

MANAGING DIRECTOR'S ADDRESS 2014

Thank you Mr Chairman and before I formally second the motion I would like to review the year to 31 August 2014, look at some of our highlights from the past year, comment on our strategy and provide some insight into our current activities.

The year to 31 August 2014 started amidst our centenary celebrations. It was a time to celebrate completing 100 years in business successfully – a major achievement.

During 2014 the benefits of our diversification, a strategy embarked on in the early 2000's, enabled us to better weather the storm that was occurring in some of our markets.

Our revenues held up at similar levels to 2013 but the change in mix of industry sectors and achievable margins, impacted on the bottom line. Our accounting team worked out that if the New Zealand dollar was the same average rate that we had in 2013 our revenues would have increased by \$2.0m and the net profit before tax would have been over \$6.0m (much closer to our 2013 result).

The Board's confidence in the business was shown with a total 8 cent dividend and ongoing investment in research and development.

Our investment in research and development is two-fold:

Firstly, to maintain our competitive edge; and

Secondly to create new opportunities in an ever changing world

2014 saw us complete two acquisitions – RobotWorx in the USA and a smaller acquisition, Applied Sorting Technologies in Australia.

I am showing here the word map with our activities and locations. This is in the annual report and it is well worth presenting as a great pictorial representation of the global presence of Scott as it is today.

Now I would like to review some more detail some of the key activities undertaken in 2014.

Sales to our Appliance Customers

We had a very good year focused on delivering appliance systems projects to customers in the USA and China. In total we shipped seven lines and recorded total sales of \$29m. Two large projects were for

multiple lines and provided continuity of work with margins that improved on each subsequent line.

Sales Customers in the Mining Sector

In addition to our standard equipment and reference materials for the mining sector we completed three larger projects for customers processing gold, copper and iron ore. With our iron ore system, both the customer and ourselves are keen to see the new system become a standard for all their future laboratories.

On the screen is a photo of the iron ore system being tested and signed off in our Auckland building.

Meat processing projects included three large systems for Australia – all focused on lamb. In addition a Middle system was commissioned in New Zealand, again for lamb.

Although I've mentioned the projects for lamb, we have not forgotten about the beef processing sector, which provides much greater opportunity for future growth. We now have in market, several stand-alone pieces of equipment for beef processors. One system in

particular, a beef boning unit, has been very successful over the past few years and we have now sold a total of 46 units, primarily into Australia, but also as far afield as Brazil. Other standard pieces of equipment are currently being trialled at various customers' sites and we expect a similar uptake.

The meat processors we talk to globally have a desire for intelligent systems – systems that can assess elements necessary to determine the quality and yield of a carcass, make intelligent decisions based on that information and then cut and process the carcass to deliver the optimal yield. We are already doing this to a certain degree for the lamb processors. We continue to hone our skills in this area and will look to further apply it to the beef sector.

This video is of our Lamb Boning room automation which is guided by our X-Ray Vision System.

Electromagnets – As noted last year this is one of our most promising technology areas, but it is also proving to be one of the most difficult to commercialise.

We have several products ready, or near ready, for commercialisation and we face the most difficult task of commercialising **new technologies** into new markets or new applications – all at a time when science funding and capital expenditure is at a cyclical low.

These images show our top line products:

That is a summary of our major project work over the past year. It is difficult selling large capital equipment and systems when the global markets face a down turn, as we have seen over the past few years, with discretionary spend on capital expenditure the first to be reduced.

We have seen a dramatic change over the past two years with our customers focusing on projects that deliver quality, yield or productivity gains.

Our research and development programme and our diversification has resulted in a range of standard equipment and consumables that are required by our customers on a regular basis. Standard equipment and consumables across a range of industries has contributed a little over a third of our total sales and a similar amount of our profit.

Photos of some of our standard products are being shown on this screen.

Now I'd like to share with you an overview of our recent acquisitions.

RobotWorx was acquired in May 2014, closely followed by Applied Sorting Technologies in June 2014.

RobotWorx operates almost exclusively in the North American market, it is based in Ohio and claims that 95% of all robots in North America are within a 250 mile radius of the facility. Expected sales are in the order of NZ\$9m per annum, with 30 staff, operating in multiple markets and industries. The key opportunity for Scott in addition to operating the existing business is to leverage RobotWorx model into Scott and to provide a base for expansion of Scott's USA activities.

Applied Sorting, a smaller strategic acquisition, based in Melbourne Australia, has a small team involved in developing and promoting inspection and sorting systems. Their systems are used, among others, by customers in the mining sector, as well as by meat processors. It is these markets that provide the close alignment with Scott's business. Applied Sorting also has particular hardware and software expertise in relation to advanced x-ray imaging, similar to the technologies that we

use in our lamb and beef systems. In addition to providing complementary products to Scott, assistance in our meat processing and mining activities, Melbourne is now providing a local presence for service and support of a growing installed Scott equipment base in the area.

A key platform for Scott Technology is our Development Investments. Our total R&D spend of \$3.0m for the year was directed at a range of projects designed to either maintain our leading edge or to develop new technologies and products.

I have listed a few of our developments being worked on:

I should comment on our ongoing development of a milking robot. Proof of concept work in the 2014 season with an 80 cow robot herd has been scaled up to application on a main herd, and we are underway with a 2nd installation.

It is also worthwhile noting that Scott was a winner at the New Zealand Innovators Awards 2014 in the Agricultural Section with our x-ray robotic lamb processing system.

I would like to now show you a brief video of the Milktech system as it was operating as at the end of the 2013 / 2014 milking season. As with the meat processing industry, we face additional challenges from the seasonal nature with a shortened time available for trialing and a period of time where the equipment sits idle waiting for the season to restart.

As a consequence of our Development Investment Programme we have also started to build our intellectual property portfolio. A good indicator of the rapid increase of our portfolio is demonstrated by the chart on this screen. This shows the patents granted by year, by group company, - activities started slowly in 2004 through to 2008, with an increased amount of activity over the last six years.

The patents cover a number of areas of our business but also in a range of countries. We typically select countries where our products have wide applicability. We have recently come across a European company that has copied one of our meat processing products and we are in the process of determining what remedies are available.

Our Lean Six Sigma and Health & Safety Programmes work well together to produce benefits and outcomes across all areas of the business.

Other operational areas of focus were our Health & Safety and Lean Sigma programmes. Our Lean Six Sigma Programme has now been operating for two years and has driven a general lift in our professionalism, tidiness, our ability to deliver quality outcomes in shorter timeframes.

As a further insight into our operations, we noted some of our extension activities in the area of Community Engagement and our effort and recognition of our Corporate Citizen responsibilities. These are across a range of activities with connection to our business direction, our staff or education and skills of people in our community.

Our Financials

These are in the annual report which shareholders should all have. However, it is worth commenting on some of the key highlights. In 2014 we maintained our total sales and this was assisted by the diversity of our customer base.

As you will see in the next slide there was a substantial change in the sales mix. As noted earlier, the currency had a significant impact on our profits.

Shareholders funds increased by 8% to \$47m, primarily as a result of the issue of new shares as part of the transaction to acquire RobotWorx.

Since the company relisted and paid our first dividend in 1998 we have paid out a total of \$32.3m to shareholders over that timeframe and this equates to a total payout ratio of 70% of post tax profits.

This graph shows our total sales by customer industry. Of particular note is the significant change in mix from prior years to 2014. Our sample preparation or mining industry customer sales were down approximately 50% on prior years. This was compensated for by a similar increase in sales to our appliance customers.

This next slide breaks down our share of sales by geographic region. The mining sector sales accounted for much of the drop in the geographic regions and sales to our appliance customers accounted for the increase in the Asia / China region and into North America.

This chart tracks our sales, profit before tax and shareholders' equity over the past two decades. The variation in the sales is driven primarily by exchange rate and the global economic environment. These also have an exaggerated effect on our profit.

As an exporter we are acutely aware of the exchange rate. In this chart we have mapped our sales and profit against the New Zealand to US Dollar exchange rate inverted and lagged by one year. The exchange rate can be seen to have a dramatic impact and close relationship, to our sales. This relationship was partially broken in 2011 and 2012 due to the strong global economic environment, particularly for sales to our mining customers. The past two years show a closer alignment of the exchange rate to sales and group profit.

Our Strategy

Over these next few slides I would like to share our strategy at a high level, starting off with our Vision Statement.

“As trusted product leaders we add value for our customers by supplying quality, specialised manufacturing technologies that demonstrate our passion for engineering excellence and professional service”.

We are an automation and engineering business. Our strategy sets out aggressive financial and growth targets.

We will achieve our strategy through organic growth and growth through business acquisitions and new internal developments. The announcement of our proposed acquisition today is in line with this

strategy and provides growth through complementary and strategically aligned business.

We will also monitor and respond to trends impacting on our customers in an effort to remain at the leading edge of technology. We will improve our marketing, particularly through the use of digital media.

We will strive for operational efficiency and effectiveness across all areas of our business. A key part of our strategy is, and will be, increasingly focused on robotics, driven by global themes such as Industry 4.0 and Big Data.

This chart maps the geographic spread and concentration of robotics. As you can see from this chart, the Pacific Rim, which is the markets we operate in, account for in excess of 60% of the world's robots purchased in 2013. The stand out performer is China, which is no surprise. In China the thirst for automation is driving a rapid increase in robot sales. Through RobotWorx and our facility in China we intend to be a part of this growth.

Our Current Focus

Our past year tells where we have come from, our strategy provides insight into our overall direction but it is our current activities that will

shape our immediate future and the year ahead.

Our current activities include:

- Projects contracted, underway, or close to completion.
- The second installation of our milking robot.
- A range of new products and developments for meat processing – both lamb and beef.
- A key focus particularly in Australia for advanced imaging, based around objective carcass measurements for beef
- Implementation of a digital marketing strategy that leverages off the RobotWorx model.

- Our China expansion, led by Ken Snowling, with planned increase in business activities and a move to new larger facilities;
- And lastly, our Australian acquisition, which provides critical mass in a key market for us and is consistent with our overall strategic intent.

Excitement within the business comes from the amazing people who live here every day and the numerous opportunities ahead, covering all our key market segments. The goal is to convert these to sales, with several large projects expected to be secured in the first quarter of 2015.

Finally, I would like to personally thank all of our dedicated and talented staff who commit so much to achieving the outcomes we desire.

I would also like to thank Stuart for being a very active and supportive Chairman and my fellow directors for their support during the year.

I would now like to formally second the motion moved by the Chairman that the annual report, including the directors report, financial statements and audit report of Scott Technology Ltd for the year ended 31 August 2014 be adopted.

Thank You.