

Managing Director's Address

2017

Thank you Mr Chairman, and before I formally second the motion I would like to review the performance and results of the company, present an operational overview, outline our research and development, the opportunities and ambitions for the company, then conclude with a brief outlook.

Key Highlights of 2017

The highlights reflect a positive year which reflects the benefits of our diversification and acquisition strategy. Scott's revenues increased 18% to \$133 million. We continued to deliver strong operating cash flows, and we enter the new year with cash reserves of \$26 million. Our German business acquired in 2016, contributed a full 12 months and in October last year we converted our Bladestop licence to a full ownership model. We acquired the Bladestop licence as part of the acquisition of MAR in January 2015. The licence included an option to purchase which we exercised to enable us to accelerate Bladestop business plans.

All these activities delivered a net profit before tax of \$15 million, an increase of 35% on the prior year and this has been reflected in the increased dividend.

Industrial Automation & Robotics sector grew by an impressive 41% year on year. Underpinning this was a full 12 months of Scott Germany and an increase in customers seeking robotic solutions as an answer to labour shortages around the globe.

Appliances were up 30% year on year, again boosted by a full 12 months of Germany and several large projects completed for China and the USA.

Sales to the Mining sector were up 18%, reflecting an upswing across multiple geographies.

Revenues over a 10 year period recorded compound annual growth rate of 20% and 35% over the past three years.

Over the past 10 years we achieved a five-fold increase in revenues since 2008. The table graphically demonstrates the effectiveness of our diversification from two industrial sectors in 2008 through to the current width and depth of our markets in 2017.

Over 10 years, net profit after tax had a compound annual growth rate of 57% and a three year rate of 42%.

Over the past five years our share price has followed our fortunes, which has steadily risen since 2014. We have indicated on the chart the dates JBS came on board as an investor and shareholder.

Operational Review

People are an important part of our business. Employing people comes with many responsibilities, not the least of which is their safety and health at work. Our objective is to ensure we provide a safe working environment which does no harm and our people get to go home at the end of the day healthy and safe.

This requires a commitment by all to safety at work. This starts with the staff and is reinforced by management and the Board of Directors.

At Scott we spend much time and effort ensuring that our health and safety systems and processes are world class and are applied at all our locations around the world to the same standard, whether our people are in New Zealand, Australia, America, China or Europe.

Employee health and safety committees, management and the Board of Directors, are active each and every day in monitoring the effectiveness of our systems.

Europe

In Germany our team of highly skilled engineers design and build factory automation systems, primarily for the whitegoods industry.

We also serve other industries in the metal forming and manufacturing sectors. Germany is also becoming a support base for meat processing activities – both Bladestop and advanced boning room automation. Ken Snowling is our Regional Director in Europe.

Unfortunately he is not able to be here today to join us but the good

news is that he has been busy negotiating contracts that will keep us busy through 2018 and into 2019. A slow start to the year with excess capacity impacted on the contribution from Europe. However, a new sales team and a growing reputation in Europe has enabled us to secure major new contracts. These were won in a competitive tender and are for global manufacturers - both repeat and new customers.

China

Cathy Smart, General Manager, leads a very motivated and dedicated team of engineers. We achieved a major milestone in 2017 with the redesign and build of a complete appliance production line for a major customer in China with the team very proud of their achievements – and rightly so. The dedication and commitment of the team was extraordinary. The 34 metre long press and clinching line was completed in six and a half months, which is a record for Scott.

Australia

A region of substantial growth for Scott over the past few years. Clyde Campbell is our Regional Director for Australia and was the former owner of Machinery Automation & Robotics that Scott acquired in early 2015. Clyde continues to build the capability and skills of the team in Australia and to expand our product range and our system offerings to customers. These efforts have been rewarded with a growing portfolio of projects and customers.

A significant milestone was achieved during the year with the completion of a first robotic palletiser with automated guided vehicles (AGV's) in a meat processing facility. AGV's and backend logistics, such as palletising, carton storage and retrieval systems, is targeted as a key growth area for Scott in the coming years.

Scott USA

Tony Joyce, Regional Director for the Americas, looks after our RobotWorx business, as well as Scott's factory automation systems supplied to the Appliances and Meat Processing sectors.

The team based in Marion, Ohio sold and delivered over 250 robots and many Bladestops during the year.

Scott encourages families and local communities to be involved with our business and share in our success. As part of RobotWorx' 25 years celebration, the city of Marion recognised our contribution and named August 4, 2017 as 'RobotWorx Day'.

New Zealand

Our operations encompasses:

Business Development & Innovation – led by Barbara Webster.

Achievements during the year included delivering a 400MHz NMR magnet, built with superconducting wire – the first ever 9.4 Tesla magnet used in NMR applications to a major pharmaceutical company in the USA and is our sixth magnet into Germany – used for Neutron and x-ray experiments.

Appliance manufacturing – led by Alan Prince in Christchurch.

All our facilities were extremely busy during the year. We are fortunate that we are able to subcontract out through extreme peaks.

As an example, a project for a major appliance manufacturer in the US had a team of 23 designers working on it - of which five were subcontractors. At the same time we were also using design resources from Germany to assist on other projects.

Our factory automation systems are becoming further advanced with the wider adoption of advanced imaging and sensing and the use of six axis industrial robots.

Laboratory Sample Preparation in Auckland – led by Mike Lynn

Within our Rocklabs business we achieved a 30% improvement in sales for Standard equipment, for Spare parts and for Reference Materials.

In a first for the Scott Group, an eCommerce platform is to be launched in January for Reference Materials.

We are venturing into a new sector following a successful bid to design a laboratory solution for a large aggregate quarry in Norway.

Meat Processing here in Dunedin – led by Andrew Arnold

During the year we acquired the business of DC Ross Limited, which had a small tool room and fine blanking press operations. This is a useful add-on to both capability and capacity for our Dunedin operations.

As noted by the Chairman, we plan to extend our building here in Dunedin. With ongoing growth we are short of office space for our engineers and floor space for building and testing our systems. The factory will be doubled in size to provide an additional 1500 m² of floor space. The offices will also be extended along the building's eastern side. Fortunately, in the original plans for this site Scott's former Managing Director, Graham Batts, with much foresight,

positioned the building such that expansion was possible. So with this it is very fitting that Graham has returned to Scotts to assist and supervise this building expansion.

To complete our Executive team we have Casey Jenkins, responsible for Marketing and Kate Logan, responsible for leading our HR team, along with Greg Chiles, our CFO.

R&D

Research and development is vitally important for Scott. Annually we spend between 5 and 10% of total revenues with the final amount driven by the potential and customer interest in the technologies we develop. We focus more on the 'D', the 'development' and we prefer our development projects to be demand driven, or wanted, by our customers before we commence. In addition we seek quick outcomes and the shortest path to commercialisation. Often this involves a collaborative approach where we our customer invests in the process and / or the prototype.

Having a customer on board ensures that our new technologies have the specifications, features and return on investment required to become a commercial success.

Not all our developments are successful and for this reason we partner with New Zealand and Australian Government agencies for R&D funding with the balance of activity funded by ourselves and / or our customers.

Our growth over the past five years has been driven as much by an expansion of our product offerings delivered through our R&D as it has from acquisition and geographic spread.

Our strategy has been to develop technologies in New Zealand and Australia using the high skill base and innovative and creative thinking, prove them in market with a friendly customer, and then take them to the world.

Listed on this slide is a list of key developments and technologies worked on over the past year.

And On this slide is a list of new products that are ready for, or in the process, of being commercialised.

[Video]

Opportunities and Ambitions

Our growth ambitions are driven by significant opportunities and the fact that we are over capitalised and need to grow.

Organic growth will be delivered through geographic expansion and from an expanded product range produced by our R&D programme.

To achieve our goals, additional growth will need to come from acquisitions. We have taken a proactive approach to acquisitions over the past 18 months. We have analysed and reviewed in excess of 30 companies, read many Information Memorandums and visited many companies but have been selective in our search and ruthless in our evaluation.

As of today we continue to work on a number of prospects. These are work in progress and we do not anticipate completing any in the very near term. Scott has a clear strategy and management are looking to execute within that strategy as set by the Board.

I would now like to outline key short to medium term growth opportunities.

- **Bladestop** – The time to commercialise is now - driven by competitors who are fast followers of our technology. Leveraging off our success in Australia we are building a strong sales pipeline in New Zealand, US and Europe. We are continuing to build

distribution networks beyond our own resources and to develop the product offering.

- Our Meat Automation technology has gathered momentum over the past few years. The technology was more than 10 years in the making but has come of age in the last two to three years. Across New Zealand and Australia we have now delivered 11 automated lamb boning systems.

But lamb is a small global market, primarily constrained to New Zealand, Australia and Ireland. The much bigger markets are Beef, Pork and Poultry. Scott started preparatory work on Beef technologies several years ago. This work has recently accelerated with encouragement and investment by the Australian industry and new shareholder, JBS. In addition, we have commenced early stage development work for both Poultry and Pork. These markets exist primarily in North America and Europe.

- DEXA – ‘Dual Energy X-Ray Absorptiometry’. This technology is one step beyond x-ray. Our x-ray rooms can be run in DEXA mode to not only provide cut lines for our automation, but also for carcass measurement, primarily meat fat and bone ratio – or lean meat yield. This has recently captured interest in Australia with the industry announcing plans widely to adopt carcass measurement systems. Australian interest is well supported by \$150 million industry funding to roll out DEXA to all Ausmeat accredited facilities.
- Meat Processing is not our only industry – although it often sounds like it. A quiet achiever for Scott is our Mining sector and we have a range of technologies that have been developed and are ready for commercialisation.

Robofuel is our robotic refuelling station which complements autonomous mining strategies being adopted by the global mining companies.

Our innovative robotic idler change enables maintenance and changing of idlers on minesite conveyor belts without stopping the conveyor or production. In the mining environment uptime is critical and our technologies deliver value by assisting to maintain production uptime.

Outlook

Forward project work of around 10 months puts us in a strong position to deliver growth. Our sales pipeline is as strong as ever and our diversification strategy continues to deliver across geographies and across industries.

Our strong balance sheet puts us in a unique position to complete an acquisition, to expand our technology offering and to broaden our geographic reach.

All of us at Scott, our staff, suppliers, shareholders, have a lot to be proud of. I would like to recognise the contribution made by all stakeholders. I especially extend my sincere thanks and

congratulations to all the Scott team who have contributed to deliver year on year success. There is enormous pride in what we achieve. Everyday our goal is to deliver better systems and technology that improve productivity and safety for our customers.

Finally, I would like to sincerely thank Stuart for his guidance and counsel. The new Board has laid down the challenge to the Scott team to stay focused on the task at hand.

I would also like to personally acknowledge and thank Chris Staynes for his contribution and service to Scott during his time on the Board.

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 2017 be adopted.

Thank you.