

Managing Director's Address

2016

Thank you Mr Chairman, and before I formally second the motion I would like to review the year to 31 August 2016, including the performance of the company, present an operational overview of Scott and then take a quick look at where we are heading.

Highlights of 2016

We achieved an increase of 55% in revenues from 2015. Revenues from meat processing customers were up 256% and from appliance customers up 48%. Overall the company delivered an increase of 36% in net profit before tax, up from \$8.0m in 2015 to \$11.0m in 2016. Shareholders were rewarded by an increase in the total dividend to 9.5 cents for the year.

Looking at the overall numbers, the strong 55% increase in revenues was assisted by a significant amount of contract manufacturing which does increase throughput but generally attracts lower margins. This lower margin work, along with the absence of one-offs that were in the prior year, meant that the increase in the profit line did not match the revenue line. It was interesting to note that in 2015 it was the other way around, where our revenues increased 20% and the bottom line increased by 91%. As many of you as long term shareholders will know, our project work is often spread over several years and there can be significant variations between years. If we look over the two

year period from 2014 – 2016 revenues increased 86% and the bottom line 159%.

Not shown here, but in the financial reports that have been distributed, Scott reported strong operating cash flows of \$16m for the year reflecting the timing of project receipts and a release of the build up in work in progress that occurred in 2015. As a result, the company has a very strong balance sheet with a cash balance of \$34m as at 31 August 2016 – \$9.0m more than the \$25.0m net proceeds from the capital raise after repaying all debt at the time.

This chart provides a breakdown of recognised sales by industry. It is important to note that our recorded revenues are a measure of the sales value of work completed in accordance with our accounting policy where we account for project revenues on a percentage of completion basis.

These charts show not only a significant increase in the size of the revenue pie – from \$72.0m to \$112.0m, but also highlights the very strong growth in meat processing, which outpaced increases in other target industries over the year. In my comments 12 months ago I indicated that we could see a near doubling of revenues from the meat processing sector. We actually achieved revenues from meat processing customers of 3½ times that of 2015.

The demand for our technology from different end customers changes from year to year and this is one of the reasons for us to maintain the diversified range of industries in which we operate. Over the past four years the company has seen different industries dominate our activity and the resulting performance of the company. In 2013 it was Mining. In 2014 it was the Appliance sector, in 2015 Industrial Automation, and in 2016 it was Meat Processing customers that drove much of the increase.

Group Sales by Geography

This chart shows the breakdown by geography. Much of our growth in 2016 came from equipment sold and delivered into Australia and New Zealand and these two regions have grown at a faster pace than the other regions in which we operate. Total revenues derived from North America in 2016 were \$32.0m, very similar levels to 2015, but with the growth in overall revenues the proportion from North America is less.

We now have a very impressive global footprint. Our geographic coverage was strengthened with the expansion by way of acquisition into Germany during the latter part of the year. This is in line with our strategy to design and manufacture globally wherever it is most efficient, but to deliver and support locally for all our major markets. The majority of our technology and equipment is designed and built in New Zealand and Australia and delivered around the world, supported by our local offices.

Moving on to capital raising.

As the Chairman noted in his address, the company, in conjunction with JBS, undertook a capital raise by way of a Scheme of Arrangement in late 2015, which was completed in April.

In total, \$40.0m was raised from a combination of a Rights Issue to existing shareholders and an issue of new shares to JBS. We are delighted to have JBS on board and we will be working hard to deliver a strong future for all our shareholders, including JBS – and for all our stakeholders, especially the talented staff who convert all the dreams to reality.

Of the \$40.0m raised, \$15.0m was used to repay all debt, leaving \$25.0m to position Scott for growth, both organic and through acquisitions. As already noted, strong operating cashflows for the year further boosted our cash position to \$34.0m as at 31 August 2016.

Our people are, among other things:

1. Highly Skilled - Of the 400 staff it is estimated that over 85% are Degree or Trade qualified professionals.

2. Motivated and Committed - Staff turnover is very low and we have many with long service. In fact, we have 23 staff in New Zealand with over 20 years' service (more than 10% of the New Zealand workforce).

3. Our people are diverse. At a recent management meeting we had people from 7 countries speaking 5 different languages.
 - Some of the new members to the team on site at Kurnbach in Southern Germany.

 - A portion of our Qingdao, China contingent, including a couple of ex-pats.

 - Technicians working on AGV's and other developments in Sydney Australia/

 - One of our new products – a robotic refuel station.

 - Some of our US team members on site in our factory in Marion, Ohio.

 - One of our large US robot systems – the robots automatically polishes caskets that would traditionally be hand finished.

- Staff from our team in Christchurch completing the assembly of presses for Range International. These are part of the repeat order for eight systems received from Range International during the year and are due for delivery through 2017.
- Magnet systems, or HTS-110, is one of our highly specialised areas of capability. This field is world leading and bleeding edge and I am pleased to say contribute positively in 2016.

Our Meat Processing technology is starting to reach maturity and is being accepted as proven technology. We are seeing strong demand and good uptake in both Australia and New Zealand. During the year we were able to improve our own manufacturing efficiencies with the opportunity to simultaneously build three Primal machines and four Middle machines. Even though our first commercial sale of such a system occurred seven years ago, it took a further five years to convince the Meat Processing sector that the technology would deliver the benefits as promised.

There is a strong demand from both our new shareholder customer, JBS and from our many external customers, to transfer and adapt the technology to other species, including Beef and Pork. This development is underway and we are confident it will be a faster path than our original lamb processing systems.

Industrial Automation revenues were of similar levels to last year. Through RobotWorx we sold 235 robots during the year, although higher costs and the reduced availability of robots for refurbishment have impacted margins.

During the year we relocated our Mining Sample Prep business in Auckland to new premises, which benefited our operational effectiveness. This, combined with newly commercialised robotic technology originating out of Scott Australia for refuelling, inspection and idler change systems for the extraction side of Mining operations, drove increased revenues from Mining customers.

The recent acquisition of the business assets of Somako Hirsh + Attig GmbH based in Kurnbach, Germany has provided us with critical mass to deliver and support Scott's engineered solutions into a European market that holds much potential for us. The acquisition included existing customer projects and enquiries which provided a boost to our Appliance industry activity in the second half of the year. The Appliance manufacturing industry remains largely in consolidation mode, however, we have seen enquiries pick up in recent months and a large order, such as the one noted by the Chairman, can change our future outlook significantly.

The company's China operation continues to support Scott manufacturing activities in all regions by facilitating purchases of low cost components and sub-assemblies. In addition, we continue to develop the skills and resources within China to deliver standalone, or repeat systems, directly into the Chinese market.

Subsequent to the financial year end we announced the acquisition of the Bladestop business. Bladestop is a wonderful technology developed over the last ten years, although it only commenced commercial sales within the last two years. When Scott acquired Machinery Automation & Robotics in January 2015 Scott also acquired a licence to develop and distribute Bladestop technology until June 2017. Our licence agreement included an option to acquire the business. With the experience and knowledge of the market gained through operating the licence for 18 months, we acquired full ownership rights to the technology in October.

A key part of Scott's success over the past 10 years has been the new products and technologies developed for our customers. Not all our activities are successful but with perseverance and determination, the majority have been brought to market. Scott's talented team enjoys the engineering challenge thrown at us, usually by our customers. We continue to formalise our R&D process and structure to improve outcomes. We have a structured evaluation process to collect, review, action and monitor progress against business cases that are stress tested by the management team.

The result is a healthy list of new products and offerings that we are able to commercialise, such as those listed here....

and...a long list of R&D projects at various stages of development.

Health & Safety

As noted by the Chairman, the company has a very proud record when it comes to health and safety. This is underpinned by a commitment by all to 'safety at work'. This strong commitment is backed by extensive systems and our performance is recognised through attaining the highest level of ACC's externally accredited Workplace Safety Management Practices, as well as Mining Industry health and safety accreditation in Australia.

In conjunction with the increased focus on health and safety we are seeking to establish consistent Scott health and safety practices in all our work places around the world.

To finish off my review of Operations it is perhaps easiest to present a snapshot by way of a video which explains it far better than I can. This short two minute video highlights the width and breadth of our engineering capability as applied to a range of technologies and industries.

Lastly, I will comment on our strategy and our business opportunities going forward.

Our strategy is to invest across a range of platforms that support our engineering vision for technologies and services enabling us to deliver growth. A key foundation is our people and we need to invest in recruiting, developing and retaining top talent. To guide our people and to provide them with the tools they need to grow, we need to empower them with the right process.

Scott's investment in research and development is increasingly important. With fast changing technology we are seeing different needs and demands from our customers. Our R&D intensity needs to continue and deliver faster and better. Our formal R&D process has the objective of delivering new products and technologies in shorter timeframes. We will look for patent protection where we can. In other instances we rely on copyright or first mover advantage.

We will invest in putting more skilled people into our end markets to support local delivery. Supporting engineering sales and marketing efforts with local staff ensures that we pick up and respond to emerging trends impacting on our customers. With the right technical support and expertise we aim to protect the quality of the Scott brand.

Looking Forward

In the near term we expect our biggest opportunities to come from our Mining and Meat Processing sectors where new products are already being commercialised. In the medium term our R&D in areas, such as “AGVs” and mobile robotics will drive growth in the wider Industrial Automation sector. To maintain our share of the global market for equipment supplied to appliance manufacturers we will need new ideas and better marketing.

The good news for the company and our staff is that many, if not all, of our skills, technologies and capabilities can be applied to any one of our target market customers. Many of our customers are finding it increasingly difficult to recruit and retain the staff they need for their own business and many now see automation and robotics as essential to remain competitive.

Our order book remains at high level. With significant new orders received and expected we are looking to increase our own manufacturing capacity and to increase our talent pool to provide technical, service and support.

Last year I mentioned we believed we were at a turning point and that the future was looking bright. We were not expecting any major change to strategy but with additional new capital and JBS support, Scott could expect accelerated growth. We are now seeing this happen.

We talk a lot about our people. It is important that our staff are recognised and I would like to extend my sincere thanks and congratulations to all the Scott team who have contributed to deliver another successful year. There is enormous pride in what we achieve. Our goal is to deliver better systems and technology that improve productivity and safety of our customers.

We try to celebrate success and involve all our stakeholders in the communities in which we operate. We often have Open Days for friends and family, customers and suppliers and recently we had one here in Christchurch that was very successful, with approximately 100 people attending. More recently, two weeks ago, we held an Open Day in Germany where in excess of 1,000 people visited our factory to learn more about what amazing things this New Zealand Company is doing in Germany.

Finally, I would like to thank Stuart for his guidance and counsel. He, along with our fellow Directors, keep myself and my team well-grounded and focused.

I now formally second the motion moved by the Chairman that the Annual Report, including the Directors Report, Financial Statements and Audit Report of Scott Technology Limited for the year ended 31 August 2016 be adopted.