



Wellington® Annual Report 2017

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There are statements in this document that are "forward-looking statements". As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which are beyond the control of Wellington). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular, Wellington's operations and results are significantly influenced by the extent to which energy efficient motor technology is promoted in Wellington's key markets, competitor product development and demand and pricing, fluctuations in key commodity prices or costs in the countries of Wellington's suppliers, availability of key components, relative exchange rates and profitability of customers, all of which can have a substantial impact on Wellington's results of operations and financial condition. Other risks include customer concentration risk and misuse of, and challenge to, Wellington's intellectual property.

All references in this document to \$ or "dollars" are references to New Zealand dollars unless otherwise stated.

Wellington's financial year is 31 December.



## The Wellington Business is Changing

The Wellington business is changing rapidly, as customers' needs and priorities change and the world moves ever faster towards a digital future. Food and beverage customers, while still focused on energy efficiency and cost reduction, are increasing their efforts to acquire technologies that will help them connect directly with consumers. Food and beverage brands are increasingly leveraging connectivity solutions, software solutions and associated products to improve sales revenues and margins.

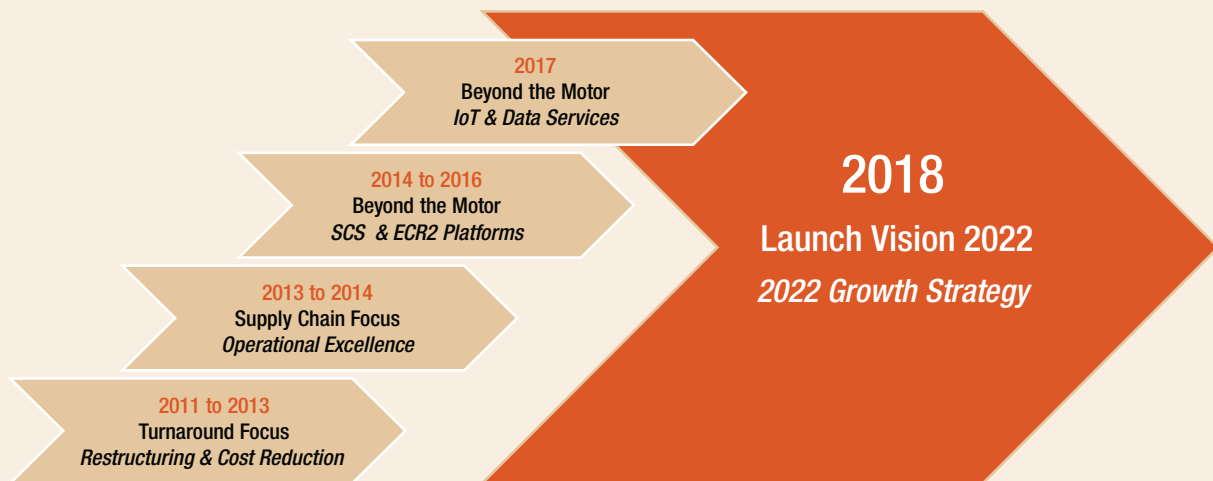
Wellington is constantly adapting to these changing market dynamics by developing new IoT (Internet of Things) solutions such as SCS™ Connect, and energy efficient motors such as ECR2, for existing and new customers. Revenue from these new products has increased fourfold in the last two years as the Company has diversified within the traditional bottle cooler segment and in new markets such as supermarket display and food service.

The board and management team continually review the strategic direction of Wellington, informed by market trends, changing customer needs and the capabilities needed to support them. Over the past seven years the Company's strategy has progressed from an initial turnaround plan to a focus on new products and market segments driven by these changing customer needs. The next five years will look quite different to the last, with further new technologies, new products, new customers, new markets and stronger growth projections.

The 2013 'Beyond the Motor' vision has now been fully realised, with sales of connected IoT devices, such as SCS™ Connect, at scale to large food and beverage brands. Indeed, since 2014, the Wellington strategy has evolved from 'Beyond the Motor' to 'Beyond Hardware': it is developing and growing a new IoT business that includes \$1 million of data services since inception in 2016. The forthcoming refreshed growth strategy will see the Company move forward even faster in the data and digital solutions space. It will leverage the iProximity partnership and is also exploring further relationships in this dynamic new space.







Wellington is no longer simply a motor company. It is developing and acquiring technologies that help food and beverage brands better manage their point of sale equipment (including coolers) and help them grow their sales by enabling direct connection with the consumer.

New investments in IoT solutions and software services, and a focus on EC motors outside of the traditional bottle cooler market, has led to the exploration of opportunities in the broader food and beverage segment.

The first half of 2018 will see the release of the Company's 2022 Vision and a refreshed growth strategy, that will be delivered through an expanding range of products and services, underpinned by the Company's core strengths in execution, 'customer first' driven product development, engineering expertise and customer service.



## Products and Solutions

Wellington continues to develop a broad range of products to serve the food and beverage market, ranging from energy efficient motors, IoT hardware and data services, and the digital solutions needed for our customers to connect directly with retailers and consumers.

Currently Wellington's branded product offerings include:



**IoT Hardware** – IoT products designed to track and manage coolers and connect wirelessly with the consumer in front of the cooler or food dispenser. Products include SCS™ Connect, SCS™ Motion Sensor and SCS™ Click, all of which are used to deliver fleet management and connectivity capability for food and beverage brand customers. Over 212,000 devices were sold in 2017, up from the 52,000 in 2016.



**Proximity Technology** – A range of industry standard connectivity solutions, customised to meet customers' needs and either embedded in Wellington hardware or offered as standalone products through iProximity. The Company is able to offer standalone Bluetooth beacons, Near Field Communication (NFC) tags and QR codes based consumer engagement solutions. The proximity technologies enable consumers to interact with the cooler, display shelf or other point of sale equipment, and get information and promotions on the product they wish to purchase.



**Smarter Coolers Platform** - Data and reporting services built around mobile apps. SCS™ Field, SCS™ Salesforce and SCS™ Report provide the management platform to deliver a range of point of sale fleet management services to customers. Our newly released SCS™ Retailer is a retailer app that enables store management to control and improve the performance of customers' in-store systems. This platform comes installed on every SCS™ Connect and SCS™ Click sold and is integrated with the iProximity mobile app set. Wellington has an 'App Centric' approach to delivering tools to clients.



**Software as a Service** – the iProximity iPX™ IoT platform, built on the Cloud, provides the enterprise system that gives customers the ability to engage directly with the consumer, manage large promotion campaigns, and deliver content at 'point of sale' in front of the cooler or food dispenser. During 2017 the primary focus was marketing and promoting the new iPX™ platform offering. Sales are expected to commence in 2018.



**Energy Efficient EC Motors** – The next generation ECR2 platform and the more mature ECR1, ECR82 and ECR92 platforms continue to deliver low cost, highly reliable and efficient airflow solutions to refrigeration manufacturers. These are electronic motors designed to improve reliability, reduce operating costs and reduce the carbon footprint of commercial coolers. The new ECF™ Fanpack brand is focused on delivering a fully integrated airflow solution to supermarket equipment manufacturers. A total of 1.3 million EC motors were sold in 2017, a modest increase over the 1.2 million sold in 2016.



**Standard shaded pole motors** – For customers wanting the economy of shaded pole motors, Wellington offers a range of Q frame shaded pole fan motors under our AirMoVent™ (AMV) brand. These motors are designed for lower cost bottle cooler applications and are often used as a precursor to a customer investing in ECR™ motors. 109,000 total motors were sold in 2017, down from the 165,000 sold in 2016 as some customers moved their AMV demand to Wellington EC motors.

## Team Members

Wellington's business is built around the strength of its team and the depth of its customer relationships. Wellington's people work hard to develop compelling products, solve customers' problems and reduce supply chain costs. The team is dedicated to ensuring the business continually improves its performance and ultimately delivers a positive return for shareholders. Below are three key staff members who work every day to deliver value to customers.



**Solomon - Manufacturing Engineer, New Zealand**

"I work in the New Zealand office as part of the Manufacturing Engineering team. We are responsible for controlling all hardware products that are delivered to customers. This includes ensuring that products have the correct manufacturing process instructions, bills of material, and are assembled correctly to the customer requirements. All new engineering requests and quotations come through my team to assess whether the new product is feasible. We are very responsive to customer needs and try very hard to meet their expectations. We recently had a request from a large supermarket OEM for a centrifugal fan version of our ECR2 motor. This requires detailed drawing and assessments of manufacturability including discussions with the manufacturer to determine how it can be made. If we can figure out how to make this, we can deliver increased sales for Wellington – which makes my job very exciting."



**Roger Lee – Applications Engineer, Singapore**

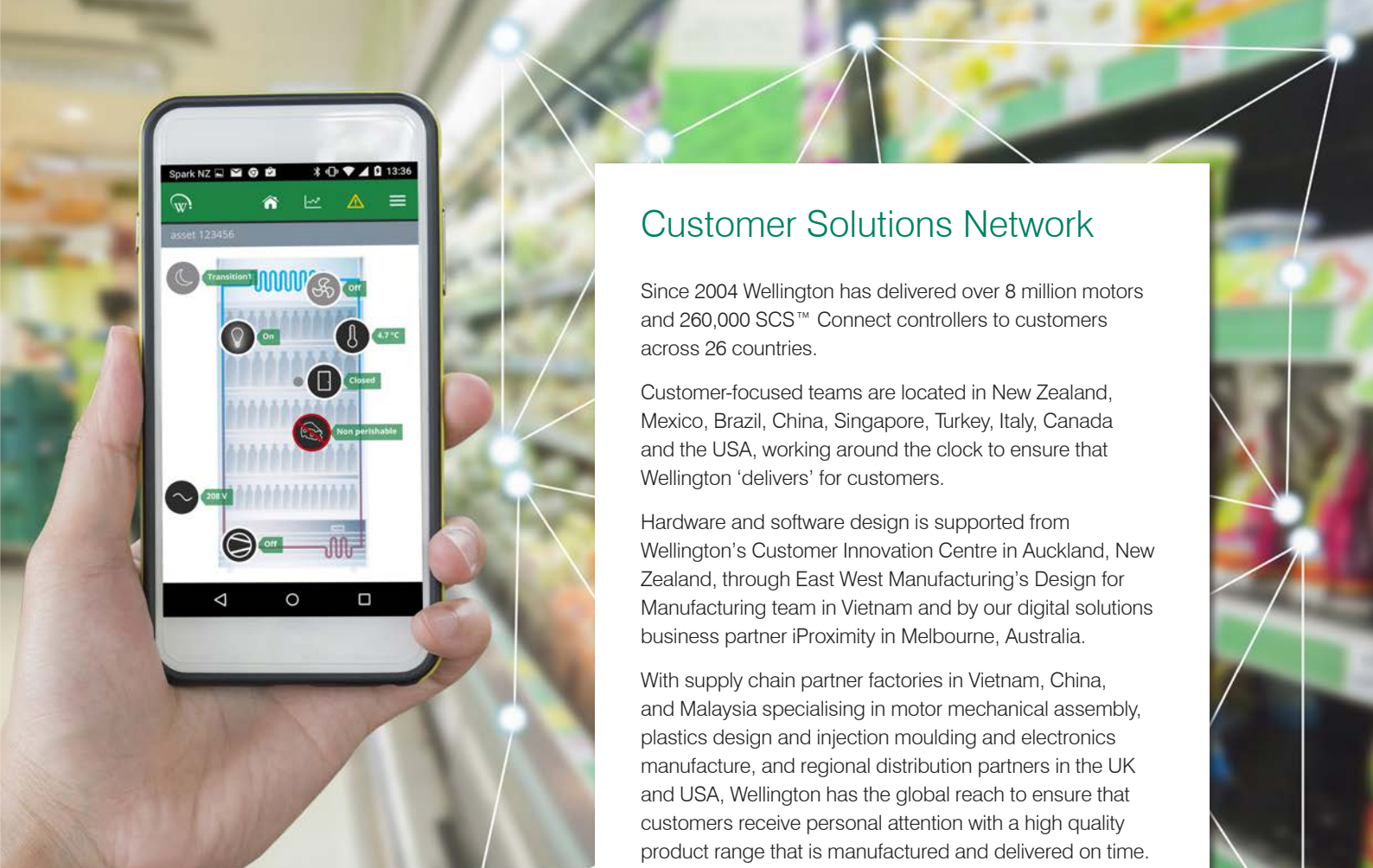
"I am part of the global sales team and support customers in South East Asia. Much of my time is spent training customers on Wellington's SCS™ Connect solution and ensuring customer installations are working well. I spend a great deal of my time in the field, visiting retail locations and assessing how our SCS™ Connect will provide the best information to the retailer and the brand. Most of my work is technical in nature and I always try and find ways to add value to the customer, giving them a reason to adopt our solutions faster. When not supporting field installations, I am working closely with the APAC sales team to win new business for the Company. Being based in Singapore means I can quickly be at any customer in the region."



**Victoria Alegria – Quality Engineer, New Zealand**

"I recently transferred to work in the Auckland office after many years working in Queretaro, Mexico for the Latin America Business Unit. In Mexico my main role was to support customer quality, helping customers understand any quality issues and provide solutions to their problems. Moving to New Zealand, I am taking my customer quality experience and using it to help the team design and manufacture better products. This means I am part of the quality team that analyses customer returns, manufacturing quality data and product improvement opportunities and implement improvement actions. If we continue to improve our products then we can sell more globally, so my quality role has a direct impact on sales growth, cost avoidance and the performance of the Company."





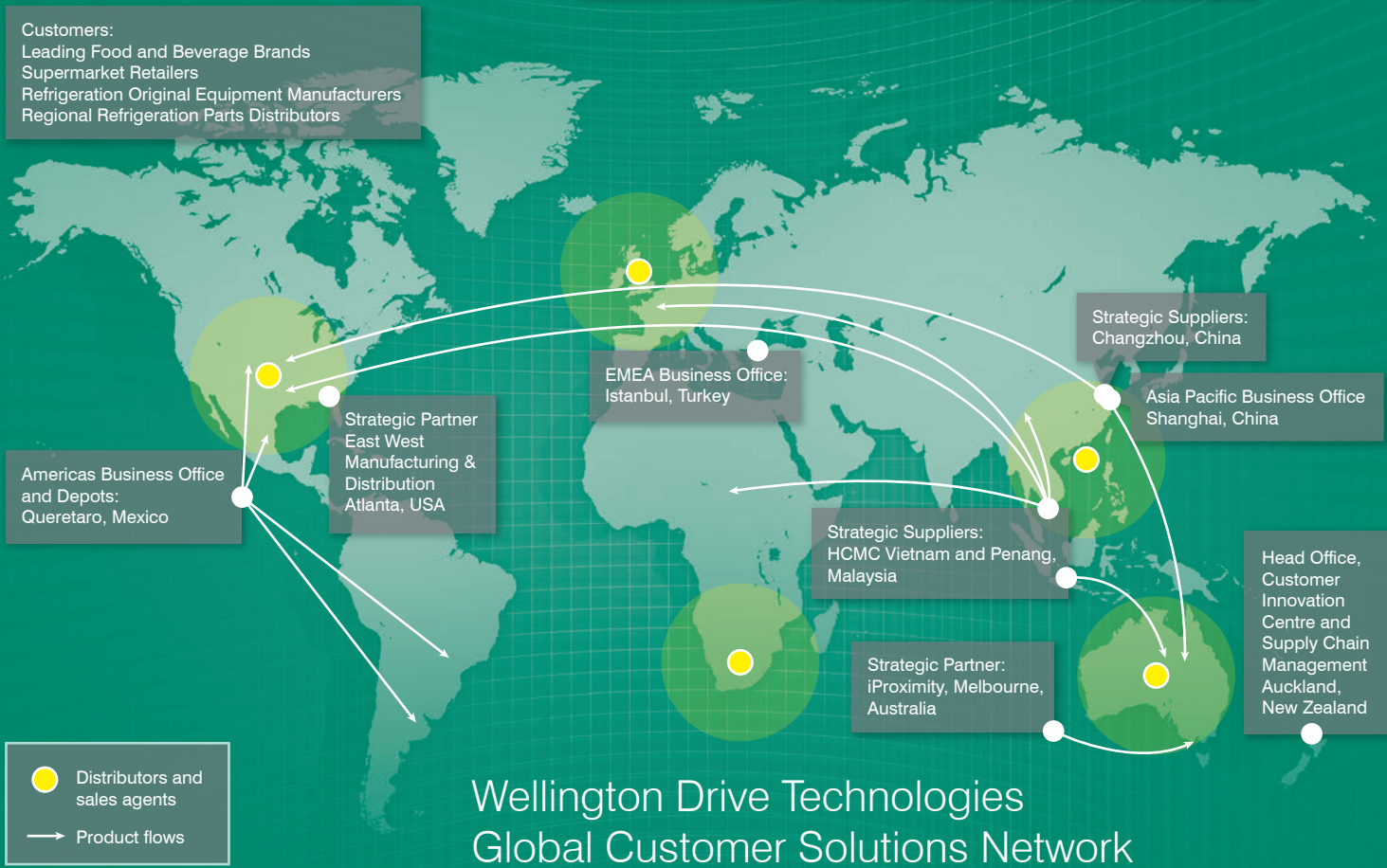
## Customer Solutions Network

Since 2004 Wellington has delivered over 8 million motors and 260,000 SCS™ Connect controllers to customers across 26 countries.

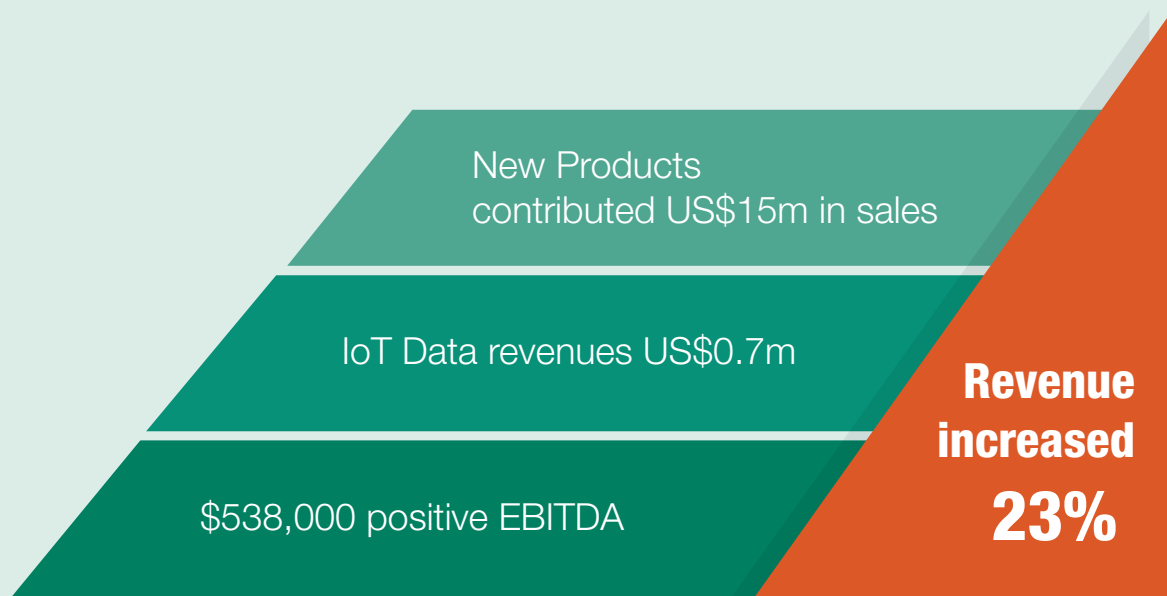
Customer-focused teams are located in New Zealand, Mexico, Brazil, China, Singapore, Turkey, Italy, Canada and the USA, working around the clock to ensure that Wellington 'delivers' for customers.

Hardware and software design is supported from Wellington's Customer Innovation Centre in Auckland, New Zealand, through East West Manufacturing's Design for Manufacturing team in Vietnam and by our digital solutions business partner iProximity in Melbourne, Australia.

With supply chain partner factories in Vietnam, China, and Malaysia specialising in motor mechanical assembly, plastics design and injection moulding and electronics manufacture, and regional distribution partners in the UK and USA, Wellington has the global reach to ensure that customers receive personal attention with a high quality product range that is manufactured and delivered on time.



# 2017 Business Highlights



Revenue growth of 23%, increasing to \$43m, with significant growth in new IoT business

.....

SCS<sup>™</sup> Connect and ECR2 contributed US\$15m in new product sales, up from US\$4m in 2016

.....

IoT data services delivered US\$0.7m of revenue, demonstrating a strong start to the software & services business

.....

Positive EBITDA of \$538,000





# Report of the Chairman and Chief Executive Officer

## Dear Shareholders

2017 was the year the Company consolidated its long term revenue growth trend, with 23% top line growth and further EBITDA<sup>1</sup> improvement.

The ongoing shift towards providing IoT and digital products to food and beverage customers saw 25% of the Company's total revenues (around US\$8 million) contributed by IoT business, comprised of SCS™ Connect and data services. This contribution is expected to grow as the Company develops and acquires more IoT solutions. The IoT and digital strategy will be further developed through 2018 and 2019, as can be seen with by signing of the commercial reseller agreement with iProximity in February 2017 and the subsequent acquisition option in February 2018.

SCS™ Connect product sales grew 308% by volume and supermarket focused ECR2 motor volume grew by 282% although some of this growth was substitution for legacy EC motors. Total EC motor volumes grew by 6% overall.

In volume terms this growth equated to 212,000 SCS™ Connect in 2017, up from 52,000 in 2016, and 72,000 EC motors. ECR2 and ECR92 motor sales increased, whilst ECR1 decreased (as ECR2 took some ECR1 share). The Company's overall revenue growth was achieved through SCS™ adoption accelerating with major beverage brands, and ECR2 new business wins with existing bottle cooler customers and new supermarket and food service OEM's.

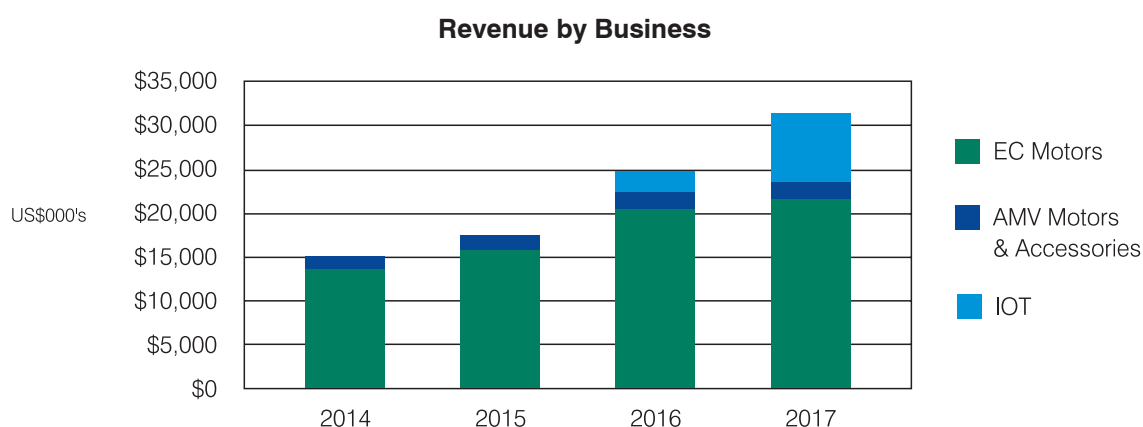


Gross Margin of 24% was the same as 2016, below expectations of around 27%; however some delays were experienced in moving SCS™ Connect manufacturing to the lower cost manufacturing facility in Vietnam, which

impacted the ability to deliver lower product costs. The move of volume production to Vietnam was completed in fourth quarter 2017 and is expected to deliver margin improvement on SCS™ Connect in the 2018 year.

Revenue performance from the IoT business, which is comprised of SCS™ Connect, data & reporting services and iProximity software, was US\$7.9 million. This was a 232% increase over the US\$2.4 million in 2016. Upfront invoicing of IoT Data services revenue included in this result grew by 190% from US\$246,000 to US\$713,000.

In 2017, a reseller agreement was signed with iProximity and business development activities started for the new proximity marketing software service, expected to add to IoT business growth in 2018.



Wellington improved its EBITDA<sup>1</sup> result with an EBITDA<sup>1</sup> profit of \$538,000 recorded, which is a \$235,000 improvement on 2016. The result was affected by a weaker than expected third quarter, late in the year demand deferrals, a sales mix that oriented towards lower gross margin products and a deliberate decision to increase certain operating costs in support of the rapid growth in the IoT business.

The loss for the year was \$1.98 million after charging \$603,000 million of non-recurring finance costs in respect of preference shares settled in May 2017. This was a \$498,000 improvement on the loss recorded in 2016.

The Company continued to work hard to improve working capital and cash flow performance, demonstrated by its operating cash flow for the year being \$1.3 million positive. The cash generative nature of the IoT data revenue stream, where multi-year contracts are paid for in advance, continued to support improving cash flows.

The Company's current strategy, to diversify revenues away from 'just motors' and provide new non-hardware related revenue streams to complement the hardware business, is going from strength to strength. The confidence that the board and management team places in its two new products, SCS™ Connect and ECR2 was confirmed and puts the Company in a good place to continue to develop new products based on the ECR2 and SCS™ platforms.

## Revenue Performance

In US Dollar terms, revenue in 2017 was US\$31 million, compared to US\$25 million in 2016. The Company has delivered consistently positive quarterly CAGR's over the last three years through adding new customers, driving adoption of new products, and focusing on growing existing customer relationships.

	2017 USD 000's	2016 USD 000's	2015 USD 000's	CAGR
Q1	9,315	6,172	4,907	24%
Q2	7,794	6,562	5,194	14%
Q3	5,779	4,509	3,334	20%
Q4	8,320	7,387	3,930	28%
Total	31,208	24,630	17,365	22%

The Company shipped product to eighteen new customers in 2017 with five of these customers buying SCS™ Connect products; ten buying EC motors and three buying the new line of AMV shaded pole motors. These new customers are in a range of markets including carbonated soft drinks, beer, supermarket and medical refrigeration. The customer base continues to diversify across a broad range of end market applications.

**Latin America:** Latin American business grew by 28% versus 2016, from US\$16.9 million to US\$21.7 million. Six new customers were added, with the concentration of those customers being in the South America region. EC motor sales to existing bottle cooler customers were relatively flat, while SCS™ Connect sales delivered the majority of the growth. Mexico continues to be the largest market and whilst Wellington already has the major share of EC motor business in that region, further growth is expected from SCS™ Connect. Several iProximity marketing software demonstrations were made in 2017, so there is an expectation that this could support further growth in the software business.

**USA/Canada:** The USA and Canada region saw revenues increase by 97% versus 2016. One new customer was added in the region in the medical equipment space. The main supermarket and food display OEM customer in that region continued to adopt ECR2 in more of its cooling applications, sales were increased through the East West sales channel and growth was achieved with a global display case manufacturer, headquartered in Asia but with volume in North America. SCS™ Connect adoption was slower than anticipated due to a major potential customer exploring options for their retrofit needs. These options include a new connectivity product that is on Wellington's product roadmap and is being assessed as a potential new product development.

**APAC:** Asia Pacific revenues grew 10% to US\$2.5 million, compared to the US\$2.3 million recorded in 2016, with eight new customers won. The region saw significant ECR2 motor growth from a new global display case manufacturer. Customer adoption of SCS™ Connect in APAC is taking longer than anticipated, due to differing customer needs around hardware specification and software requirements. These differing needs are requiring additional product development to customise solutions for customers, which are expected to be complete in 2018. Business development in the region continues to focus on the IoT business, with developing interest in iProximity marketing solutions.

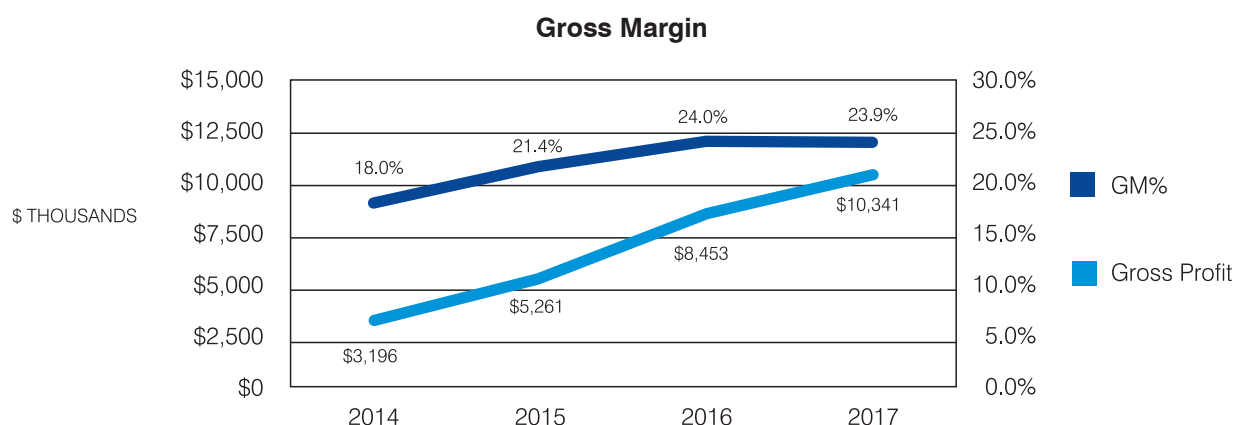
**EMEA:** EMEA revenue was 17% lower than 2016, at US\$2.7 million, reflecting a continuation of the difficult competitive and political environment in the region; however three new customers were added. Our Turkish based business was impacted by the ongoing regional business uncertainty as our main customers reassessed their supply chain and purchasing strategies. Work is currently being undertaken on the release of a new version of the ECR2 motor to improve sales in EMEA and increased sales opportunities for this product are already being seen early in 2018.



## Gross Profit Performance

With the backdrop of strong revenue growth, Wellington deliberately chose not to drive any major changes in the supply chain during 2017. This will continue to be the default planning position for 2018, other than rebalancing supply to gain access to lower costs. Supply chain cost reduction will be delivered mainly from volume efficiencies, and given that approach, moving volume to our lower cost and/or most productive suppliers is the strategy. Our plans to move more SCS™ Connect manufacturing to Vietnam in 2017 were delayed due to component availability and the need to ensure capacity readiness. These delays have now been resolved and by the end of 2018 the majority of SCS™ is expected to be produced in the Vietnam factory. This will deliver gross margin improvement in the latter half of the 2018 year. Gross Margin for the year was 23.9%, consistent with 24.0% in 2016 given the above dynamic.

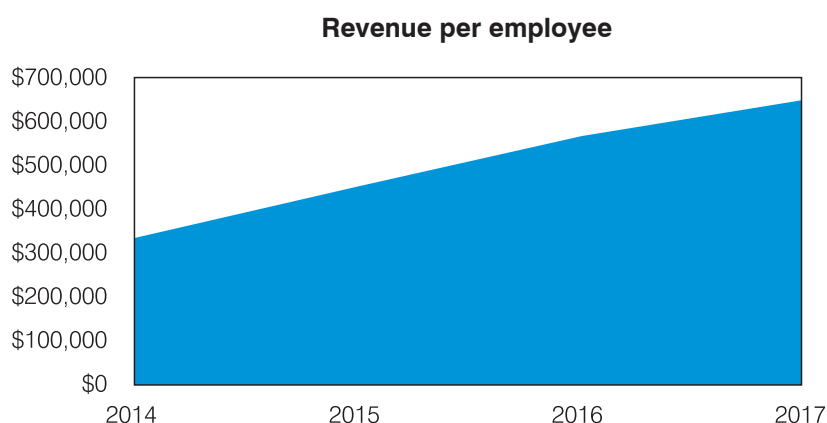




## Productivity

Operating costs increased by 19%, from \$8.5 million to \$10 million. The Company continued to hire new skills to support the growing IoT business, including SCS™ Connect software development, SCS™ customer field support and customer sales staff. Six new staff in the sales and software team were added to the Company between fourth quarter 2016 and the end of 2017 and there was also an increased spend on contractors to fill product development skill gaps. The increase in operating expenses also included market-related salary adjustments to ensure retention of key skills, increases in marketing costs (such as trade shows) and increased travel spend to support market development and customer expansion, particularly in relation to the IoT business growth.

Operating cost as a percentage of revenue was 23%, an improvement on the 24% in 2016, showing that the Company added skills and maintained efficiencies through revenue growth. Revenue per employee, increased from \$560,000 to \$646,000.



## Cash and working capital performance

During the year the Company borrowed US\$400,000 from Meta Capital Limited (a company associated with one of the directors) under a new short term facility due to expire and be repaid by the end of May 2018. This new facility was used to bridge a short term working capital need in fourth quarter 2017. The final \$500,000 was drawn from the Smartshares Limited \$2 million revolving facility that expires in March 2019. The cash balance at 31 December 2017 was \$1.6 million.

Inventory performance continues to be a core strength of the Company, with inventory turns improving to 8.5 times from 7.8 times in 2016. During the first half of 2017 the team positioned finished goods stock in anticipation of a strong second half, and whilst the expected final quarter volume didn't fully materialise, the inventory management process delivered impressive results.

Operating cash flow was a \$1.3 million improvement on 2016. Wellington invested \$2.4 million in capitalised new product development, most of which related to the completion of new SCS™ Connect and SCS™ Click products, the

addition of SCS™ Connect accessories and the development of new SCS™ software and data solutions.

Wellington invested \$0.3 million in plant & equipment, mainly focused on increasing manufacturing and test equipment capacity (to support volume growth and new products), as well as improving development equipment in the New Zealand Innovation Centre.

## Continuous process improvement



Continuous process improvement remains a focus for the Company. In 2017, this centered around the growing software business. Accordingly, investments were made in new software development and software testing skills, resident in New Zealand, to develop new test regimes around firmware and apps before they are released to the market. The focus on software development excellence will continue as this becomes a larger part of the business mix.

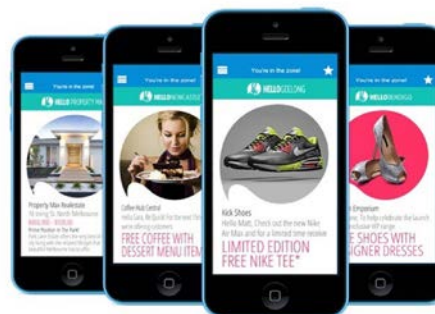
Employee health, safety and wellbeing remain a top priority with the health and safety committee reporting processes and system improvements to the board on a monthly basis. This committee met regularly throughout the year, and continued to identify and implement improvement ideas.

As part of its review of internal policies and procedures, the Company revised and created several new policies during 2017; these included an updated Data Policy, updated Code of Business Conduct and Ethics and updated Governance Manuals in line with the new NZX corporate governance code.

## Strategic Partnerships

In February 2017, Wellington announced an exclusive reseller agreement with iProximity, an innovative proximity marketing solutions and consumer intelligence company based in Australia. This relationship was extended in February 2018 with an option agreement to acquire the iProximity business.

Based in Melbourne Australia, iProximity delivers location intelligence through technology platforms and software that connect digital information with physical spaces. Founded in 2013 by tech entrepreneurs David Burden & Rohan Lean, iProximity has developed the iPX™ cloud based IoT management platform and products that include Mobile Coupon Factory, HelloLocal, ScreenSmarts and an IoT smart Hub – the iPR™.



In 2017, the new relationship focused on developing and marketing Wellington's new Smarter Coolers platform by adding iProximity's proximity marketing technology to Wellington's SCS™ Connect System. This development gives customers the ability to move from simple consumer activation to true consumer engagement. The Smarter Coolers management system is cloud-based, allowing for the simple management of proximity based marketing campaigns on globally deployed coolers and other point of sale equipment used by global food and beverage brands.

Selected examples of what a Wellington and iProximity Smarter Cooler platform can offer are:

- ✓ *Waking a consumer's phone with a branded message in-store from an SCS™ enabled Smarter Cooler*
- ✓ *Delivering contextual, personalised promotions based on consumer purchasing habits*
- ✓ *Delivering partnering opportunities by engaging with retail partner Apps*
- ✓ *Delivering messages to digital signage based on who is standing close by*

✓ *Understanding marketing campaign attribution with complete end to end analysis*

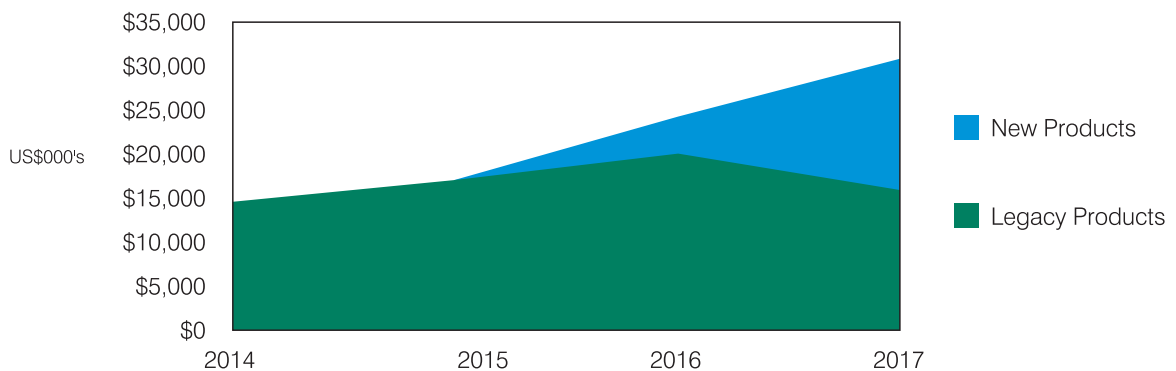
Wellington and iProximity successfully demonstrated the Smarter Coolers platform to prospective clients and expect to continue customer trials in 2018, and to secure the first customer contract based on the iPX platform.

## 2017 Priorities – Performance Report



The Company's priorities in 2017 were designed to set the business up for continued growth, seek partners to broaden its IoT solution offering and continue to develop customer relationships outside of the carbonated soft drinks market. Growing the top line by 20-30% year on year is our current target and the 23% growth in 2017, following on from 44% growth in 2016, demonstrates the success of our sales approach. Of the 23% growth achieved in 2017, 19% came from the IoT business, and 4% from the motor business.

### New Product Growth



The five priorities set for 2017, and the performance against them were:

#### 1. Successfully deliver the SCS™ Connect production programme for new customers

With 308% volume growth the SCS™ Connect production programme was delivered as planned. The one issue that needed to be managed was a delay in transitioning more volume to the East West Vietnam factory. Out of an abundance of caution, this project was delayed by two quarters with customer deliveries prioritised ahead of cost reduction.

#### 2. Start developing market opportunities for SCS™ Connect beyond carbonated soft drink

Two new business development projects commenced in 2017 in the food and entertainment sectors, led by the iProximity partner solution. Proximity marketing solutions are a value driver in these markets and if adopted can pull through sales of SCS™ Connect or other similar IoT hardware.



### 3. Seek technology & channel partnerships to broaden the SCS™ Connect digital services offering

The iProximity reseller agreement was signed in February 2017, with that relationship further progressing to the acquisition option announced in February 2018. The relationship adds a comprehensive proximity marketing platform to the existing SCS™ Connect and Data service offering. This allows Wellington to offer a complete IoT solution, with Smarter Coolers not only enabling customers to better manage their commercial coolers, but taking the Company beyond cooling to other point-of-sale applications.

### 4. Commence development projects for the next phase of the EC motor product roadmap

This is the one area where the Company was challenged in 2017. The majority of engineering focus was directed towards supporting the significant growth on ECR2 and SCS™ Connect, as several customers required customization of existing products, which were supported by the team to deliver sales growth. It is expected that the innovation team will re-focus on new product development in the first half of 2018. Development and innovation capacity is a focus of the investment plan for 2018 and it is anticipated that engineering headcount will be added globally to support this effort.

### 5. Commence upgrade of the company-wide management information system to support year on year growth.

A plan to upgrade IT infrastructure was finalised and will be completed in mid 2018. This will be followed by a complete review and upgrade of the Management Information System (MIS) and the Company's Enterprise Resource Planning (ERP) system in line with the expanding global and multi-product nature of the business.

## 2018 – Five Main Priorities

### DELIVERING SALES GROWTH

#### PROXIMITY MARKETING

- Influence consumer's decision at point of purchase
- Increase product sales
- Brand promotion



For 2018, the focus will be on a refresh of the Company's long-range vision and strategy; one that best aligns investment and growth plans with the changing nature of customers' needs and further product offerings.

Sales performance and delivering on longer term aspirational growth objectives, with the appropriate management operating systems to deal with high growth rates, will form the basis of actions and initiatives. Commencing the next stage of Wellington's product innovation programme, both software and hardware, will ensure future success and ensure full leverage of the planned investment in iProximity.

The top priorities for 2018 will be:

1. Complete the development of Wellington's 2022 vision
2. Complete and leverage the iProximity acquisition to support sales growth and end-market expansion

3. Develop on market opportunities for Wellington's IoT solutions beyond the carbonated soft drink market
4. Commence new product development projects for IoT hardware, software and EC motors
5. Complete the upgrade of the company-wide management information system to enable growth strategy

## 2018 Outlook

The Wellington business is changing, as more and more customers look for technologies and solutions that help them connect with consumers and sell more of their food and beverage products; not just reduce their costs. Digital transformation is happening fast across the global consumer brands that Wellington serves. Several years ago the Company identified the emerging 'Digital Wave' and invested in SCS™ Connect and IoT Data Services. With the IoT offering and with an 'Everything Connected' product strategy, the Company is recognising the pace of change in end markets and adapting plans accordingly. Wellington will use the strong cash flows generated from its EC motor business to support growth in new areas of IoT products and digital services.

With continued aggressive growth in the IoT business while delivering modest growth on the overall motor business, 2018 is expected to see a significant improvement on 2017.

Revenue for the first half of 2018 is forecast to more than 10% above the same period in 2017 with EBITDA above the \$1 million recorded in the first half of 2017.

Some uncertainty is still being experienced over silicon semiconductor component supply, however actions underway, such as driving alternative sourcing strategies and product redesign, are expected to protect the Company from the worst of the industry wide component shortages and ensure the ability to deliver for customers.

On 28 February 2018, the Company announced the signing of an option agreement to acquire iProximity. The impact on earnings from an acquisition of iProximity is expected to be minimal for the 2018 year; however the relationship is already benefiting Wellington's IoT revenues with early indications that the first contract for iProximity's iPX IoT software business has been won.

2018 EBITDA<sup>1</sup> guidance of between \$2 million to \$4 million is being maintained and achievement of a net profit is targeted. Achieving these targets means Wellington should generate positive operating cash flow in FY2018 to meet its working capital needs, enable the repayment of the Meta Capital Limited loan and support the acquisition of iProximity.

The combination of Wellington's SCS™ hardware, Data Services and iProximity digital marketing solutions is providing the Company with an IoT platform that is opening new growth options within new markets, customers and strategic partners. Wellington has developed a new vision; one where the Company will establish long-term market leadership as an Internet of Things technology provider to the food and beverage market.

The board and Wellington team would like to thank you for your support while working towards a successful 2018 and a refreshed direction for the company over the next five years.



Tony Nowell, CNZM  
Chairman



Greg Allen  
Chief Executive Officer

Note 1: EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. The Company considers that it is a useful financial indicator because it avoids the distortions caused by the differences in amortisation and impairment policies.

## Directors



### Tony Nowell, CNZM Chairman

Mr Nowell was appointed a director of Wellington in March 2010 and Chairman in December 2010. He is an experienced company leader in major New Zealand and international businesses and also Chairs Scion (the New Zealand Forest

Research Institute) and the Omega Lamb Primary Growth Partnership between the New Zealand Government and Primary Industry participants. He is a board member of New Zealand Food Innovation (Auckland) and retired in 2017 from the Food Standards Australia New Zealand. He represented New Zealand on the APEC Business Advisory Council from 2006 to 2016 and also in 2016 completed a six year term as a member of the Export Advisory Board of Business New Zealand. Mr Nowell was formerly Chief Executive of Zespri International, and Griffin's Foods Limited, and the Deputy Chair of Leadership New Zealand. Prior to returning to New Zealand business in 2000 from an extended period of international business experience, Mr Nowell was Regional Vice President of Sara Lee Asia, President Director of Sara Lee Indonesia and President Director of L'Oreal Indonesia.



### Dr Lisbeth Jacobs

Dr Jacobs, a native of Belgium, holds a PhD in Materials Engineering from the University of Auckland and a Master of Science in Materials Engineering from the Katholieke Universiteit Leuven, Belgium, where she also completed a post graduate degree in Business Studies. Dr

Jacobs has also completed the Executive General Management programme at CEDEP- INSEAD, France. Dr Jacobs is currently Executive Director International at UniServices, a wholly owned subsidiary of The University of Auckland. In this role Dr Jacobs is responsible for all international commercial activities that the University of Auckland undertakes. She is a member of the board of Energia Potior, a Joint Venture between UniServices and Yunca that delivers technology solutions to the global aluminium industry. Dr Jacobs is Chairwoman and Legal Representative of "The University of Auckland Innovation Institute China" in Hangzhou China, a Wholly Foreign-Owned Entity operating as the newly established commercialisation and innovation branch of UniServices. Before taking up her current role Dr Jacobs was Director Strategy & Development at The Icehouse, following a 13 year career with global corporate Bekaert, a world market and technology leader in steel wire and steel cord products and applications. Dr Jacobs held a

range of positions at Bekaert including in Business Development, Strategy, Mergers & Acquisitions and R&D Management both in Belgium and China. Dr Jacobs is Honorary Consul of Belgium since August 2013. Lisbeth was appointed as a director of Wellington in May 2013.



### Gottfried Pausch

Mr Pausch currently serves as an independent director of McKay Ltd in Whangarei, Blackhawk Tracking Systems Ltd in Auckland and as Executive Chairman of Aucom Electronics Ltd in Christchurch and is a Director on one of the National Science Challenges

an Initiative of the Ministry of Business, Innovation & Employment (MBIE). The Science for Technological Innovation National Science Challenge aims to tackle New Zealand's big high-tech challenges to grow the economy. The research areas of focus cover materials, manufacturing and design; sensors, robotics and automation; and IT data analytics and modelling. Gottfried was appointed a director of Wellington in December 2013.

Mr Pausch was the former CEO at Actronic Technologies and an Executive in Residence at The Icehouse, following a 22 year career with German engineering and electronics conglomerate Siemens, one of the world's leading suppliers of a wide range of products, solutions and services in the field of technology, which included the roles of CEO Siemens Energy Services Ltd and Managing Director of Siemens New Zealand. Mr. Pausch holds an electrical engineering degree from Austria and a master's degree in Business Administration from Duke University in the U.S.A.



### John McMahon

Mr McMahon has over twenty years' experience in the Australasian equity markets, predominantly as an equity analyst covering a range of industries including telecommunications, media, gaming, transport and industrials. He was a former

Head of Research and Head of Equities for ABN AMRO NZ and was Managing Director of ASB Securities for three years. John now manages his own investment portfolio and is Chairman of NZAX-listed Solution Dynamics Ltd (SDL). He has a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charterholder. John was appointed a director of Wellington in October 2014.



## Senior Management



### Greg Allen – Chief Executive Officer

Mr Allen was appointed CEO of Wellington Drive in November 2011. Prior to joining Wellington Mr Allen spent 23 years working internationally leading business development, supply chain and manufacturing organisations in Europe, North America and Asia. He is an experienced operational and business leader, having most recently been responsible for the Industrial and Green Technology business unit for Celestica, a highly regarded multinational supply chain services provider. Prior to Celestica Mr Allen led a Canadian public company focused on VOIP products and also held senior roles with global contract manufacturing and engineering services companies. Originally from New Zealand, and with a technical background gained from six years in the New Zealand armed forces, Mr Allen brings to Wellington a broad market experience covering many industrial segments such as telecommunications, aerospace, capital equipment, consumer products and enterprise computing.



### Steve Hodgson – Senior Vice President Commercial

Mr Hodgson joined Wellington in August 2008 with initial responsibility for investor relations, capital market activities, and all aspects of corporate strategy. On 2 April 2009, Mr Hodgson was appointed Vice President Corporate Services (this title was changed to Chief Financial Officer in 2010), with responsibility for supporting the Chief Executive Officer and the Board in developing and executing strategic plans, leading the corporate services team (finance, IT, legal, and human resource functions), and managing investor relations and funding programmes. In July 2013 Mr Hodgson was appointed Senior Vice President Commercial, to lead the Company's sales and business activities. Prior to joining Wellington, Mr Hodgson worked in equities research for 20 years and most recently was the Head of Research for Macquarie Securities in New Zealand from 2003 to 2008. He holds a BMS (Hons) from Waikato University with majors in accounting and economics.



### David Howell – Chief Technical Officer

Mr Howell joined Wellington as Engineering Manager in 1999 and is currently responsible for all aspects of Wellington's future technology roadmap and the company's product development processes in his role as Chief Technology Officer. He has previously worked in new product development roles for Rover Group (UK), Fisher and Paykel Healthcare Corporation Ltd, and Tru-Test Ltd. David is a chartered (CPEng & IntPE) mechanical engineer, holds a BE (Hons) and DipBus from The University of Auckland and an MSc from Cranfield (UK), and is currently working towards a PhD in product development management. Mr Howell is listed as inventor on 12 families of international patent applications, including several of Wellington's core patents.



### Howard Milliner – Chief Financial Officer

Howard Milliner joined Wellington in November 2012. He holds a BCom from Auckland University and is a Chartered Accountant. He was previously CFO of a N.Z. listed engineering business for 14 years and was the CEO and CFO of that company for 7 of those years.



### **Ali Karahasanoglu – Sales Director, Europe, Middle East and Africa**

Mr Karahasanoglu has received his BS degree in Electrical Engineering on power electronics division and studied Pre-MBA at Temple University, USA. He had worked in several industries; IT, heating, refrigeration, home appliances as Project Development Engineer, Service Engineer, Regional Sales Manager and Sales & Marketing Manager. Since joining Wellington in 2002 he has served in different functions within the organisation – distribution, business development, Turkey/Eurasia subsidiary company setup and management (since 2006), refrigeration business unit management and recently he has been Sales director of Europe, Middle East and Africa region since 2008.



### **Erick Layseca – Business Development Director, Americas**

Mr Layseca graduated as an Industrial and Systems Engineer. He was a shareholder in a Dairy Consulting Company, in which he actively participated and gained extensive experience in business development. He then moved on to the world's fifth largest bottle cooler manufacturer, where he was in charge of the areas of Supplier Development and International Commerce. He has been working at Wellington, as a Business Development Director of Latin America since 2006.



### **Clayton Thomas – Sales and Marketing Director, Asia Pacific**

Mr Thomas was appointed to direct our key initiatives, in collaboration with customers, to drive Wellington's long term growth and sustainability in APAC. Prior to joining Wellington, he worked with beverage dispensing technologies and sustainable energy solutions for the Food and Beverage and Marine industries. Mr Thomas has lived in China since 2007.



### **Gerardo Gonzalez – Vice President and General Manager, Intelligent Systems Business Unit**

Mr. Gonzalez joined Wellington in February 2013 as Vice President and General Manager of Intelligent Solutions Business. He is responsible for the business development and general management of the new Electronic Controls Business Unit. In addition, he has been appointed as the executive accountable for the company's relationship with The Coca-Cola Company. Mr. Gonzalez has global business development and strategic planning experience in the Carbonated Soft Drink and Beer Industry. Mr. Gonzalez resides in Atlanta, Georgia, and holds a BS in Economics from Monterrey Institute of Technology, and an MBA from Emory University.

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 \$000s	2016 \$000s
<b>Revenue</b>	2.2	<b>43,308</b>	35,274
Cost of sales		<b>(32,967)</b>	(26,821)
Gross profit		<b>10,341</b>	8,453
Other income	2.3	<b>251</b>	206
Operating expenses	2.4	<b>(10,054)</b>	(8,455)
Earnings before interest, taxation, depreciation, amortisation & impairment		<b>538</b>	204
Depreciation	3.2	<b>(301)</b>	(274)
Amortisation & impairment	3.3	<b>(1,245)</b>	(1,234)
Loss before interest & taxation		<b>(1,008)</b>	(1,304)
Finance income	4.2	<b>45</b>	8
Finance expenses	4.2	<b>(934)</b>	(1,131)
Loss before income tax		<b>(1,897)</b>	(2,427)
Income tax expense	2.5a	<b>(83)</b>	(51)
<b>Loss for the year</b>		<b>(1,980)</b>	(2,478)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to the profit or loss:</i>			
Exchange differences on translating operations	4.5b	<b>(121)</b>	(485)
Cash flow hedge, net of tax	4.5c	<b>15</b>	(21)
Other comprehensive loss for the year		<b>(106)</b>	(506)
<b>Total comprehensive loss for the year</b>		<b>(\$2,086)</b>	(\$2,984)
Loss for the year attributable to the Owners of the Company		<b>(\$1,980)</b>	(\$2,478)
<b>Total comprehensive loss attributable to the Owners of the Company</b>		<b>(\$2,086)</b>	(\$2,984)
Basic earnings per share – cents	2.6	<b>(0.77)</b>	(0.96)
Diluted earnings per share – cents	2.6	<b>(0.77)</b>	(0.96)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.



## Consolidated Statement of Movements in Equity

for the year ended 31 December 2017

	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
<b>2017</b>					
<b>Balance at 1 January 2017</b>		<b>117,192</b>	<b>(112,126)</b>	<b>(2,317)</b>	<b>2,749</b>
<b>Comprehensive Income</b>					
Loss for year		-	(1,980)	-	(1,980)
<b>Other comprehensive income</b>					
Exchange differences on translating operations	4.5b	-	-	(121)	(121)
Cash flow hedge	4.5c	-	-	15	15
Income tax relating to other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>(1,980)</b>	<b>(106)</b>	<b>(2,086)</b>
Share option compensation expensed	4.5a	-	-	56	56
Contributions of equity, net of costs	4.3	6,416	-	-	6,416
<b>Balance at 31 December 2017</b>		<b>\$123,608</b>	<b>(\$114,106)</b>	<b>(\$2,367)</b>	<b>\$7,135</b>
<b>2016</b>					
<b>Balance at 1 January 2016</b>		<b>117,184</b>	<b>(109,648)</b>	<b>(1,938)</b>	<b>5,598</b>
<b>Comprehensive Income</b>					
Loss for year		-	(2,478)	-	(2,478)
<b>Other comprehensive income</b>					
Exchange differences on translating operations	4.5b	-	-	(485)	(485)
Cash flow hedge	4.5c	-	-	(21)	(21)
Income tax relating to other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>(2,478)</b>	<b>(506)</b>	<b>(2,984)</b>
Share option compensation expensed	4.5a	-	-	127	127
Contributions of equity, net of costs	4.3	8	-	-	8
<b>Balance at 31 December 2016</b>		<b>\$117,192</b>	<b>(\$112,126)</b>	<b>(\$2,317)</b>	<b>\$2,749</b>

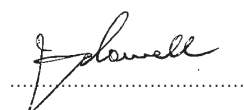
The above Consolidated Statement of Movements in Equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position


as at 31 December 2017

	Note	2017 \$000s	2016 \$000s
<b>Current Assets</b>			
Cash and cash equivalents	3.1a	1,563	2,099
Trade and other receivables	3.1b	11,690	9,015
Derivative financial instruments	6.4	6	-
Inventories	3.1c	3,025	3,461
Total current assets		16,284	14,575
<b>Non-Current Assets</b>			
Plant and equipment	3.2	948	999
Intangible assets	3.3	6,931	5,914
Total non-current assets		7,879	6,913
Total assets		24,163	21,488
<b>Current Liabilities</b>			
Trade and other payables	3.1d	12,703	10,348
Deferred income	2.2	526	349
Provisions	3.1e	377	253
Derivative financial instruments	6.4	-	14
Borrowings	4.1	591	7,499
Total current liabilities		14,197	18,463
<b>Non-Current Liabilities</b>			
Borrowings	4.1	2,007	34
Deferred income	2.2	824	242
Total non-current liabilities		2,831	276
Total liabilities		17,028	18,739
<b>Net assets</b>		<b>\$7,135</b>	<b>\$2,749</b>
<b>Equity</b>			
Contributed equity	4.3	123,608	117,192
Accumulated losses	4.4	(114,106)	(112,126)
Other reserves	4.5	(2,367)	(2,317)
<b>Total equity</b>		<b>\$7,135</b>	<b>\$2,749</b>

For and on behalf of the Board



Director  
1 March 2018



Director  
1 March 2018

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Note	2017 \$000s	2016 \$000s
<b>Cash flows from operating activities</b>			
Receipts from customers exclusive of GST/VAT		41,406	32,805
Payments to suppliers and employees exclusive of GST/VAT		(40,605)	(32,789)
Interest paid		(522)	(345)
Interest received		45	8
Taxation paid		(24)	(69)
Net GST/VAT received		957	342
Net cash inflow / (outflow) from operating activities		1,257	(48)
<b>Cash flows from investing activities</b>			
Payments for plant and equipment	3.2	(260)	(287)
Payments for intangible assets	3.3	(2,358)	(1,930)
Proceeds from sale of plant and equipment		-	2
Net cash outflow from investing activities		(2,618)	(2,215)
<b>Cash flows from financing activities</b>			
Cash proceeds / (costs) from ordinary shares	4.3	(13)	8
New loan drawdowns	4.1	1,083	1,500
Finance lease borrowing	4.1	-	76
Finance lease repayments	4.1	(25)	(17)
Net cash inflow from financing activities		1,045	1,567
<b>Net decrease in cash and cash equivalents</b>		<b>(316)</b>	<b>(696)</b>
Cash and cash equivalents at the beginning of the financial period		2,099	2,880
Effect of exchange rate movements on cash		(220)	(85)
<b>Cash and cash equivalents at end of year</b>	3.1a	<b>\$1,563</b>	<b>\$2,099</b>

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

# 1. Basis of preparation

This section sets out the Group's significant accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a note, that policy is stated in the note to which it relates.

## 1.1 General Information

Wellington Drive Technologies Limited (the "Company") and its subsidiaries (together the "Group") develop, manufacture, market and sell energy saving, electronically commutated (EC) motors, controllers and fans for worldwide use.

The Company is a limited liability incorporated and domiciled in New Zealand. The address of its registered office is 21 Arrenway Drive, Rosedale, Auckland 0632 New Zealand. The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Company have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

These consolidated financial statements have been approved for issue by the Board of Directors on 1 March 2018.

## 1.2 Summary of Significant Accounting Policies

### (a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). Separate financial statements for the Parent are not presented in accordance with the Financial Markets Conduct Act 2013.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *Entities reporting*

The financial statements are for the consolidated Group which is the economic entity comprising of Wellington Drive Technologies Limited and its subsidiaries.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention with the exception of derivative financial information which is measured at fair value.

#### *Going concern assumption*

The Group reported a loss after tax of \$1,980,000 (2016: \$2,478,000) and cash flows inflows from operating activities of \$1,257,000 (2016: outflow of \$48,000) for the year ended 31 December 2017. As at 31 December 2017, the Group had cash of \$1,563,000 (2016: \$2,099,000) and net assets of \$7,135,000 (2016: \$2,749,000).

The Group is experiencing significant revenue growth following the launch of its new ECR2 motor and SCS Connect products and is forecasting to be profitable in 2018 and generating cash flows from operations that will support investing activities and repayment of borrowings on their due date. These forecasts include judgements and estimates over key assumptions relating to future revenue growth, gross margins, operating costs and capital expenditure. Management have considered a number of trading scenarios, including mitigating actions that would be undertaken in the event actual results vary adversely from forecast. These



actions include deferring planned increases in operating costs, capital expenditure and other investments, if required, where this expenditure does not adversely impact sale growth and margins. It should be noted that by their very nature forecasts include inherent uncertainty and actual results may vary from those forecast.

Given the nature of the judgements and estimates noted above and the management's ability to take mitigating actions, it is the considered view of the Directors that the Group will have access to adequate resources to meet its ongoing obligations for at least a period of 12 months from the date of signing these consolidated financial statements.

On this basis, the Directors have assessed it is appropriate to adopt the going concern basis in preparing its financial statements.

## **(b) Principles of consolidation**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

## **(c) Foreign currency translation**

### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's functional currency is US Dollars because its purchase and sale of product is mainly denominated in US Dollars. Subsidiaries in Turkey, Mexico and Singapore use their local currency as the functional currency.

The consolidated financial statements are presented in New Zealand dollars, rounded to the nearest thousand, which is the Group's presentation currency. The presentation currency remains New Zealand dollars due to the Company's shareholder base being concentrated in New Zealand.

### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

### *(iii) Foreign operations*

The results and balance sheets of all foreign operations that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the Statement of Financial Position;

- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

**(d) Critical accounting estimates**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed in the following notes to the financial statements:

Area of estimation	Note
• Development costs – capitalisation of expenses and impairment testing	3.3
• Going concern assumption	1.2a

## 2. Results for the year

This section focuses on the results and performance for the Group and how those numbers are calculated.

### 2.1 Segment information

An operating segment is a component of an entity that engages in business activities from which it earns revenues and incurs expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer supported by the Management Team who report directly to the CEO.

#### (a) Reportable segments

The Group is organised on a global basis into one operating segment - marketing, sale, manufacture and development of electric motors and associated electronics and software. The financial statements therefore reflect the results and financial position of the segment.

#### (b) Geographical segments

The Group operates in three main geographical areas, although it is managed on a global basis.

<b>Revenue from external customers by geographic areas</b>	<b>2017 \$000s</b>	<b>2016 \$000s</b>
Americas	<b>35,939</b>	27,257
Asia / Pacific (APAC)	<b>3,562</b>	3,300
Europe / Middle East / Africa (EMEA)	<b>3,807</b>	4,717
<b>Total</b>	<b>\$43,308</b>	\$35,274

Revenue is allocated above based on the country in which the customer is located.

<b>Total non-current assets</b>	<b>2017 \$000s</b>	<b>2016 \$000s</b>
Americas	<b>20</b>	11
Asia / Pacific (APAC) – mainly in New Zealand	<b>7,853</b>	6,894
Europe / Middle East / Africa	<b>6</b>	8
<b>Total</b>	<b>\$7,879</b>	\$6,913

Total non-current assets are allocated based on where the owners of the assets are located.

APAC revenue includes \$7,000 (2016 – \$85,000) from New Zealand customers.

#### *Major Customers*

The Group has two major customers (defined as customers representing 10% or more of revenues) which account for invoiced revenues of \$13,417,000 and \$9,040,000 respectively (2016: two customers with revenues of \$10,656,000 and \$9,388,000 respectively).

## 2.2 Revenue

	2017 \$000s	2016 \$000s
Product revenue	43,081	35,211
Services revenue	227	63
	<b>\$43,308</b>	<b>\$35,274</b>

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding GST / VAT, rebates and discounts and after eliminating sales within the Group.

Sale of Goods – sales are recognised when legal title or possession is transferred to the buyer which is usually when delivery of the goods to the customer takes place.

Sale of services – revenue from the provision of services is recognised when services are rendered to the buyer. The Company has received revenue in previous years amounting to \$US 212,000 in connection with the development of a new motor product. This revenue has been deferred and will be recognised in the income statement when the motor development is completed and products are sold pursuant to a licence agreement. The Company has also received revenue of \$US 713,000 during the period (2016: \$US 246,000) for the sale of data services for its SCS Connect product. That income has also been deferred and will be recognised in the income statement over the service period. Service periods range from 1 to 10 years.

## 2.3 Other Income

	2017 \$000s	2016 \$000s
Net foreign exchange gains	215	88
Licence fees received	21	55
Grants received	4	-
Other income	11	63
	<b>\$251</b>	<b>\$206</b>

Net foreign exchange gains includes a \$60,000 gain in 2017 (2016 - \$121,000 loss) arising from the revaluation of the Mandatory Convertible Preference Shares (note 4.1).

## 2.4 Operating expenses

### (a) Employee benefits

	2017 \$000s	2016 \$000s
Wages and salaries and other short term benefits	7,754	6,181
Employee share options expense	56	127
Employee benefits	<b>\$7,810</b>	<b>\$6,308</b>

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The Group recognises a liability and an expense for bonuses and creates a provision where contractually obliged or where there is a past practice that has created a constructive obligation.



**(b) Rental and operating leases**

	2017 \$000s	2016 \$000s
Rental and operating lease expenses	\$270	\$287

The Group is the lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

The Group leases various offices, facilities and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Operating leases	2017 \$000s	2016 \$000s
Within one year	322	272
Later than one year but not later than five years	330	520
Later than five years	-	-
	<b>\$652</b>	<b>\$792</b>

**2.5 Income tax expense****Current and deferred income tax**

The income tax expense or revenue for the year is the tax payable on the current period's taxable income (based on the national income tax rate for each jurisdiction) adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

**Goods and Services Tax (GST) and Value Added Tax (VAT)**

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST and VAT. All items in the Statement of Financial Position are stated net of GST and VAT, with the exception of receivables and payables, which include GST and VAT invoiced.

**(a) Income tax expense**

The Company and Group have unrecognised tax losses available to carry forward and offset against current year taxable income. Taxation of \$83,000 (2016: \$51,000) is payable in respect of some overseas subsidiaries.

**(b) Unrecognised tax losses**

	2017 \$000s	2016 \$000s
Reported loss for period before tax	(1,897)	(2,427)
Non-deductible / non assessable items	355	1,091
Less unrecognised timing differences	1,185	863
Net loss for tax purposes	(357)	(473)
Losses carried forward from prior years	(100,474)	(98,681)
Adjustment of prior periods	71	(1,810)
Expired losses	-	-
Overseas taxable income	(401)	(110)
Exchange adjustments	(627)	600
Losses available to carry forward to future years	(\$101,788)	(\$100,474)

Of the total consolidated losses available to carry forward to future years, \$1,968,000 (2016 - \$2,504,000) arises in the USA and is subject to their continuity requirements. USA Federal tax losses expire after 15 to 20 years, depending on when those losses were incurred. During the 2017 year no USA Federal tax losses expired (2016 - None).

**(c) Unrecognised deferred tax balances**

The Group has not recognised income tax losses and temporary differences as a future income tax benefit due to the uncertainty of their recoverability in the immediate future. Losses available to be carried forward are subject to the shareholder continuity requirements of the New Zealand Income Tax Act 1994 and the countries in which the losses have arisen. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to the same tax authority. The New Zealand corporate tax rate of 28% has been used to determine the below unrecognised deferred tax assets:

	2017 \$000s	2016 \$000s
Doubtful debts	30	38
Inventory provisions and eliminations	45	56
Employee benefits	269	94
Other timing differences	699	72
Tax losses to carry forward	28,501	28,133
Unrecognised net deferred tax asset	\$29,544	\$28,393

**(d) Imputation credits**

The Group has no imputation credits available (2016 – \$nil) and no movements occurred in the Imputation Credit Account (2016 – \$nil).

## 2.6 Earnings per share

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS of a loss of 0.77 cents (2016 – loss of 0.96 cents) is calculated by dividing the loss attributable to equity holders of the Company of \$1,980,000 (2016 - (\$2,478,000)) by the weighted average number of ordinary shares in issue during the year of 257,041,576 (2016 – 256,895,787).

Diluted EPS of a loss of 0.77 cents (2016 - loss of 0.96 cents) reflects any commitments the Group has to issue shares in future that would decrease EPS. The weighted average number of ordinary shares is compared with the number of shares that would have been issued assuming the exercise of share options. As at 31 December, the following instruments existed that are, or were, potentially dilutive of future earnings per share, but were not included in the calculation of diluted EPS for that year because the effect in that year would have been anti-dilutive:

	Number of shares	
	2017	2016
Part paid shares	<b>12,703,070</b>	12,904,635
US employee share options	<b>1,914,600</b>	1,914,600

The weighted average number of ordinary shares on issue for the purpose of the basic and diluted EPS calculation for 2016 includes 25,211,740 preference shares, being the minimum number of ordinary shares that were to be issued upon their conversion (note 4.1).

### 3. Operating assets and liabilities

This section focuses on the assets used to generate the Group's trading performance and the liabilities incurred as a result.

#### 3.1 Working capital

Working capital represents the assets and liabilities the Group generates through its trading activities. The Group therefore defines working capital as cash, trade and other receivables, inventory and trade and other payables.

##### (a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	2017 \$000s	2016 \$000s
Cash on hand and at bank	835	820
Call deposits	652	1,203
Short term bank deposit	76	76
	<b>\$1,563</b>	<b>\$2,099</b>

The carrying amount of the Group's cash and cash equivalents is denominated in the following currencies:

NZD	151	399
USD	1,370	1,634
Other	42	66
	<b>\$1,563</b>	<b>\$2,099</b>

##### (b) Trade and other receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently measured at the amounts considered recoverable. Trade receivables are generally due for settlement no more than 120 days from the date of recognition.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. This determination requires significant judgement. In making this judgement, the Group evaluates amongst other factors whether there is objective evidence of significant financial difficulty of the customer, whether there has been breach of contract, whether it has become probable that the customer will enter into bankruptcy or other financial reorganisation, whether there is an active market for that customer and the national or local economic conditions that could impact on the customer.

	2017 \$000s	2016 \$000s
Trade receivables	11,146	8,504
Provision for doubtful debts	(107)	(148)
Net trade receivables	<b>11,039</b>	8,356
Prepayments	325	269
VAT/GST refunds due	259	274
Income tax refund due	22	32
Other receivables	45	84
	<b>\$11,690</b>	<b>\$9,015</b>



The carrying amount of the Group's trade and other receivables is denominated in the following currencies:

	2017 \$000s	2016 \$000s
NZD	49	52
USD	10,706	8,513
EUR	112	96
Other	823	354
	<b>\$11,690</b>	<b>\$9,015</b>

Provision for doubtful debts		
Carrying amount at start of year	148	152
(Decrease) / increase in provision	(39)	2
Exchange adjustment	(2)	(6)
Carrying amount at end of year	<b>\$107</b>	<b>\$148</b>

The decrease in provision is recognised within 'Operating expenses' in the Statement of Comprehensive Income.

### (c) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of first in first out. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Management reviews inventory on a line by line basis. Judgements are made about expected selling prices and obsolescence based on forecast sales. A provision is recognised for inventory which is expected to sell for less than cost.

	2017 \$000s	2016 \$000s
Finished goods – at cost	2,271	2,432
Work in progress – at cost	549	731
Raw materials – at cost	267	369
Less inventory provisions	(62)	(71)
Total inventories	<b>\$3,025</b>	<b>\$3,461</b>

Certain inventories are subject to retention of title clauses.

Cost of inventories recognised as an expense and included in cost of sales \$31,434,000 (2016: \$25,527,000).

### (d) Trade and other payables

Trade payables are recognised at the value of the invoice received from a supplier. These amounts represent liabilities for goods and services provided to the Group prior to balance date. The amounts are unsecured and are usually paid within 90 days of recognition.

	2017 \$000s	2016 \$000s
Trade payables	11,233	9,547
Employee entitlements	1,179	410
Income tax payable	49	-
Accrued expenses	242	391
	<b>\$12,703</b>	<b>\$10,348</b>

The carrying amount of the Group's trade and other payables is denominated in the following currencies:

	2017 \$000s	2016 \$000s
NZD	1,625	1,058
USD	10,468	9,150
Other	610	140
	<b>\$12,703</b>	<b>\$10,348</b>

Deferred income was previously included within trade and other payables. It is now disclosed separately in the statement of financial position and analysed between current and non-current. Comparative amounts have been reclassified to conform to the current year's presentation.

#### (e) Provisions

Provisions are recognised when; the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The Group sells electric motors with warranty periods of up to five years. The terms of the warranty provide that the Group will repair or replace items that fail to perform satisfactorily. A provision has been recognised based on historical data and average levels of repairs and warranty claims experienced by the Group. It is expected that the provision will be utilised within one year as any product failures are typically exhibited within one year of sale.

	2017 \$000s	2016 \$000s
Warranty provision		
Carrying amount at start of year	253	215
Additional provisions recognised	300	93
Amounts used	(175)	(51)
Exchange adjustment	(1)	(4)
Carrying amount at end of year	<b>\$377</b>	<b>\$253</b>

### 3.2 Plant & equipment

All plant and equipment is stated at historical cost less depreciation and impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial year in which they are incurred.

Depreciation of plant and equipment is calculated using the straight line method to allocate their cost net of their residual values, over their estimated useful lives, as follows:

	Useful Life
Plant and equipment	3 - 15 years
Office equipment, furniture and fittings	3 - 15 years

The assets' residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Plant and equipment can be analysed as follows:

	Plant & equipment \$000s	Office equipment, furniture & fittings \$000s	Total \$000s
<b>At 31 December 2015</b>			
Cost	5,027	1,678	6,705
Accumulated depreciation and impairment	(4,168)	(1,398)	(5,566)
Exchange adjustment	(18)	(112)	(130)
Net book amount	<u>\$841</u>	<u>\$168</u>	<u>\$1,009</u>

#### Year ended 31 December 2016

Opening net book amount	841	168	1,009
Additions	169	118	287
Depreciation	(212)	(62)	(274)
Exchange adjustment	(17)	(6)	(23)
Closing net book amount	<u>\$781</u>	<u>\$218</u>	<u>\$999</u>

#### At 31 December 2016

Cost	5,196	1,796	6,992
Accumulated depreciation and impairment	(4,380)	(1,460)	(5,840)
Exchange adjustment	(35)	(118)	(153)
Net book amount	<u>\$781</u>	<u>\$218</u>	<u>\$999</u>

#### Year ended 31 December 2017

Opening net book amount	<b>781</b>	<b>218</b>	<b>999</b>
Additions	<b>230</b>	<b>30</b>	<b>260</b>
Depreciation	<b>(229)</b>	<b>(72)</b>	<b>(301)</b>
Exchange adjustment	<b>(11)</b>	<b>1</b>	<b>(10)</b>
Closing net book amount	<u><b>\$771</b></u>	<u><b>\$177</b></u>	<u><b>\$948</b></u>

#### At 31 December 2017

Cost	<b>5,426</b>	<b>1,826</b>	<b>7,252</b>
Accumulated depreciation and impairment	<b>(4,609)</b>	<b>(1,532)</b>	<b>(6,141)</b>
Exchange adjustment	<b>(46)</b>	<b>(117)</b>	<b>(163)</b>
Net book amount	<u><b>\$771</b></u>	<u><b>\$177</b></u>	<u><b>\$948</b></u>

<b>Depreciation</b>	<b>2017 \$000s</b>	2016 \$000s
Plant and equipment	<b>229</b>	212
Office equipment, furniture & fittings	<b>72</b>	62
	<u><b>\$301</b></u>	<u>\$274</u>

#### Sale of plant and equipment

Gain on disposal	<u><b>\$-</b></u>	\$2
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Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income.

#### Capital commitments

Capital commitments contracted for at 31 December 2017 amounted to \$41,000 (2016 - \$125,000).

### 3.3 Intangible assets

#### ***Research, development and patent costs***

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the Statement of Comprehensive Income as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. This involves the use of judgement. Development costs are capitalised once it can be demonstrated that the asset is supported by future economic benefits. Management is required to consider the following criteria when making its judgement as to when it is appropriate to commence capitalisation of development costs:

- technical feasibility of completing the development so that it will be available for use or sale;
- intention to complete the development;
- ability to use the developed asset or sell it;
- existence of a market;
- availability of adequate technical, financial and other resources to complete and commercialise the development; and
- ability to measure reliably the expenditure attributable to the development.

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Development expenditure which does not meet the criteria for capitalisation is recognised in the Statement of Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, up to a maximum of 10 years. Judgement is involved in determining this period of benefit.

Capitalised patent costs are amortised on a straight line basis over the period of expected benefit no longer than the life of the patent, up to a maximum of 20 years.

#### ***Computer software***

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

#### ***Impairment testing of non-financial assets***

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Intangible assets can be analysed as follows:



	Internally Generated Development costs \$000s	Patents \$000s	Software \$000s	Other \$000s	Total \$000s
<b>At 31 December 2015</b>					
Cost	8,377	1,320	444	208	10,349
Accumulated amortisation	(4,078)	(777)	(393)	(79)	(5,327)
Exchange adjustment	277	19	(11)	(7)	278
Net book amount	\$4,576	\$562	\$40	\$122	\$5,300
<b>Year ended 31 December 2016</b>					
Opening net book amount	4,576	562	40	122	5,300
Additions	1,866	41	-	23	1,930
Amortisation and impairment	(1,074)	(145)	(13)	(2)	(1,234)
Exchange adjustment	(71)	(6)	(1)	(4)	(82)
Closing net book amount	\$5,297	\$452	\$26	\$139	\$5,914
<b>At 31 December 2016</b>					
Cost	10,243	1,361	444	231	12,279
Accumulated amortisation	(5,152)	(922)	(406)	(81)	(6,561)
Exchange adjustment	206	13	(12)	(11)	196
Net book amount	\$5,297	\$452	\$26	\$139	\$5,914
<b>Year ended 31 December 2017</b>					
Opening net book amount	<b>5,297</b>	<b>452</b>	<b>26</b>	<b>139</b>	<b>5,914</b>
Additions	<b>2,311</b>	<b>45</b>	<b>-</b>	<b>2</b>	<b>2,358</b>
Amortisation and impairment	<b>(1,130)</b>	<b>(102)</b>	<b>(11)</b>	<b>(2)</b>	<b>(1,245)</b>
Exchange adjustment	<b>(86)</b>	<b>(9)</b>	<b>1</b>	<b>(2)</b>	<b>(96)</b>
Closing net book amount	<b>\$6,392</b>	<b>\$386</b>	<b>\$16</b>	<b>\$137</b>	<b>\$6,931</b>
<b>At 31 December 2017</b>					
Cost	<b>12,554</b>	<b>1,406</b>	<b>444</b>	<b>233</b>	<b>14,637</b>
Accumulated amortisation	<b>(6,282)</b>	<b>(1,024)</b>	<b>(417)</b>	<b>(83)</b>	<b>(7,806)</b>
Exchange adjustment	<b>120</b>	<b>4</b>	<b>(11)</b>	<b>(13)</b>	<b>100</b>
Net book amount	<b>\$6,392</b>	<b>\$386</b>	<b>\$16</b>	<b>\$137</b>	<b>\$6,931</b>

Included within internally generated development costs is \$2,237,000 (2016: \$1,102,000) for projects underway and not complete at balance date. This cost is not yet being amortised. An impairment assessment has been performed at 31 December 2017 taking into account costs to complete the developments, costs to set up the manufacturing capability, estimates of market volume and price and estimated manufacturing unit costs.

<b>Amortisation and impairment</b>	<b>2017 \$000s</b>	<b>2016 \$000s</b>
Amortisation of intangible assets	<b>1,221</b>	1,234
Impairment of intangible assets	<b>24</b>	-
	<b>\$1,245</b>	\$1,234

Operating expenses includes the following items that relate to the Company's development activities.

<b>Research and development</b>		
Research & development costs expensed	<b>917</b>	648

## 4. Capital and financing costs

This section sets out the Group's capital structure and shows how it finances its operations and growth.

In order to finance the Group's activities (now and in the future) the Board monitors and determines the appropriate capital structure for Wellington to execute strategy and to deliver its business plan.

### 4.1 Borrowings

	2017 \$000s	2016 \$000s
Current portion		
Mandatory Convertible Preference Shares	-	5,974
Loan facility – Smartshares Limited	-	1,500
Loan facility – Meta Capital Limited	564	-
Finance lease	27	25
Liability at end of year	\$591	\$7,499
Non-Current portion		
Loan facility – Smartshares Limited	2,000	-
Finance lease	7	34
Liability at end of year	\$2,007	\$34

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date. Borrowing costs are expensed when incurred.

#### Mandatory Convertible Preference Shares

On 19 May 2014 the Company issued 25,211,740 mandatory convertible preference shares at an issue price of \$0.20 per share, bearing a fixed coupon rate of 5% per annum, payable six monthly in arrears. In May 2017 the convertible preference shares mandatorily converted to ordinary shares on a 1:1 basis.

The preference shares were recognised initially as a liability at fair value, net of issue costs incurred, and were subsequently carried at amortised cost; the difference between the proceeds (net of issue costs and the value attributed to the embedded option) and the redemption value (being 25,211,740 shares at \$0.25) was recognised in the statement of comprehensive income over the period to conversion using the effective interest method. The coupon on these shares was recognised in the statement of comprehensive income as interest expense.

	2017 \$000s	2016 \$000s
Liability at start of year	5,974	5,188
Amortisation	329	786
Change in fair value of embedded option	126	-
Conversion to Ordinary Shares	(6,429)	-
Liability at end of year	\$-	\$5,974

The effective interest rate on the liability is 19.15% taking into account costs of issue.

#### Loan facility – Smartshares Limited

In September 2016 the Company secured a \$2 million unsecured loan facility from Smartshares Limited (formerly SuperLife Limited), a shareholder. The loan facility initially had a one year term. In June 2017 the Company agreed an extension of the facility to March 2019. \$500,000 was borrowed during the year. Interest is payable quarterly at 14.75% pa (until September 2017) and 15.75% thereafter. A \$20,000 annual revolver fee is payable.

#### Loan facility – Meta Capital Limited

In November 2017 the Company secured a \$US 600,000 unsecured loan facility from Meta Capital Limited, a company related to a director. \$US 400,000 was drawn down in December 2017 amounting to \$583,000. The loan facility is due for repayment on 30 March 2018 but can be extended to 31 May 2018. Interest is payable at 12.5% (16.5% if the repayment date is extended) on repayment.

#### Finance lease

In March 2016 the Company entered into a 36 month equipment lease. The amount financed was \$76,000 and repayments in the year ended 31 December 2017 amounted to \$24,700. The effective interest rate is 9%.

## 4.2 Finance

	2017 \$000s	2016 \$000s
<b>Finance income</b>		
Other interest income	45	8
	<b>\$45</b>	<b>\$8</b>
<b>Finance expenses</b>		
Amortisation of borrowing (note 4.1)	329	786
Preference shares coupon	82	252
Change in fair value of embedded option	126	-
Other interest expense	397	93
	<b>\$934</b>	<b>\$1,131</b>

The mandatory convertible preference shares converted to ordinary shares in May 2017. The share price of the Company's ordinary shares at the time of conversion was \$0.255 resulting in a \$126,000 charge to the statement of comprehensive income for the change in fair value of the embedded option (see note 4.1).

## 4.3 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2017 Shares	2016 Shares	2017 \$000s	2016 \$000s
Ordinary shares – fully paid	257,097,352	231,684,047	123,571	117,155
Ordinary shares – partly paid	12,703,070	12,904,635	37	37
US employee share options	1,914,600	1,914,600	-	-
Preference shares (note 4.1)	-	25,211,740	-	-
Total shares and options on issue	<b>271,715,022</b>	<b>271,715,022</b>	<b>\$123,608</b>	<b>\$117,192</b>

	2017 Shares	2016 Shares	2017 \$000s	2016 \$000s
<b>(a) Ordinary shares – fully paid</b>				
Opening balance of ordinary shares on issue	<b>231,684,047</b>	231,684,047	<b>117,155</b>	117,155
Issue of ordinary shares during the year:				
• Conversion of Preference Shares	<b>25,211,740</b>	-	<b>6,429</b>	-
• Exercise of part paid shares	<b>201,565</b>	-	<b>19</b>	-
• Share issue costs	-	-	<b>(32)</b>	-
Ordinary fully paid shares on issue at year end	<b>257,097,352</b>	231,684,047	<b>\$123,571</b>	\$117,155

All ordinary shares are authorised and have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

**(b) Ordinary shares – partly paid**

Partly paid shares outstanding at start of year	<b>12,904,635</b>	8,993,524	<b>37</b>	29
Issue of partly paid shares during the year:	-	3,911,111	-	8
Exercise of part paid shares during the year	<b>(201,565)</b>	-	-	-
Ordinary part paid shares on issue at year end	<b>12,703,070</b>	12,904,635	<b>\$37</b>	\$37

For further details of part paid shares see 6.2c

**(c) US employees share options (numbers)**

	2017 Share Options	2016 Share Options
Options outstanding at start of year	<b>1,914,600</b>	1,058,372
Issue of U.S. employee options during the year:	-	856,228
Outstanding at end of year	<b>1,914,600</b>	1,914,600

**4.4 Accumulated losses**

	2017 \$000s	2016 \$000s
Opening balance	<b>(112,126)</b>	(109,648)
Loss for the year	<b>(1,980)</b>	(2,478)
Surrendered & lapsed employee share option scheme benefits	-	-
Accumulated losses at end of year	<b>(\$114,106)</b>	(\$112,126)

**4.5 Other reserves**

	2017 \$000s	2016 \$000s
Share option compensation reserve	<b>304</b>	248
Currency translation reserve	<b>(2,689)</b>	(2,568)
Hedging reserve	<b>18</b>	3
	<b>(\$2,367)</b>	(\$2,317)

**(a) Share Option Compensation Reserve**

	2017 \$000s	2016 \$000s
Share based compensation recognised at start of year	248	121
Net compensation expensed	56	127
Surrendered & lapsed share option scheme transferred to accumulated losses	-	-
	<b>\$304</b>	<b>\$248</b>

**(b) Currency Translation Reserve**

	2017 \$000s	2016 \$000s
Opening balance	(2,568)	(2,083)
Movements for the year	(121)	(485)
	<b>(\$2,689)</b>	<b>(\$2,568)</b>

**(c) Hedging reserve**

	2017 \$000s	2016 \$000s
Opening balance	3	24
Cash flow hedge fair value gains / (losses) for the year	15	(21)
Tax on fair value gains / (losses)	-	-
	<b>\$18</b>	<b>\$3</b>



## 5. Risk

This section presents information about the Group's exposure to financial and commercial risks; the Group's objectives, policies and processes for managing those risks.

### 5.1 Key financial risks

The Group's principal financial instruments comprise receivables, payables, cash and cash equivalents, borrowings and derivatives.

The Group manages its exposure to the key financial risks – market risk (including foreign currency risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group enters into derivative transactions (principally forward currency contracts) to manage currency risks.

#### (a) Financial market risk

##### *Foreign currency risk*

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures. Presently the Group's revenue is based on USD pricing and invoicing is almost entirely USD denominated. The majority of the Group's product, manufacturing and logistics cost is invoiced and settled in USD. This provides a strong natural hedge position between revenues and costs. USD funds are converted to NZD to meet New Zealand operational costs as required.

The Company's functional currency is USD. Changes in exchange rates then will result in monetary assets and liabilities denominated in currencies other than USD (the functional currency) being revalued at balance date and the resulting unrealised revaluation gain / loss recognised in the statement of comprehensive income. Any realised gain / loss arising from the settlement in cash of these non USD transactions recorded during the period will also be recognised in the statement of comprehensive income.

A sensitivity analysis of foreign exchange rate risk on the Group's monetary assets and liabilities at 31 December 2017 is provided in the table below. This shows the impact of a 10% strengthening in the USD exchange rate relative to other currencies – overall a positive impact on the results because NZD denominated debt will be less in USD terms.

	Carrying amount \$000s	Currencies other than USD \$000s	Profit impact \$000s	Equity impact \$000s
Monetary assets:				
Cash	1,563	193	(14)	(14)
Trade and other receivables	11,365	984	(71)	(71)
Monetary liabilities:				
Trade and other payables	(12,703)	(2,235)	161	161
Borrowings	(2,598)	(2,034)	146	146
Net impact			<u>\$222</u>	<u>\$222</u>

A weakening of the USD exchange rate relative to other currencies will have an adverse impact. 10% was chosen as a reasonable sensitivity given the historically volatile markets for foreign exchange. Amounts are shown net of income tax. All variables other than applicable exchange rates are held constant.

The Group's reporting currency is NZD. Changes in NZD exchange rates will therefore impact the reported results. For example, a decrease in the NZD / USD exchange rate will mean higher reported revenues, gross profits and operating expenses and also higher operating assets and liabilities (including cash) as a result of the translation from functional currency to reporting currency.

The impact of a change in NZD exchange rates on the reported NZD EBITDA result (excluding any gains / losses arising on financial assets and liabilities summarised above) is demonstrated in the table below.

	Reported in NZD \$000s	If NZD / USD rate had been 0.60 \$000s	If NZD / USD rate had been 0.80 \$000s
Revenue	43,308	50,973	38,403
Gross profit	10,341	12,171	9,170
Operating income	251	255	248
Operating expenses (excluding depreciation & amortisation)	(10,054)	(10,586)	(9,733)
EBITDA	\$538	\$1,840	(\$315)

#### Interest Rate Risk

The interest rate on these borrowings is fixed. There is no other interest bearing debt.

The Group has cash deposits in various currencies to facilitate trading in the countries in which it has a presence. Most of the cash deposits are held in either NZD or USD.

The impact of a 1% increase / decrease in interest rates over a one year period on the closing cash balance is not significant.

#### (b) Credit risk

The Group generally trades with customers and banking counterparties who are well established. While there are individually significant customers, the Group takes out trade credit insurance in order to provide better security. Receivables balances are managed by and reported regularly to senior management according to credit management policies and procedures. The amount outstanding at balance date represents the maximum exposure to credit risk.

Individual receivables are assessed as impaired where customers have defaulted on payment terms and management has assessed the likelihood of recovery as remote. A full provision has been made against those individually impaired assets. For receivables that are neither past due nor impaired, management does not foresee any likelihood of default as the receivables are due from long-standing customers.

At balance sheet date, trade receivables of \$187,000 were past due but not considered impaired (2016 - \$275,000). Of this amount \$120,000 (2016 - \$44,000) was 3 months or more overdue.

The Group enters into forward foreign exchange contracts within specified policy limits and only with counterparties approved by directors.

Cash and cash equivalents are deposited with a number of financial institutions in New Zealand and overseas. \$637,000 is deposited with a major NZ trading bank with a Standard and Poors rating of AA- (2016: \$1,387,000 AA-) and \$656,000 (2016: \$345,000) with Western Union. The remaining balance of \$270,000 (2016: \$367,000) is held across a number of territories and non-performance of obligations by the relevant banks is not expected due to the credit rating of the counter parties considered.

#### (c) Liquidity risk

The Group maintains regular forecasts of liquidity based on expected cash flows. The table below analyses the Group's financial liabilities into relevant groups based on the remaining period at the reporting date to the end of the contractual date.

The amounts disclosed are the contractual undiscounted cash flows.

\$000's	2017			2016		
	Less than 6 months	7 to 12 months	More than 12 months	Less than 6 months	7 to 12 months	More than 12 months
Trade and other payables	12,577	-	-	10,236	-	-
Borrowings	767	172	2,086	1,512	13	34
Coupon on preference shares	-	-	-	126	-	-
	<b>\$13,344</b>	<b>\$172</b>	<b>\$2,086</b>	<b>\$11,874</b>	<b>\$13</b>	<b>\$34</b>

Trade and other payables above exclude any liabilities for tax (including payroll taxes), statutory liabilities and deferred income.

**(d) Capital risk management**

The Company closely monitors its cash requirements. During the year the Company negotiated an extension of the repayment date of its loan from Smartshares Limited, secured a short term loan from Meta Capital Limited and negotiated flexibility in its payment terms with major suppliers. It has also deferred some capital expenditure investment to 2018.

The Company has not been subject to any externally imposed capital requirements during the period.

## 6. Other information

This section includes other information that must be disclosed to comply with accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

### 6.1 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.2b.

	Country of incorporation	Class of Shares	2017	2016
Wellington Drive Sales Ltd	New Zealand	Ordinary	100%	100%
Wellington Drive Technologies US, Inc	USA	Ordinary	100%	100%
Wellington Motor Teknolojileri San Tic Ltd Sti	Turkey	Ordinary	100%	100%
Wellington Italia Srl	Italy	Ordinary	100%	100%
Wellington Drive Technologies Pte Ltd	Singapore	Ordinary	100%	100%
Wellington Manufacturing Group Singapore Pte Ltd	Singapore	Ordinary	100%	100%
Wellington Latin America Services SA de CV	Mexico	Ordinary	100%	100%
Wellington Mexico Tecnologia SA de CV	Mexico	Ordinary	100%	100%

All subsidiaries have a common balance date of 31 December.

### 6.2 Related party transactions

#### (a) Directors

The names of persons who are directors of the Company are on page 15.

#### (b) Key management personnel and compensation

Key management personnel compensation is set out below. Key management personnel comprise the Directors including the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO.

	2017 \$000s	2016 \$000s
Salaries, fees and other short term benefits	1,767	1,633
Share based remuneration	40	97
Directors' remuneration	139	158
Total	\$1,946	\$1,888

#### (c) Employee share based remuneration

Equity settled, share based compensation is provided to employees via the Wellington Partly Paid Share Scheme and Wellington Employees Share Option Plan. The fair value of the employee services received in exchange for the grant of part paid shares or options are recognised as an expense over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when the partly paid share proceeds are received or options are exercised.

## Ordinary shares – partly paid

Issue date	Earliest date to exercise	Expiry exercise date	Share hurdle price (cents)	Partly paid share price (cents)	Balance payable on exercise (cents)	Outstanding at 2017 (numbers)	Outstanding at 2016 (numbers)
24 Jun 2013	24 Jun 2017	24 Jun 2018	16.29	16.29	15.79	<b>1,635,665</b>	1,635,665
18 Jun 2014	18 Jun 2017	18 Jun 2018	14.22	14.22	13.72	<b>1,260,587</b>	1,260,587
23 Jul 2014	23 Jul 2017	23 Jul 2019	14.73	14.73	14.23	<b>1,890,216</b>	1,890,216
1 Jul 2015	1 Jul 2017	1 Jul 2019	5.21	5.21	5.11	<b>2,316,840</b>	2,316,840
1 Jul 2015	1 Jul 2018	1 Jul 2020	5.65	5.65	5.53	<b>1,890,216</b>	1,890,216
20 Apr 2016	31 Mar 2017	31 Mar 2019	9.43	9.43	9.23	<b>3,287,566</b>	3,489,131
30 Sep 2016	30 Sep 2019	30 Sep 2021	18.17	18.17	17.81	<b>421,980</b>	421,980
						<b>12,703,070</b>	12,904,635

A Partly Paid Share Scheme was established in June 2008, to enable certain employees to acquire shares in the Company. After the earliest date to exercise, provided the market price for the Company's shares is, at that date, equal to or greater than the hurdle price stated above (and on or before 2 years after the earliest exercise date), employees can settle the unpaid balance of their part-paid shares and transfer the shares to their name or the name of their nominated trustee.

The April 2016 issue of part paid shares is subject to the company achieving specific financial performance targets in the 2016 financial year or at the discretion of the directors pursuant to the rules of the Scheme.

Wellington Drive Technologies Share Scheme Trustee Limited (WSST) acts as trustee holding the part-paid shares on behalf of employees. These partly paid shares are not quoted on the NZX and are not tradable.

Mr Greg Allen, the Company's Chief Executive, was issued 1,260,587 partly paid shares in June 2014, 2,316,840 shares in 2015 that have a two year vesting period and a further 1,218,073 in April 2016 subject to terms outlined above.

Fair value is assessed at the date that the partly paid shares or share options are granted using a binomial option pricing model that takes into account the exercise price, the three year term of the partly paid shares or options, the exercise criteria, the likelihood of staff turnover, the non-tradable nature of the partly paid share or option, the share price at the issue or grant date, the volatility of the returns on the underlying share and the risk-free interest rate for the term of the partly paid share or option.

## U.S. employee share options

The Annual Meeting held in June 2010 approved the establishment of the United States Share Option Plan and authorised the Board to issue up to 3,000,000 options. All options must be exercised within 12 months after a period of three years from the date on which the options are issued. The price at which options can be exercised under the United States Share Option Plan is the closing sales price on the date of the grant plus a 30% premium. Further details of share options granted are summarised below:

Grant date	Expiry date	Exercise price (cents)	Outstanding at 2017 (numbers)	Outstanding at 2016 (numbers)
24 Jun 2013	24 Jun 2018	16.9	<b>288,647</b>	288,647
23 Jul 2014	23 Jul 2018	14.3	<b>288,647</b>	288,647
21 Aug 2014	21 Aug 2018	12.2	<b>96,216</b>	96,216
1 Jul 2015	1 Jul 2019	5.59	<b>384,862</b>	384,862
20 Apr 2016	31 Mar 2019	11.7	<b>760,013</b>	760,013
30 Sep 2016	30 Sep 2020	18.2	<b>96,215</b>	96,215
			<b>1,914,600</b>	1,914,600



**(d) Meta Capital Limited loan**

During the year the Company entered into a loan agreement with Meta Capital Limited, a company associated with a director, Mr J McMahon (see note 4.1). US\$400,000 was owing at balance date and interest due but unpaid was US\$5,000.

**6.3 Contingencies**

There are no material contingent liabilities or assets (2016 - \$nil).

**6.4 Financial instruments by category**

	2017 \$000s	2016 \$000s
<b>Assets per Statements of Financial Position</b>		
<b>Loans and Receivables</b>		
Trade and other receivables	11,084	8,440
Cash and cash equivalents	1,563	2,099
<b>Derivatives used for hedging (at fair value)</b>		
Derivative financial instruments	6	-
	<b>\$12,653</b>	<b>\$10,539</b>
<b>Liabilities per Statements of Financial Position at amortised cost</b>		
Trade and other payables	12,577	10,279
Borrowings	2,598	7,533
<b>Derivatives used for hedging (at fair value)</b>		
Derivative financial instruments	-	14
<b>At fair value</b>		
Embedded option	-	-
	<b>\$15,175</b>	<b>\$17,826</b>

**Fair value estimation**

The only financial instruments carried at fair value are derivatives comprising forward foreign exchange contracts and the embedded option in the preference shares.

The forward exchange contract has been classified as Level 2 and the embedded option as Level 3.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (Level 3)

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

The fair value of the embedded option is described in more detail in note 4.1.

## 6.5 Other disclosures

	2017 \$000s	2016 \$000s
<b>Auditors remuneration</b>		
PricewaterhouseCoopers:		
- Audit of financial statements of the Group	104	90
- Procedures over interim financial statements of the Group	7	7
Audit of subsidiaries by other auditors – Thong & Lim	11	7
<b>Total remuneration for audit services</b>	<b>\$122</b>	<b>\$104</b>

## 6.6 Reconciliation of loss for the year to net cash inflow / (outflow) from operating activities

	2017 \$000s	2016 \$000s
<b>Loss for the year</b>	<b>(1,980)</b>	<b>(2,478)</b>
<b>Adjustments for:</b>		
Depreciation, amortisation & impairment	1,546	1,508
Gain on disposal of plant & equipment	-	(2)
Share based payments	56	127
Amortisation of borrowing	329	786
Change in fair value of embedded option	126	-
Inventory provision movement	(9)	(251)
Doubtful debts provision movement	(41)	(4)
Provision for warranty movement	124	38
Net foreign exchange differences	181	(278)
Increase in trade and other receivables	(2,634)	(3,093)
Increase in deferred income	759	442
Decrease in inventories	445	490
Increase in trade and other payables	2,355	2,667
<b>Net cash inflow / (outflow) from operating activities</b>	<b>\$1,257</b>	<b>(\$48)</b>

## 6.7 New accounting standards

### *New standards, amendments and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is mandatory for accounting periods beginning on or after 1 January 2018.

NZ IFRS 15, 'Revenue from contracts with customers' establishes the framework for revenue recognition. The standard is mandatory for accounting periods beginning on or after 1 January 2018.

NZ IFRS 16, 'Leases', requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard is mandatory for accounting periods beginning on or after 1 January 2019.

The Group is currently reviewing the impact of these standards. NZ IFRS 15 is expected to impact the recognition of revenue associated with providing warranties to customers and contracts where the Group makes sales via agents. At this stage, the above is not expected to have a significant impact on the Group's revenue and revenue recognition policies.

NZ IFRS 9 is anticipated to impact the impairment provision for trade receivables, which will be measured at an amount equal to lifetime expected credit losses. At this stage, the above is not expected to have a significant impact on the Group's provision.

NZ IFRS 16, the Group's operating lease commitments are disclosed in note 2.4(b) which would be subject to the requirements of NZ IFRS 16. At this stage, we do not expect any other contracts to be in scope of NZ IFRS 16.

## 6.8 Subsequent events

On 28 February 2018 the Company signed an agreement with iProximity, an Australian based innovative proximity marketing solutions and consumer intelligence company. The agreement is an option which expires 28 August 2018 and allows the Company to acquire all the shares in iProximity. The consideration for the acquisition if the Company exercises its option includes both up-front payments and three year cash and share-based earn out targets as follows:

- a. Payment of a non-refundable deposit of A\$150,000, in consideration of the option;
- b. A\$1.1m in cash on closing (i.e. at exercise of the option);
- c. Payment of up to a further A\$500,000 based on meeting specified EBIT targets (for iProximity's existing business) for FY2018 and FY2019; and
- d. The future issue to the Vendors of fully paid ordinary shares ("Consideration Shares") in the capital of Wellington in tranches based on meeting specified EBIT targets for the business purchased for the period ending 31 December 2020 (as to 50% of the shares) and also based on Wellington's SCS™ Connect System controller sales performance for the same period (as to the other 50% of the shares). Consideration Shares not "earned" by 31 December 2020 are forfeited.

The maximum number of Consideration Shares that may be issued to the Vendors (i.e. assuming 100% achievement of EBIT and SCS™ sales objectives) is the number of shares in Wellington having an aggregate value of A\$2,500,000 as at the close of trading on the New Zealand Exchange on the trading day immediately prior to the Closing Notice (i.e. the day when the option is exercised under note 1 above) by Wellington, based on the 60 day volume-weighted average price of shares and the average A\$/NZ\$ exchange rate over the same period.



## ***Independent auditor's report***

To the shareholders of Wellington Drive Technologies Limited

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of movements in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### ***Our opinion***

In our opinion, the consolidated financial statements of Wellington Drive Technologies Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its 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).

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### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). 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 Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out agreed upon procedures over the interim financial statements of the Group. The provision of this service has not impaired our independence as auditors of the Group.

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## Our audit approach

### Overview

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An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: \$433,000, which represents approximately 1% of revenue.

We chose revenue as the benchmark because, in our view, it is a relatively stable measure of performance relative to the size of the Group. It is a key business driver which is the focus of management and the board and is one of the benchmarks against which the performance of the Group is most commonly measured by users of the financial statements.

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We have determined that there are two key audit matters:

- Forecasts used in assessing the Group's basis of preparation of its consolidated financial statements;
- Carrying value of development costs.

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### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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
<p><i>Forecasts used in assessing the Group's basis of preparation of its consolidated financial statements</i></p> <p>As described in note 1.2(a) <i>Basis of preparation</i> of the consolidated financial statements, the Group has adopted the going concern basis when preparing its consolidated financial statements.</p> <p>Management prepared cash flow forecasts for the period to March 2019 and considered known events or conditions beyond this forecast period. The forecasts include a number of judgements and estimates as follows:</p> <ul style="list-style-type: none"> <li>• Growth in revenue, in particular growth relating to new products launched in the 2017 and previous years;</li> <li>• Gross margins based on contractual arrangements and product mix;</li> <li>• Ability to manage operating costs, capital expenditure, and other investments and respond to changes that might arise between actual cash flows and forecast cash flows over the forecast period; and</li> <li>• Levels of development spend and capital expenditure.</li> </ul> <p>Management concluded that it was appropriate to adopt the going concern basis in preparing the consolidated financial statements.</p> <p>As the forecasts used in this assessment include judgements and assumptions with estimation uncertainty, the audit of the forecasts is an area of significance in the audit of the consolidated financial statements.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We gained an understanding of the Group's strategy, business plan and the controls and process in preparing and approving the cash flow forecasts. We also understood the processes and controls adopted by the directors in determining the appropriate basis of preparation of the consolidated financial statements.</li> <li>• We obtained the cash flows forecasts for the period to March 2019 that were approved by the board and undertook the following procedures: <ul style="list-style-type: none"> <li>◦ Tested the mathematical accuracy of the cash flow model by agreeing the FY2017 cash position to the audited cash balance and manually checking the calculations of the cash flow movement up to March 2019;</li> <li>◦ Assessed the reliability of the Group's forecasting process by comparing the actual financial performance of the Group against budget for the years ended 31 December 2015 and 2016 and both the total and quarterly financial performance against budget for the Group for the year ended 31 December 2017. We further disaggregated our assessment focusing on revenue for each product to assess the products performance in terms of volume, sales and gross margin against the 2017 budget;</li> </ul> </li> <li>• Given that revenue growth is one of the main features of the cash flows forecasts, we performed the following procedures: <ul style="list-style-type: none"> <li>◦ We compared the forecast revenue growth to historic growth from 2016 to</li> </ul> </li> </ul>

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
	<p>2017 in total and by product and assessed the reasonableness of these growth rates continuing into the future;</p> <ul style="list-style-type: none"> <li>○ Where available, we compared forecast product sales to signed contracts and/or purchase orders received by the Group and compared this to forecast revenue and volumes, in particular in the first three months of 2018;</li> <li>○ For the remaining unconfirmed volumes in the forecast, we performed enquiry with management in business operations and planning, a department separate from the finance team, to understand the source of the volume forecasts (i.e. new customers, and anticipated volumes from existing customers).</li> </ul> <ul style="list-style-type: none"> <li>• For the remaining forecast assumptions, our procedures included the following: <ul style="list-style-type: none"> <li>○ Compared the gross margin in total and by product to historic margins and, where the gross margins are forecast to change, we have assessed the change against contractual pricing arrangements with customers and suppliers;</li> <li>○ Compared operating costs to prior year and identified staff costs to be a major component. We considered the staff cost increases against forecast employee numbers;</li> <li>○ Reviewed forecast capital expenditure and gained an understanding of the nature of capital expenditure and where available, compared the forecast costs to third party pricing;</li> <li>○ Confirmed the forecast repayment of loans from Smartshares Limited and Meta Capital Limited and interest costs to the associated loan agreements;</li> <li>○ Performed sensitivity analysis over reasonable changes in key assumptions and considered the impact of these sensitivities on the cash flow forecasts, taking into consideration the minimum revenue growth required to generate sufficient cash to pay the loans on their</li> </ul> </li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of development costs</i></p> <p>During the year, the Group capitalised development costs amounting to \$2.3 million. At 31 December 2017, the carrying value of capitalised product development costs amounted to \$6.3 million, as disclosed in note 3.3 <i>Intangible assets</i> of the consolidated financial statements. A significant proportion of these development costs relate to the new ECR2 and SCS Connect products.</p> <p>A number of judgements have been made by management in meeting the required accounting standards, and therefore capitalisation of development costs is an area of audit focus. These judgements include:</p> <ul style="list-style-type: none"> <li>• Identifying the proportion of time and associated costs incurred on development activities during the year which meet the capitalisation criteria;</li> <li>• For new products where development is in progress, evaluating whether these products continue to be technically feasible and will be completed and commercialised in future years;</li> <li>• Considering whether the capitalised product development costs will be recovered through future sales;</li> <li>• Determining the appropriate amortisation period for completed projects reflecting the useful life of the product being sold.</li> </ul>	<p>due dates;</p> <ul style="list-style-type: none"> <li>○ Considered any discretionary operating costs, capital expenditure and other investments included in the forecast and obtained an understanding of management's plans, specifically whether management has control to defer certain costs or investments if necessary to settle the loans on their due dates. We used look back procedures to assess management's representations that they have the ability to such costs.</li> </ul> <p>We have no matters to report.</p> <hr/> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the processes and controls over capitalising development costs and also understood each development project and their associated business plans;</li> <li>• For costs capitalised during the year, obtained an understanding of how these costs are identified and the basis of capitalisation;</li> <li>• Tested, on a sample basis, capitalised costs to either external invoices or payroll records, including timesheets;</li> <li>• For completed projects where costs have been capitalised, we reviewed sales made in 2017 and forecast sales for 2018 and compared these to original business plans or budgets;</li> <li>• For projects in progress, through enquiries of management, we gained an understanding of the project, the associated business plan and strategy. We also gained an understanding of the expected completion date and how the product would be commercialised, including estimates of sales volumes where available;</li> <li>• Reviewed the amortisation period of each completed project in the year for reasonableness based on management's assessment of estimated useful lives and comparison to the useful life of existing products sold by the Group.</li> </ul> <p>From the procedures performed, we have no matters to report.</p>

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*Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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*Responsibilities of the Directors for the consolidated financial statements*

The Directors are responsible, on behalf of the Company, 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 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.



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*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 NZ and ISAs 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 financial statements is located at 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.

*Who we report to*

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Julian Prior.

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers.' The signature is written in a cursive, flowing style.

Chartered Accountants  
1 March 2018

Auckland

## Statutory Information

### Introduction

Directors have resolved that no dividend be declared payable.

The Company does not have a credit rating.

### Remuneration of Directors

During the year the following remuneration was paid or payable to directors:

	2017	2016
Mr T. Nowell	<b>\$50,000</b>	\$50,000
Dr L. Jacobs	<b>\$30,000</b>	\$30,000
Mr G. Pausch <sup>1</sup>	<b>\$30,000</b>	\$30,000
Mr J. McMahon <sup>2</sup>	<b>\$30,000</b>	\$30,000
Mr S. R. Beck <sup>3</sup>	<b>\$ -</b>	\$22,500

Note

1. Fees for Mr G. Pausch are paid to Board Advisory Services Ltd.

2. Fees for Mr J. McMahon are paid to Meta Capital Ltd.

3. Mr Beck resigned as a director on 30 September 2016.

### Interested Transactions

The Directors have disclosed the following transactions with the Company:

- Interested Transactions – In November 2017 the Company obtained a US\$600,000 unsecured loan facility from Meta Capital Limited, a company related to John McMahon, a director. Further details of the loan are in note 4.1. There have been no other transactions during the year with interested or related parties.
- Directors' Remuneration – Remuneration details of Directors are provided above.
- Indemnification and insurance of officers and directors – The Company indemnifies directors and executive officers of the Group against all liabilities which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance. The total cost of this insurance expensed during the year ended 31 December 2017 was \$38,333 (2016 - \$50,769).
- Directors' Share Transactions – In May 2017, 928,807 preference shares held by directors were converted to ordinary shares on a one-for-one basis. In July 2017, Gottfried Pausch sold 114,600 shares. Details of numbers of shares held by directors are shown below.
- Directors' Loans – There were no loans by the Company to Directors.
- Key Management Share Transactions - In April 2017, Key Management personnel exercised their entitlements to 201,565 ordinary shares that were previously held in the Partly Paid Share Scheme, settling the balance due in respect of those shares. In May 2017, 67,693 preference shares held by Key Management personnel were converted to ordinary shares on a one-for-one basis. In May and June, Key Management personnel sold 130,000 ordinary shares. During 2017, changes in the organisation chart resulted in 445,000 ordinary shares and 1,280,591 US Options being deemed to be no longer held by Key Management personnel.

Note Key Management personnel include the Directors, the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. For the purposes of these disclosures directors interests are disclosed separately to other key management personnel.

- The Board received no notices during the year from directors requesting to use Company information received in their capacity as directors which would not otherwise have been available to them.



## Directors' Shareholding

Ordinary shares	31 December 2017		31 December 2016	
	Total Relevant Interest	Direct	Total Relevant Interest	Direct
Mr T. Nowell	<b>280,458</b>	-	262,708	-
Mr J. McMahon	<b>9,966,342</b>	-	9,055,285	-
Mr G. Pausch	-	<b>885,400</b>	-	1,000,000
<b>Convertible preference shares</b>				
Mr T. Nowell	-	-	17,750	-
Mr J. McMahon	-	-	911,057	-

Notes: Further details of the movements in the shareholdings of directors are provided above under Interested Transactions.

## Employees

The number of employees, other than Directors, within the Group receiving remuneration and benefits above \$100,000, as is required to be disclosed in accordance with section 211(1) (g) of the Companies Act 1993, is indicated in the following table.

	GROUP	
	2017	2016
\$100,000 - \$109,999	<b>4</b>	3
\$110,000 - \$119,999	<b>2</b>	3
\$120,000 - \$129,999	<b>3</b>	5
\$130,000 - \$139,999	<b>5</b>	-
\$140,000 - \$149,999	<b>1</b>	-
\$170,000 - \$179,999	<b>1</b>	2
\$180,000 - \$189,999	<b>2</b>	1
\$190,000 - \$199,999	<b>1</b>	1
\$200,000 - \$209,999	<b>1</b>	1
\$210,000 - \$219,999	<b>1</b>	2
\$230,000 - \$239,999	<b>1</b>	-
\$290,000 - \$299,999	-	1
\$310,000 - \$319,999	<b>1</b>	-
\$390,000 - \$399,999	<b>1</b>	1

## NZX Waivers

In accordance with NZ Stock Exchange Listing Rule 10.5.3(f), there were no waivers granted by the NZ Exchange during the year ended 31 December 2017.

## Auditors

In accordance with Section 200 of the Companies' Act 1993, the auditor, PricewaterhouseCoopers, continue in office.

For and on behalf of the Board



T. Nowell, CNZM  
Chairman

22 March 2018

## Shareholder Information

### Shareholders

As at 31 December 2017 there were 2,447 shareholders holding 257,097,352 fully paid ordinary shares.

### Share Issues

In April 2017 201,565 part paid shares (issued in accordance the Company's long term incentive scheme as outlined in notes 4.3 and 6.2) were exercised and the balance due (\$19,000) settled by staff.

In May 2017 25,211,740 mandatory convertible preference shares (MCPS) converted to ordinary shares on a 1:1 basis in accordance with the terms of their issue as set out in the MCPS Offer Document dated April 2014. Further details of this conversion are outlined in notes 4.1 and 4.3. The fair value for the MCPS recognised as equity in May 2017 was \$6,397,000 net of costs of conversion.

Other than the above changes, there were no new issues of shares in 2017.

### Shareholder Details

The ordinary shares of Wellington Drive Technologies Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below has been taken from the Company's register at 12 March 2018:

20 largest shareholders		Ordinary Shares
1.	N.Z. Central Securities Depository Ltd <sup>1</sup>	113,856,534
2.	East West Manufacturing LLC	19,433,333
3.	Wairahi Trust	11,000,000
4.	ASB Nominees Ltd (Account 574233)	9,966,342
5.	Investment Custodial Services Ltd	9,847,786
6.	Graham Trustees Ltd	8,593,253
7.	Flynn No 2 Trustees Ltd	4,874,291
8.	R.D. Armstrong	3,887,030
9.	FNZ Custodians Ltd	3,773,493
10.	G. Allen	2,000,128
11.	ASB Nominees (Account 317485)	2,000,000
12.	Leveraged Equities Finance Ltd	1,866,117
13.	Tane Nui Family Trust	1,650,000
14.	H. D. Milliner	1,627,739
15.	Rivendale Trust	1,486,846
16.	B.D Lobb	1,372,461
17.	FNZ Custodians Ltd	1,131,708
18.	R. & S. Jackson Family Trust	1,050,000
19.	Carpe Diem Family Trust	1,000,000
20.	Forsyth Barr Custodians Ltd	986,740

Note 1. N.Z. Central Securities Depository Limited hold shares on trust for 11 different shareholders. The largest of these are: BNP Paribas Nominees (N.Z.) Ltd – 83,011,387; N.Z. Permanent Trustees Ltd – 8,095,000 shares; TEA Custodians Ltd Client Property Trust – 5,765,543 shares; Accident Compensation Corporation – 3,960,031 shares; HSBC Nominees (NZ) Ltd – 3,923,864 shares; JPMorgan Chase Bank NA – 3,479,739 shares; BNP Paribas Nominees (N.Z.) Ltd – 2,291,656 shares; BNP Paribas Nominees (N.Z.) Ltd – 1,671,561 shares.

## Distribution of Equity Securities

Size of Holdings (at 12 March 2018)			Shareholders		Fully Paid Ordinary Shares	
			Number	%	Number	%
1	-	999	970	39.80	327,008	0.13
1,000	-	1,999	239	9.81	318,190	0.12
2,000	-	4,999	341	13.99	1,057,700	0.41
5,000	-	9,999	218	8.95	1,496,919	0.58
10,000	-	49,999	416	17.07	9,293,293	3.62
50,000	-	99,999	94	3.86	6,045,372	2.35
100,000	-	499,999	116	4.76	22,681,922	8.82
500,000	-	999,999	24	0.98	16,088,220	6.26
over		1,000,000	19	0.78	199,788,728	77.71
			2,437	100.00	257,097,352	100.00

2,311 (or 94.8%) shareholders, holding 228,872,085 shares (or 89%) reside in New Zealand.

## Substantial Security Holders

Pursuant to section 26 of the Securities Markets Act 1988, details of substantial security holders and their total relevant interests as per their most recent notices are:

Name	Number of shares <sup>#</sup>	Date of Notice
Smartshares Limited (Custodian – BNP Paribas Nominees (NZ) Ltd)	82,950,217	22 May 2017
East West Manufacturing LLC	10,600,000	17 Sep 2013

<sup>#</sup>Number of shares is taken from notices received. No adjustments have been made for changes that may have subsequently occurred from the dates of notices stated. The definition of "relevant interest" in the Securities Markets Act 1988 provides that more than one relevant interest can exist in respect of the same securities.

## Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the Directory on page 66. Notification must be in writing. Questions relating to shareholdings should also be addressed to Computershare Investor Services Limited. For information about the group please contact the company at the registered office by sending an email to [info@wdtl.com](mailto:info@wdtl.com) or visit our website <http://www.wdtl.com>.

## Announcements to Shareholders

The company has established an email list of shareholders that want to receive announcements made by Wellington Drive to the New Zealand Stock Exchange. Announcements are emailed to shareholders who wish to receive them shortly after they are released. This will include the Annual Meeting addresses. If you want to be added to this listing, please email [info@wdtl.com](mailto:info@wdtl.com) and advise us of your email address. Your email details will be kept confidential.

Announcements are also posted on our website [www.wdtl.com](http://www.wdtl.com) normally the day after they are released.

## Corporate Governance

The Board and Management of Wellington Drive Technologies Limited are committed to acting with integrity and expects high standards of behaviour and accountability from all its officers and staff.

### Role of the Board

The Board's primary objective is the enhancement of shareholder value by following a set of core principles, appropriate governance and ethical strategies, and ensuring effective and innovative use of Company resources. The Board is responsible for the management oversight, supervision, and direction of the Group. Day-to-day management of the Group is delegated to the Chief Executive.

### Compliance

The governance principles adopted by the Board are designed to meet best practice recommendations for listed companies to the extent that they are appropriate to the size and nature of Wellington's operations. The Board endorses the overall principles embodied in the NZX Corporate Governance Code 2017 (the NZX Code) and believes the Company's corporate governance principles, policies and practices are appropriately aligned with the NZX Code.

Wellington takes a 'continuous-improvement' approach to corporate governance. Our governance programme over the last year has reviewed and updated all policies and committee charters in light of the NZX Code recommendations which apply from 1 October 2017. The Company is reporting against those recommendations by describing the corporate governance policies and practices Wellington has in place. We have identified areas of the NZX Code where we have not fully followed the Code's recommendations and have provided an explanation as to why a different approach has been taken.

This statement is current to 22 March 2018, and has been approved by the directors of Wellington.

Board and committee charters, codes and policies referred to in this section are available to view at [www.wdtl.com](http://www.wdtl.com)

### NZX Code

#### Principle 1 – Code of Ethical Behaviour

The Company expects its directors, officers, and employees to maintain high standards of ethical conduct and expects employees to act legally, ethically and with integrity in a manner consistent with the policies and guiding principles that are in place. These include the following:

"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 Business Conduct and Ethics for Wellington team**

**members and directors:** Wellington team members are committed to being ethically and socially responsible and our business decisions should reflect our values, acting within the laws of the countries in which it operates. The Code provides a guide to these general principles of conduct and ethics. It brings together all of our policy principles and provides a working guide for directors and employees to **do the right thing** when making decisions in our daily activities, and to:

- ✓ Act safely, ethically and responsibly;
- ✓ Act in Wellington's best interests at all times;
- ✓ Protect the confidentiality of Wellington's business information;
- ✓ Comply at all times with the principles in this Code, the legal and regulatory obligations in their country and the spirit of the law;
- ✓ Hold their colleagues accountable for behaving ethically and following this Code;
- ✓ Not engage in any activity whether within or outside of the workplace that is likely to bring Wellington into disrepute;
- ✓ Deal honestly with Wellington's people, customers, shareholders, suppliers and other stakeholders;
- ✓ Ensure that they do not knowingly enter into transactions or make commitments on behalf of Wellington that the Company cannot or does not intend to fully honour;
- ✓ Undertake their duties with care and diligence;
- ✓ Ensure that any personal opinions Wellington people express are clearly identified as their own and are not represented to be the views of the Company;
- ✓ Value individuals' differences and treat people with respect;
- ✓ To the best of their ability, ensure that Wellington's records and documents, including financial reports, are true, correct and conform to Wellington's reporting standards and internal controls;
- ✓ Not accept or offer bribes or improper inducements; and
- ✓ Speak up about unsafe or unethical behaviours.

The Code includes a policy regarding a respectful workplace and diversity, requiring equal opportunity for all.

Wellington is committed to attracting, developing and advancing the best person for the role. Selection processes for recruitment and employee development are unbiased and based on merit. Wellington values diversity and has a workforce consisting of individuals with diverse skills, values, backgrounds, gender, ethnicity and experience. Any form of discrimination, bullying or harassment is not tolerated.

Wellington takes the Code seriously. It is the responsibility of all Wellington people globally to promptly bring suspected violations to the attention of the Company, for the benefit of all.

- **Rules for Trading in Wellington Securities:** The Company is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations. The Rules for Trading in Wellington Securities require all staff and directors to seek approval in accordance with the Rules before buying or selling any Wellington Securities. The policy details “blackout periods” where trading is forbidden, as well as a process for authorisation at all other times.

The Company has an ongoing programme to maintain employee awareness and understanding of these ethical standards and policies.

## Principle 2 – Board Composition & Performance

The Wellington Board comprises directors with an appropriate range and mix of skills and experience; who have a proper understanding of, and competence to deal with, current and emerging issues of the business; and who can effectively review and challenge the performance of management and exercise judgment independent of management. The Board’s structure and governance arrangements are set out in the Wellington Board Charter.

“To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.”

The Wellington Constitution provides that there will be not less than three and not more than eight directors. N.Z. Stock Exchange requirements are that at least two directors or one-third, are independent directors. The Board Charter requires that a majority of directors are independent and sets out circumstances in which a director will not be regarded as independent. We assess director independence as a Board against the criteria in the Charter. The Board currently has four directors, all of whom are considered independent.

Profiles of all directors and their dates of appointment are set out in the Directors section of this Annual Report on page 15 and are available on the Company’s website.

As the Board is small, the Company has not established a separate nomination committee, believing these matters are best dealt with by the full Board of Directors. Periodically the Board evaluates its performance, composition, size, diversity and mix of skills. The method of review is determined by the chairperson annually and may include interviews, questionnaires and/or external review. The Board is satisfied that it is operating well and that the performance processes we have used are both effective and suited to the Company.

When a decision is made to recruit a new director, the Board identifies candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities effectively. The Board also considers the skills of the existing directors to ensure that the skills of the new director will complement and add to the effectiveness of decision making. We make appropriate pre-appointment checks on the background and suitability of all directors. New Board members enter into a written agreement establishing the terms of their appointment. A director appointed by the Board must stand for election at the next Annual Meeting. At each Annual Meeting one-third of directors must retire by rotation. Retiring directors are eligible for re-election.

Directors undertake appropriate education to remain current in how to best perform their duties as directors. Directors are encouraged to attend courses and maintain membership of relevant bodies, such as the Institute of Directors.

Directors receive information independently from management in relation to specific issues relevant to Wellington, the markets in which the Company operates and to NZX listed companies generally. All directors have access to management for any additional information they consider necessary for informed decision making.

The Company recognises our people are critical to our business. However, Wellington has a very small number of employees, a significant number of which are based outside of New Zealand, which makes it very challenging for the Company to adopt any formal targets in relation to diversity as is recommended by the NZX Code. While we do not have any such formal targets, Wellington values and respects the contributions, ideas and experiences of people from all backgrounds and is proud to have a diverse company with staff from around the world and from many cultures.

As stated, the Company has a diversity policy included in its Code of Business Conduct & Ethics, and is committed to attracting, developing and advancing the best person for the role. Attracting the best person for a role may involve a global search for a suitable candidate and that selection may add to our diversity. Wellington recognises diversity brings a range of ideas, skills and innovation to the Company, which is important to the achievement of our objectives.

During 2018 the Company will continue to strive to ensure the best person for the role is identified in the recruitment process for all positions becoming available, ensuring gender or other bias are not present in hiring decisions. It recognises recruitment of female staff, particularly in the engineering sector (in which we operate), is not always possible due to the shortage of suitably qualified staff. The Company also aims to further encourage development of its existing staff through global re-deployment and training.

## Diversity by gender statistics

In accordance with Listing Rule 10.5.5(j) the Company makes the following diversity disclosures:

	Male		Female		
31 December 2017	#	%	#	%	Total
Board	3	75%	1	25%	4
Senior management team*	6	100%	-	-	6
Other staff	49	80%	12	20%	61
Total Company	58	82%	13	18%	71

	Male		Female		
31 December 2016	#	%	#	%	Total
Board	3	75%	1	25%	4
Senior management team*	8	100%	-	-	8
Other staff	44	80%	11	20%	55
Total Company	55	82%	12	18%	67

\*The senior management team comprises of the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. The senior management team are "officers" for the purpose of the NZX Listing Rules.

## Principle 3 – Board Committees

The Board has established a number of committees to guide and assist the Board with overseeing certain aspects of corporate governance. These committees are the Audit and Risk Committee, the Technology and Innovation Committee and the Executive Appointment and Remuneration Committee. Other Committees may be formed to manage projects. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

### Audit and Risk Committee

The Audit and Risk Committee operates under a charter approved by the Board and assists the Board in: taking reasonable steps to acquire and maintain up-to-date knowledge of enterprise risk management; overseeing the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements; the appropriateness of accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements; and the business's relationship with, and the independence of, the external auditor.

The committee also approves any non-audit work carried out by the Company's auditor and ensures that the lead partner in the audit firm is rotated every five years.

The committee is composed of three non-executive directors, all of whom are independent.

The current members are Lisbeth Jacobs (Chairwoman), Tony Nowell and John McMahon.

The Audit and Risk Committee charter can be found <http://www.wdtil.com/governance>

### Executive Appointment and Remuneration Committee

The Executive Appointment and Remuneration Committee operates under a charter approved by the Board and assists the Board in: the remuneration and appointment of the senior executive team; management succession planning; reviewing and approving compensation arrangements; establishing employee incentive schemes and the remuneration of the Board. The committee also advises on proposals for significant company-wide remuneration policies and programmes. In carrying out this role, the sub-committee operates independently of senior management of the Company and obtains independent advice on the appropriateness of the remuneration packages.

The current members are Gottfried Pausch (Chairman), Tony Nowell and John McMahon.

The Executive Appointment and Remuneration Committee charter can be found <http://www.wdtil.com/governance>

### Technology & Innovation Committee

The Technology & Innovation Committee operates under a charter approved by the Board and assists the Board in overseeing and providing counsel on overall strategy, direction and effectiveness of technology and innovation activities.

The current members are Lisbeth Jacobs (Chairwoman) and Gottfried Pausch.

The Technology & Innovation Committee charter can be found <http://www.wdtil.com/governance>



## Other Committees

From time-to-time the Board may establish a committee to assist in the management of a matter or project. In 2017 a Capital Planning Committee operated to oversee the strategic investment and funding requirements for the Company. The Company has established protocols for dealing with a takeovers should an offer be received.

## Health and Safety

Whilst not a Committee of board members, Wellington has a Health and Safety Committee that meets monthly and reports to the Board. The Company is strongly committed to maintaining a safe and healthy workplace and believes all accidents are preventable. The Committee is made up of a mix of senior management and staff from key operational areas. The Committee strives to: maintain and continually improve our Health and Safety systems; proactively identify hazards and take all steps to eliminate or mitigate these; consult and actively promote participation in Health and Safety matters throughout the Company.

The Health and Safety policy can be found <http://www.wdttl.com/governance>

## Principle 4 – Reporting & Disclosure

The Company is committed to ensuring integrity and timeliness of its financial reporting and in providing information to the market and shareholders.

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

## Financial reporting

The Board has overall responsibility for ensuring the integrity of the Company's reporting to shareholders, including for financial statements that comply with generally accepted accounting practice. The Audit and Risk Committee exists to assist the Board to fulfil its responsibilities in this area. The Committee makes enquiries of management and the external auditors (including requiring management representations) so that the Company can be satisfied as to the validity and accuracy of all aspects of Wellington's financial reporting.

The CEO and CFO certify to the Board that: the Annual Report is true and the statements therein are not materially misleading; and no matters in the Annual Report (as a result of subsequent events) would make any of the statements untrue or materially misleading.

Wellington strives to improve the clarity and readability of its financial statements, while continuing to comply with all the requirements of the financial reporting standards including the Companies Act 1993, the Financial Markets Conduct Act 2013, and the Listing Rules.

## Continuous disclosure

The Company has a formal Group Market Disclosure Policy that can be found <http://www.wdttl.com/governance>. The policy seeks to promote investor confidence by ensuring that dealing in its securities takes place in an efficient, competitive and informed market. The Company strives to ensure that all investors have equal and timely access to market sensitive information. That disclosure be evenly balanced (during good times and bad) and this is fundamental to building shareholder value and earning the trust of staff, customers, suppliers, communities and shareholders.

The Board reviews and approves material announcements and specifically considers with management at each board meeting whether there are any issues which might require disclosure to the market under the NZX continuous disclosure requirements.

## Trading in shares

Wellington is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations.

Wellington has a detailed insider trading policy applying to all directors and employees. No director or employee may use confidential unpublished price sensitive information in his or her position to engage in securities trading for personal benefit or to provide benefit to any third party. Short term trading in Wellington shares and buying or selling (while in possession of unpublished price-sensitive information) is strictly prohibited.

All directors and employees must obtain consent to trade in securities prior to trading. All members of the Board need to consent to the application. Once these consents have been received the Chairman of the Wellington Board or (where the Chairman is unavailable) the Chairman of the Board's Audit and Risk Committee, will approve or decline the application. The Company monitors trading and reports share movements to the Board at every meeting.

## Information for investors

Wellington's investor website <http://www.wdttl.com/news-and-information> includes the Company's reports, investor communications, audio and video releases and the Policies and Charters referred to in this section. The Annual and Interim Report is available in electronic and hard copy format.

The Annual Meeting is planned to be held on 30 May 2018. All shareholders are welcome to attend and ask

questions. The external auditor, PricewaterhouseCoopers will be in attendance to answer questions about the audit and their audit report. A Notice of Meeting will be sent to shareholders in April 2018.

## Principle 5 – Remuneration

The Executive Appointment and Remuneration Committee is responsible for ensuring Directors and Executives receive the appropriate rewards to support Wellington in achieving its commercial and stakeholder goals. The Executive Appointment and Remuneration Committee has a formal charter. Its membership and role are set out under Principle 3 above.

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

### Director Remuneration

Directors' fees are currently set at a maximum of \$200,000 per annum. This was approved by shareholders at the 2006 Annual Meeting. The actual amount of directors fees paid in the last year was \$140,000. Full disclosure of Director Remuneration is set out on page 55. Other than from directors' fees no director is entitled to any other remuneration or retirement benefits from Wellington. Directors are entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at board or shareholder meetings or otherwise in connection with Wellington business.

The Executive Appointment and Remuneration Committee conducts an annual review of director fees, to ensure that the level of fees paid to its Chair and other non-executive directors is aligned with other organisations of similar scale and scope.

### Remuneration

Wellington's approach is to pay a base salary and a performance-based bonus that includes a short-term and a long-term incentive component. This ensures executive motivation is aligned with the goals of the Company in the short and long term.

#### Base salary

As stated, the Company recognises our people are critical to our business and its growth strategies. Wellington's remuneration strategy is to pay executives a remuneration that is fair and reasonable in a competitive market for the skills, knowledge and experience required by the Company. Salaries are determined for their current position in the market using relevant and up to date market benchmark data and an individual's performance and are reviewed annually. Many of our employees are based outside of New Zealand and remuneration varies by location in accordance with the local market.

#### Short-Term Incentive

Our Short-Term Incentive (STI) model is focused on delivering financial and business improvement performance goals, predicated on measurable outcomes, differentiating high performance, and rewarding delivery. The STI program's applies only to key management and other selected staff members. STI values are calculated as a percentage of base salary, ranging between 10% for eligible employees and up to 65% for the CEO. Executive team STI payments are determined following a board level review of the Company's and the individual's performance and may be paid out at between zero to 100% of an individual's STI target.

### Employee Share Purchase Plans

Wellington has two Long Term Incentive (LTI) share purchase plans. A Partly Paid Share Scheme which has been operating since 2008. The other LTI plan is the United States Share Option Plan which has operated since 2010. Details of both plans and the partly paid share issues or options currently outstanding are on page 44. Both schemes involve the issue of either part paid shares or options at a 20% to 30% premium to the market price of Wellington shares at the time of their issue or grant. Selected employees are offered shares or options. The shares or options vest in either two or three years following their grant, if the share price hurdle price is met and can be exercised one to two years after that date by paying the balance due for the part paid shares or options.

### CEO Remuneration

Greg Allen joined the Company as CEO on 28 November 2011.

In FY2017 the CEO earned a base salary of \$392,800. The CEO's base salary is reviewed annually and has not been adjusted since joining the company.

In addition to base salary, the CEO is eligible for an annual short term incentive (STI) based on a combination of financial and business improvement objectives being achieved. This short term incentive (STI) is targeted at 50% of base salary for full achievement of board approved objectives, with 60% of that target being against measured financial objectives and 40% of that target against business improvement objectives. The CEO employment contract allows for an over-achievement payment on the financial portion of the objectives according to the table below. The Board of Directors will approve any STI payment and such payment will only be made if a minimum EBITDA level is achieved.

The STI objectives for FY2017 were based on achievement of revenue growth, gross margin SCS<sup>TM</sup> Connect and

ECR motor sales objectives, derived from the Company's annual operating plan and business objectives. The table below shows the structure of the CEO's STI for FY2017:

Measureable Outcome	Weighting	Total if all objectives achieved	Overachieve %
Revenue	35%	60%	(60%X50%)X1.5
Gross Margin	25%		
ECR unit sales	20%	40%	nil
SCS unit sales	20%		nil

Note: Partial achievement of objectives and thus partial payment is possible under the STI programme.

The Board will determine the STI payment for FY2017 in April 2018 based on achievement of the agreed objectives. The STI bonus for 2017 is estimated to be an 80% payout of the 50% STI bonus amount.

In FY2016, due to the constrained cash situation of the Company and the limited ability to support STI for the preceding year despite achievement of targeted objectives, the Board of Directors approved a one time issue of partly paid shares in lieu of the STI cash program. There was no cash entitlement in respect of the FY2016 year. In April 2016, 1,218,073 partly paid shares were issued to the CEO in respect of this one time issue. These shares vested in April 2017 based on achievement of performance hurdles. The hurdle price was 9.43 cents.

No STI bonus cash payment was made to the CEO in 2017.

In accordance with the LTI plan for the CEO and the one time STI equity award described above, 4,795,500 part paid shares have been issued to the Share Trustee on behalf of the CEO under the Partly Paid Share Scheme. These were issued: 18 June 2014 - 1,260,587 shares with a hurdle price of 14.22 cents; 1 July 2015 - 2,316,840 shares with a hurdle price of 5.21 cents; and 1,218,073 issued on 20 April 2016 with a hurdle price of 9.43 cents. Further details of these part paid shares can be found on page 44.

## Principle 6 – Risk Management

The identification and effective management of the Company's risks are a priority of the Board.

As discussed previously, the Board has established an Audit and Risk Committee to assist the Board in oversight, monitoring and review of risk. Bi-annually there is a review of the entire risk landscape to establish a forward-looking perspective on business risks in both the internal and external environment. The Committee provides a forum for discussion of risk, including the Board's appetite for risk, with the CEO and management. The CEO and Senior Management team are required to regularly identify the major risks affecting the business and to develop strategies to mitigate these risks. Significant risks are discussed at each Board meeting, or as required.

"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 Company maintains insurance policies that it considers adequate to meet the insurable risks of the Group. Exposure to any foreign exchange risk is managed in accordance with policies laid down by the Directors.

The Health and Safety Committee meets monthly and reports to the Board on health, safety and wellbeing matters. Minutes of the Health and Safety Committee are a priority agenda item at all Board meetings and specific reviews are sought as required. The Committee continuously reviews health and safety risks and systems used to identify and manage those risks, ensuring they are fit for purpose, are being effectively implemented, regularly reviewed and improved. The frequency of incidents has been low and no Accident Compensation claims involving the Company have been recorded for a number of years. The Board undertakes ongoing Health and Safety education and visits key operational sites on a regular schedule.

## Principle 7 – Auditors

Oversight of Wellington's external audit arrangements is the responsibility of the Audit and Risk Committee.

The Company has adopted a policy to ensure that audit independence is maintained, both in fact and appearance, such that Wellington's external financial reporting is viewed as being reliable and credible. The policy covers the following areas:

"The board should ensure the quality and independence of the external audit process."

- The external auditor must remain independent of the Company at all times and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- The external auditor must monitor its independence and report to the Board that it has remained independent;

- Guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity;
- The audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the Audit and Risk Committee; and
- The Audit and Risk Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor.

PricewaterhouseCoopers have been the external auditor of Wellington and its subsidiaries for more than 20 years. Julian Prior of PricewaterhouseCoopers is the engagement partner for the Company, and has been since the start of FY2014.

During 2017 other services provided by PricewaterhouseCoopers comprises of \$7,000 (2016: \$7,000) relating to the agreed procedures performed over the interim financial statements.

To ensure full and frank dialogue amongst the Audit and Risk Committee and the auditors, the auditor's senior representatives meet separately with the Committee (without management present) at least twice a year, including immediately before finalisation and release of our half-year and full-year financial results to the market.

Due to its size, the Company does not have an internal audit function as is recommended by the NZX Code. As discussed above, the CEO is accountable for all operational and compliance risks across all of the Company's operations and businesses. The CFO has management accountability for the effective implementation and improvement of internal systems and controls.

Representatives of the Company's external auditor, PricewaterhouseCoopers are invited to attend the Annual Shareholders Meeting where they are available to answer shareholders' questions relevant to the audit.

## Principle 8 – Shareholder Rights & Relations

The Board's policy is to ensure (in an open and transparent manner) that shareholders are informed of all major and strategic developments affecting the Company.

We provide information about who we are, including our governance policies, on our website for investors to access at any time.

"The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

The Company releases all material information via the NZX website under its continuous disclosure requirements. All major disclosures are posted on the Company's website (<http://www.wdtdl.com/news-and-information>) on a timely basis. Audio files of quarterly investor conference calls held with institutional and large investors are also available on the Company's website.

Shareholders can directly communicate with the Company via <http://www.wdtdl.com/contact-investors>. Our CEO and CFO also respond directly to shareholder phone calls and emails.

Shareholders are encouraged to receive all shareholder communications by email. The Company provides a printed copy of its Interim and Annual Reports to shareholders who have elected to receive printed copies. Interim and Annual Reports are available on the company's website in accordance with the requirements of the NZ Companies Act 1993.

The Company's share register is managed and maintained by Computershare. Shareholders can access their shareholding details or make enquiries about their current shareholding interests electronically.

Notices of Annual Meetings are made available as soon as possible and posted on the website of the Company usually more than one month prior to the meeting.

Shareholders are encouraged to attend, participate and vote at meetings or appoint a proxy on their behalf, or submit a postal vote, if they are unable to attend. Results of proxies and postal votes are summarised and disclosed at the meeting. Voting at shareholder meetings is usually by a show of hands to encourage members to participate fully in the discussions at the meeting. If the voting at the meeting is inconsistent with the results of proxies and postal votes the Chairman of the meeting will, and shareholders at the meeting can, request a poll. This is not fully aligned with the NZX Code recommendation for voting to be by way of a poll for each separate resolution. Results of meetings are announced as soon as possible following the closure of the shareholder meeting.

# Directory

## Directors

Tony Nowell, *Chairman*  
Dr Lisbeth Jacobs  
John McMahon  
Gottfried Pausch

## Senior Staff

Greg Allen, *Chief Executive Officer*  
Steven Hodgson, *Senior Vice President Commercial*  
David Howell, *Chief Technical Officer*  
Howard Milliner, *Chief Financial Officer*  
Marc Tinsel, *Head of Manufacturing*  
Peter Barnes, *Global Quality Leader*  
Ali Karahasanoğlu, *Sales Director, Europe / Eurasia*  
Erick Layseca-Flores, *Business Development Manager, Americas*  
Clayton Thomas, *Sales & Marketing Director, Asia / Pacific*  
Gerardo Gonzalez, *VP Intelligent Systems Business Unit*  
Paul Gillard, *General Counsel*  
Ron Jackson, *Secretary*

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Rosedale, Auckland 0632, New Zealand  
PO Box 302-533, North Harbour  
Auckland 0751, New Zealand

## Registered Office

21 Arrenway Drive  
Rosedale, Auckland 0632, New Zealand

## Auditor

PricewaterhouseCoopers  
188 Quay Street, Auckland 1142, New Zealand

## Banker

Bank of New Zealand

## Share Registry

Computershare Investor Services Ltd,  
Private Bag 92119, Auckland 1142  
New Zealand



Annual Report 2017

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