SKELLERUP

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Chairman's Address
Annual Meeting of Shareholders
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It is nice to see so many familiar faces here from last year's AGM. I hope that you along with your fellow shareholders are as satisfied as I am with Skellerup's performance over the past 12 months.

On any measure the 2012 financial year has been a good one for the company and its shareholders and vindicates the initiatives put in place by the board and management to transform this business. It also gives us the fortitude to continue along the path we are going.

So how do we measure our performance? Is it profitability – Skellerup's net profit after tax was up 22.1% to a record $24.7 million? Or is it about having a track record – looking back over the last three years Skellerup has enjoyed an impressive compound growth in NPAT of 40%. Or is it the strength of the balance sheet – Skellerup on this score is in rude good health with net debt now sitting at $4.25 million, half what it was a year earlier and a number too small to count from the $106 million it was on 30 June 2007.

These are all very valid measures of acceptable performance and certainly demonstrate that the company must be doing something right, and I will come back to that in a moment.

But as shareholders, of which I am happy to say I am one, a key measure of performance comes down to what all that translates to you as an owner of this business. Here you look at two things:

1. one is cash returns you receive and on that score Skellerup has paid out 8cps in the 2012 financial year ending 30 June (I note that you all should have received payment on 25 October 2012 of the second half dividend of 5cps)

2. the other is share price performance – since I stood in front of you on the 26th of October last year the Skellerup share price has risen from $1.31 to $1.73 at the close of trade yesterday. This is a 32% return.

You put both those things together and you get total shareholder returns – which is the increase in share price plus dividends, adjusted for any cash issue (of which there has been none during the period). On behalf of my fellow directors I am delighted to say that the total shareholder returns for the 12 months immediately prior to this meeting is 38%. If you look at total shareholder returns over the past 24 months it is 101% and 36 months it is 252%. I believe that this performance compares favourably with any measurable investment – well certainly that I can think of anyway.

Now I haven't raised total shareholder returns to elevate expectations among you for the year ahead – we should not forget that we operate in world markets that remain unbelievably tough and challenging. Along with the lingering effects of the global financial crisis, there is the high NZ dollar, competitive pressures, operating manufacturing businesses in foreign jurisdictions, servicing customers in more than 30 different countries, the disruptive impact of the Christchurch earthquake/s…I could go on but clearly it is not an easy environment in which we operate. So even though we may be moving in the right direction there will be bumps along the way caused by things we can't control. Certainly the start of the 2013 has highlighted just how volatile the markets in which we operate can be.

The reason I wanted to emphasise our historic shareholder returns is simply to demonstrate to you what is achievable. When I addressed you last year I talked about the transformation of this business over the past four years – from an agglomeration of businesses characterised by low organic growth to a focused international manufacturer and supplier of high quality products.

Well, as our performance demonstrates we have certainly made some significant strides to turning this business around to meet that vision. As I mentioned to you last year that started at the top with changes to the board, bringing on new expertise and skills to assist in developing this company as a truly global business. It also involved leadership, to this end David Mair's vision and focus not to mention enthusiasm has been critical to this company's success. David will provide you with more insight into the key drivers of this business and how a manufacturer, under the kinds of pressures I just outlined, can be successful.

While leadership is important, Skellerup's result is also a credit to the 722 staff across six continents and of course the 231 employees at our Woolston Site in Christchurch. Everyone has embraced Skellerup's shift in direction that continues to see changes to nearly every aspect of the way we do business and it is very pleasing to be able to say that they are thriving in a new and successful environment where skills and innovation are important attributes.

As I said in the annual report, Skellerup is in the best shape it has been for many years. You may have seen the press interpretation of this as us having a so called LAZY balance sheet, with debt of just $4.3 million. It's ironic how you get criticised when you have too much debt and when you pay it all off you get equally admonished. I'd like to assure you that we do know what we are doing and there are reasons why we have taken a conservative approach to our debt situation. The main reason relates to Christchurch. As you will be aware the manufacturing plant of Woolston is a key part of the Agri division of Skellerup. Due to earthquake damage and liquefaction risk we are currently negotiating to relocate that business to a new site in the Christchurch region. Without doubt this shift will be a major undertaking that will happen over a two year period – assuming of course that we do not get too bogged down with the regulatory approval process which can stymie even the best intentions as I am sure you will understand. To facilitate this move we have also just recently purchased a new state of the art rubber mixing plant and capital has also been allocated for the manufacture of additional moulding machines to ensure that the business operation can relocate without interrupting the supply of finished products to customers.

So having a healthy balance sheet gives us the capacity to make the shift. Another reason is one I also alluded to in the annual report…I quote Given our success in driving growth from existing operations, one focus in the year ahead will be to invest in further organic growth opportunities.

Whilst the transformation of Skellerup has paid dividends for everyone, we can't just rest on our laurels. Again, as David will tell you when I pass over to him, this business has some very exciting opportunities. But we all know that markets are dynamic and competitors don't stand still. David and his team must be given the latitude to continue their good work so that we all can continue to enjoy the benefits. This may require some patience as we make further strategic investments in our businesses.

We also must accept that there will be factors that are out of our control that will at times slow us down. For example, customers may delay spending decisions due to difficult economic conditions. What is essential to understand is that the restructuring of Skellerup is about building a strong platform to take this business into the future and make it as good as it can be. We have had a very good run in recent years which is encouraging. It looks like we are facing a challenging year ahead. But it is important that we keep focused on the real potential that this business has – not just in the year ahead but in subsequent years when the real transformational benefits will emerge. I hope you all come along for the ride.

Selwyn Cushing
Chairman