berry is an Alternate Director for Andre Nogueira, Brent Eastwood and Edison Alvares and is not an Independent Director.

More information on the Directors, including their interests, qualifications and shareholdings, is provided in the Directors' Disclosure section the Annual Report and is on the Company's website.

Day-to-day management of Scott is delegated to the Chief Executive and the senior management team.

The Board's Responsibilities

The primary responsibilities of the Board are to:

- 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 Chief Executive and set the terms of the Chief Executive's employment agreement.
- Decide on what steps are needed to protect the Company's financial position and its ability to meet its debts and other obligations when they fall due, and ensure that such steps are taken.
- 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.

On appointment to the Board by the shareholders, new Directors sign a written agreement that covers the terms of their appointment.

Every year, the Board, including sub-committees, critically evaluate their own performance, and their own processes and procedures, including 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.

In line with NZX Main Board Listing Rules, one third of the Directors must retire by rotation each year. Scott additionally requires all Executive Directors (including the Managing Director) to be included in the rotation process. These Directors may offer themselves for re-election.

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. The Committee's terms of reference include the process for nominating and appointing Directors.

Independent Professional Advice

With the prior approval of the Chair, each Director 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.

Diversity

The Board and management ensure that all eligible people get an equal opportunity to demonstrate that they have the right skills and experience for a role and this is the basis of our Diversity Policy.

Scott embraces the uniqueness in all of our people and welcomes diversity. We encourage all of our employees to listen to each other and to our customers and suppliers and to work to meet the needs of individual people.

Our approach to diversity is to continually develop a work environment that supports equality and inclusion, regardless of difference.

The Board sets measurable objectives for assessing performance against Scott's diversity policy and will assess progress annually. The Board will also ensure Scott's objectives are appropriate for promoting diversity and inclusion.

Through this policy, we have achieved the following gender diversity:

- Of the six members of the senior executive team, three are female and three are male (2017: two female and eight male). The senior executive team includes the Chief Executive and his direct reports. *
- Of the 778 Scott employees as at 31 August 2018, 94 are female and 684 are male.

** In July 2018, the senior management team was restructured, resulting in the creation of the senior executive team. At 30 June 2018, the senior management team consisted of 18 members; four females and fourteen males.*

Principle 3 – Board Committees

“The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.”

Board Committees

The Board has four standing committees: Audit and Financial Risk; Health and Safety; Governance, Remuneration, Nominations; and Treasury; A separate Independent Directors’ Committee meets as needed.

Each Committee operates under specific terms of reference approved by the Board. Any recommendations they make are recommendations to the Board.

The terms of reference for each Committee are reviewed annually.

Audit and Financial Risk Committee

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 Committee makes recommendations to the Board on appointing external auditors to ensure that they are independent and to ensure that the Company provides for 5-yearly rotation of the lead audit partner.

The Committee provides a forum for the effective communication between the Board and external auditors. The Committee’s responsibilities include:

- Reviewing the appointment of the external auditor, the annual audit plan and addressing any recommendations from the audit.
- Reviewing any financial information and dividend proposals to be issued to the public.
- Ensuring that appropriate financial systems and internal controls are in place.

The AFRC must consist of at least three Directors who must wherever possible be Independent Non-Executive Directors. The Board Chair must also not be the Chair of the AFRC. The Chair of the AFRC must be an Independent Director. The current members are John Thorman (Chair), Stuart McLauchlan and Brent Eastwood. Stuart McLauchlan is a Fellow and John Thorman a Member of Chartered Accountants Australia New Zealand.

The Committee generally invites the Chief Executive, 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 Health and Safety 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 staff, contractors and visitors to Scott. The Health & Safety Committee consists of the full Board with Stuart McLauchlan as its Chair.

The Committee recognises the critical role health and safety forms as part of its day-to-day operations and wants to ensure a safety-first culture across all business operations.

The Committee's responsibilities include:

- Considering and approving health and safety strategies, policies and procedures.
- Setting health and safety indicators in consultation with management.
- Ensuring the Board and Directors are properly and regularly informed on matters relating to health and safety governance, performance and compliance.
- Conducting regular assessments and audits of the risk profile and control processes.

Governance, Remuneration and Nominations Committee

The Governance, Remuneration and Nominations Committee assists the Board in establishing remuneration policies and practices for the Company in discharging the Board's responsibilities for remunerations. The Committee also undertakes the process for nominating and appointing Directors on behalf of the Board, and makes appropriate recommendations to the Board.

The Committee's terms of reference include the process for nominating and appointing Directors.

As at 31 August 2018 the Committee consists of Stuart McLauchlan (Chair) and John Thorman, the Independent Directors. Committee members must be Non-Executive Directors.

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.

Management attends Committee meetings only at the invitation of the Committee.

The Committee's objectives are to:

- Assist the Board in establishing remuneration policies and practices for the Company.
- Assist in discharging the Board's responsibilities for reviewing the Chief Executive's and the Directors' remuneration.
- Advise and assist the Chief Executive in setting remuneration for the senior management team.
- Regularly review and recommend changes to the composition of the Board and identify and recommend individuals for nomination as members of the Board and its Committees.

The Directors' and senior management's remuneration are set out in the Directors' Disclosures section of the Annual Report.

Treasury Committee

The Treasury Committee oversees the Company's treasury practices, including foreign exchange cover, short term cash investments and borrowings. The Treasury Committee comprises Stuart McLauchlan (Chair), Chris Hopkins and Edison Alvares.

Independent Directors' Committee

The Independent Directors' Committee is convened as needed and consists of Independent Non-Executive 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.

Principle 4 – Reporting and Disclosure

“The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.”

Reporting and Disclosure

The Board focusses on 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 scottautomation.com/investor-centre/governance.

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

Principle 5 – Remuneration

“The remuneration of Directors and executives should be transparent, fair and reasonable.”

The Governance, Remuneration and Nominations Committee makes recommendations to the Board on remuneration matters in keeping with the Committee's terms of reference.

The Committee is also responsible for approving the remuneration of the Chief Executive.

The total Director remuneration pool is approved by shareholders at the annual meeting as required under the NZX Main Board Listing Rules. The Board is responsible for the setting of individual Directors' fees in accordance with the permitted pool.

Details of the Directors' remuneration for the year are in the Directors' Disclosures section of the Annual Report.

Scott has in place a remuneration policy that outlines the key principles that influence Scott's remuneration practices.

The remuneration of the Chief Executive and the senior 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 Chief Executive and some members of the senior management team are members of the senior management phantom share scheme (see note C9 of the financial statements).

The short-term incentives are at-risk payments that reward performance. They are designed to motivate and incentivise senior staff in the delivery of performance over a 2-year operating cycle. The amount payable is set 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.

Every year, the Committee reviews the levels and appropriateness of these incentives and weighting.

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.

Employees' Remuneration

The Annual Report details the Chief Executive and Scott employees who have earned over \$100,000 during the year. The remuneration includes salary, benefits, incentives, both short and long term, and employer's contribution to superannuation.

Principle 6 – Risk Management

“Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.”

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 AFRC, the Board considers the recommendations and advice of external auditors, and ensures that those recommendations are investigated and, where considered necessary, appropriate action is taken.

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 Board should ensure the quality and independence of the external audit process.”

The Audit and Financial Risk Committee makes recommendations to the Board on the appointment of the external auditor as set out in the terms of reference. 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) and 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. Deloitte attends the Company's Annual Meeting.

Principle 8 – Shareholder Rights and Relations

“The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.”

Information for Shareholders

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.

Copies of previous annual reports, financial statements and results presentations are available on the website.

Shareholders have the right to vote on major decisions of the Company in accordance with requirements set out in the Companies Act 1993 and the NZX Main Board Listing Rules.

Communicating with Shareholders

Scott's Chief Executive and Chief Financial Officer develop strong relationships with the investor community and ensure our shareholders are kept informed.

The Company sends the notices of the Annual Meeting to shareholders and publish it on the Company website at least 20 business days before the meeting each year.

Ownership and Review

Approver:	Scott Technology Board
Reviewer:	Scott Technology Board
Ownership:	Chairman
Review:	Annual or as necessary
Last Review:	July 2018