

MANAGING DIRECTOR'S ADDRESS

Thank you Mr Chairman and before I formally second the motion I would like to review the year to 31 August 2015, cover off the numbers, provide an outlook for 2016 and beyond, then provide an overview of our current strategy.

The past year was very much a year of two halves, impacted by the macro economic situation. In 2014 we struggled to gain momentum as many of our customers put a hold on capital expenditure and this continued into the first half of the 2015 year.

Our diversification strategy, combined with acquisitions and organic growth arising from our ongoing investment into research and development, enabled us to build momentum into the second half of the year. A number of our markets started to improve and importantly for Scott as a manufacturing exporter, the New Zealand dollar retraced from its highs. Overall, revenues were up 20% on the prior year to \$72 million, with sales to over 75 countries, our export revenues accounted for 90% of our turnover. Our result for the year included a full year contribution from RobotWorx and this business contributed strongly to both revenue growth and to our bottom line performance. We sold 187 robots in the year to 31 August.

High sales and better margins delivered a net profit before tax of \$8.1 million, a significant turnaround from the prior period. With strong operating cashflows we maintained a constant dividend of 8 cents and took on additional borrowings to acquire the Australian business, Machinery Automation and Robotics Pty Ltd, in January 2015.

With this acquisition we have significantly strengthened our presence in Australia. This follows on from the new base established in North America via the acquisition of RobotWorx in 2014.

In line with our improved global presence, our operational structure has been reorganised and focussed around key regions, with a regional director responsible for driving engineering operations within each region. You will notice that in our segment results in the Annual Report have been reported across these regional activities and this aligns with the way that we record, manage and drive our day to day operations.

Asia & Europe

In Qingdao, our four year contract manufacturing arrangement with Teknatool recently came to an end. This enables us to go forward fully focused on Scott activities and remove Teknatool as a minority shareholder.

We had a pleasing year in terms of results with increased turnover underpinned by contract manufacturing further enhanced by a growth in Scott's own business activities. Retaining our local Chinese staff is proving to be a challenge as western trained engineers become highly sought after within China's tight labour market.

Australia

Since acquiring Machinery Automation and Robotics in January 2015 we have concentrated on integrating the business with our Scott team. The rationale for acquiring the business was two-fold; firstly to increase our presence in the key Australian market, and secondly, to acquire technologies that accelerate opportunities in the Mining and Meat Processing sectors.

We have re-branded the business, and its activities, in Australia as Scott and the team is working well with positive contribution.

Americas

The Americas remain our largest end market for our equipment and technologies. Total sales through RobotWorx, which was acquired in May 2014, are at levels nearly twice of that when the company was purchased. We are progressively adding Scott management and capability to our American operations as well as building relationships with manufacturing companies looking for automation partners. Opportunities continue to arrive on a regular basis as US manufacturing rebounds with a thirst for automation and robotics.

New Zealand

We came off a busy 2013 / 2014 year and in the first half of the year we took the tough decision to resize our Christchurch manufacturing operation. This took our staff numbers back to 2013 levels, prior to the last peak. In our manufacturing environment, if throughput and volumes are not running at 90% or more our overhead costs becomes too great and this was the case during the year in Christchurch. Customer delays on committing to significant projects added to the difficulty. Prospects are now converting to contracts and we are faced with different challenges, such as a shortage of resources at peak times, as we plan ahead.

We took the opportunity to further invest in research and development. Our development programme is subject to a rigorous management regime where business cases are researched, proposed, rated along with other opportunities, and only the best undertaken.

Across New Zealand and the wider group we have a strong emphasis on health and safety with a superior track record. We have achieved the highest level of accreditation by the ACC and across the group it has been nearly three years without a lost time injury. We also operate under our Lean Six Sigma programme which drives continuous improvement across all business areas.

The Numbers

The results show a healthy increases across all key parameters. At the bottom of the table you can see that the total cumulative dividend since relisting in 1997, totals \$38.4 million with a long run average payout ratio of 69% of post tax profits.

Looking Forward

Before I go there I would like to add to Stuart's comments with a special mention of Graham Batts. We need to recognise and record his contribution over a very long illustrious career, one that has had a major impact on Scott.

Graham began with the company in January 1956 just on 60 years ago. His enthusiasm and passion for engineering has certainly shaped the company. For me, Graham embodies why we do what we do, which at a very high level is simply to build a better world. I know that Graham is very passionate about making lives better, improving the world in which we work and live, and he carried this through to his engineering.

Looking Forward

Looking forward the future is very much dictated by our market opportunities. For us, these are opportunities that arise through the work that we have done in the past and continue to do in the present.

Appliance Systems is our industry segment with where we have the most experience. It has been built up over the longest timeframe and the last 15 years has been extremely lumpy, with one or two large projects dominating the good years and a shortfall in contracts dictating the not so good. It has certainly been a tough industry sector with several appliance manufacturers restructuring, and disappearing. This also affects the machinery and equipment suppliers to the industry who have also suffered. We know of several Scott competitors who are no longer in business. Europe and South America remain particular

challenging and we do not see that changing in the near term. In the longer term the industry needs smart automation and robotics to remain competitive.

Scott's favoured markets are in North America where the projects are large and more profitable, but still dependent on the currency and the relative strength of our competitors. Asia presents the greatest opportunity for growth where there is a need and a desire for our technology. However, in Asia our price can be a major hurdle, particularly when dealing with Chinese manufacturers who compare us with local Chinese machine builders.

As our Chairman mentioned we have secured good project work in America and we are confident of securing further work for repeat systems into China. We have worked strategically with Fisher & Paykel Appliances over the past several years and we expect this relationship to strengthen as we have been able to demonstrate an environment that benefits both Scott and Fisher & Paykel.

Meat Processing

This is an area where the greatest opportunities lie - the technologies and equipment we have developed over the past 13 years has come of age, our systems are now recognised as commercially robust, and able to deliver the substantial benefits needed by the industry. Our equipment is first class, our reputation is growing, and we are seeing strong demand materialise for our systems and technologies. The JBS offer is further recognition of our achievements and the potential.

With the current forward workload and present opportunities, it is likely that we will achieve a near doubling of revenues for meat processing in 2016.

Mining

In the Mining sector we have previously concentrated on sample preparation through our Rocklabs business. The acquisition of Machinery Automation and Robotics brings a new range of technologies that we are able to offer to mining companies. We now have advanced technologies and products that enhance yield, reduce down time, or improve safety over a range of operations.

For sample preparation we continue to add new products to our range and this has enabled us to increase market share and although sales are well below the heady peak of 2012 / 2013. Sales are above the level of the previous peak which was when we acquired the company in 2008. New system sales including the new project noted by the Chairman will assist us to achieve further growth in this sector.

Superconductivity

This covers the activities undertaken by our business, HTS-110, based at Lower Hutt. Two key market segments that continue to show promise is the hard disk drive sector and mobile NMR (Nuclear Magnetic Resonance imaging). Most of the hard disk drive manufacturers in the world, including Seagate, Hitachi and Western Digital, are utilising our magnets in their development of new generation hard disk drives. Once through the development phase we expect significant volumes will be required for their production facilities.

In addition, our mobile NMR systems continue to gather interest with advanced trials at pharmaceutical companies and scientific laboratories. With improving sales, cost containment and improving margins, we expect a positive contribution in the year ahead.

Industrial Automation & Robotics

Activity in this sector has been boosted by our RobotWorx web-based marketing initiatives and as noted earlier, we have seen revenues increase dramatically since we acquired the

business. The demand for automation + robotics is increasing across many sectors and we are in discussion with major manufacturers who are looking to engage Scott as an automation + robotics resource across their own business, working together to drive their bottom line performance.

This chart shows the shifting sands of the activity within our chosen industry sectors.

In 2013 it was Mining - Sample Preparation

In 2014 it was Appliances

And In 2015 - Industrial Automation took the lead

Our Strategy

Our management team, in conjunction with the Board, have spent a great deal of time over the past months refining and confirming our strategy. We have reviewed the macro economic environment, we have looked at the competitive landscape, and we have reviewed how we want to operate in each of our chosen fields.

Through workshops, research and debate, we have developed roadmaps that outline where we are going and how we are going to get there.

I would like to touch on some of our key strategic themes.

We expect organic growth to be driven by commercialisation of our technologies. We have many in the pipeline and these leverage off existing solutions to grow our product range with new applications into new and existing markets.

We will continue to look for business acquisitions where they make sense and meet our assessment criteria. To obtain key technologies we will consider the option of internal development, against possible acquisitions.

We will continue to monitor and respond to trends which impact on our customers. Macro trends such as Industry 4.0, Big Data, Internet of Things and robotisation will be key drivers for our business in the future. Micro industry trends, such as better yield, energy efficiency and remote monitoring also supports our strategy.

We realise that as engineers we are not necessarily the best at marketing and selling ourselves. We like to think that our technologies, our skill and our quality speaks for itself. In many cases it does – but we can, and must, enhance our market presence and our reach through better brand promotion and protection.

On the operational side we will continue to drive overall efficiency and effectiveness and develop centres of excellence to minimise duplication. We will grow a co-ordinated in-market presence to support our equipment and to provide the assurance around access to the service and support that our customers demand.

Our human capital is key and we will recruit and retain high-skilled and multi-skilled people. Our graduate and apprenticeship programmes are vitally important to grow talent from within.

Our order book is at historically high levels. In addition, we are in the advanced stage of discussions in respect of multiple projects that if we win them it will take us to the next level of activity. For this reason we believe 2016 is going to be extremely busy and bring new challenges.

With confidence in the future we need to build capacity. That capacity should be built within New Zealand and Australia for R&D and advanced manufacturing and in America and China for manufacturing, sales, service and support.

We believe we are at a turning point and the future is currently looking bright. With JBS, we do not expect any major change to our strategy, but with JBS on board as a major shareholder, and with the additional new capital, we can accelerate our growth and drive our strategic intent.

I would like to personally extend sincere thanks and congratulations to all our dedicated and talented staff. They commit so much to achieving the outcomes that make us proud.

To keep our dedicated staff motivated we need to be clear on why we are in business, to have that belief of achieving something greater, of improving the productivity and safety of our customers by building better manufacturing systems and processes. The greatest compliment we can have is when people look at our equipment and go “wow – isn’t that amazing!” which is an increasingly common response.

Finally I would like to thank Stuart for being a very engaging, committed Chairman. I am always amazed at how available he is and at his willingness to help. He, along with my fellow directors, provide tremendous support for which I am very thankful.

I would now like to formally second the motion moved by the Chairman that the annual report, including the director’s report, financial statements and audit report of Scott Technology Ltd for the year ended 31 August 2015, be adopted.

Thank you.