



SKELLERUP HOLDINGS LIMITED
L3 205 Great South Road, Auckland

Telephone 64 9 523 8240

Facsimile 64 9 523 8241

Email EA@skellerup.co.nz

Skellerup Holdings Limited

Annual Shareholders Meeting 30 October 2013

Chairman's Address

This time last year Skellerup had completed its best ever year – that was very pleasing indeed. The performance was characterised by a solid effort by the management, business units that were focused and positioned to deliver, and importantly very favourable conditions.

Dial the clock forward to today and we have a slightly different picture – trading conditions in both our international and local markets for much of the 2013 financial year were not favourable.

It is during the tough periods that a company really shows its true metal. I think that to report a net profit after tax of \$19 million in the face of very demanding operating conditions was a good effort.

Now that I have framed the year...what actually happened?

In general terms a prolonged drought in New Zealand and sluggish international markets impacted both our trading divisions.

In the Agri Division we had drought conditions which saw clients' purchasing decisions for liners, tubing and footwear put on hold. However, our Agri business is a resilient one. This is because the liners and tubing that we produce form an important part of ensuring food safety standards are being met in the milking process. So in most cases purchasing decisions are simply deferred and this is what we saw in the year under review. Lost sales were pretty much fully recovered in May and June meaning that the Agri Division performance was in line with the previous year.

The Industrial Division did not recover fully. A slowdown in North American gas and oil exploration activity put a brake on pump sales. A similar trend was seen in industrial rubber products as demand subsided in key markets - Australia and Europe in particular.

David will provide more detail here but we are confident that our Industrial businesses are well positioned to benefit from our enhanced presence in the US, an improving US economy, on-going

growth in global demand for food safety and gas and our actions to broaden our product offering in targeted areas.

One pleasing aspect to come out of our experience over the past 12 months is that the Skellerup share price has largely recovered to be close to the levels it was this time last year. That to me indicates investors understand what we are trying to achieve in this business and are confident that the people charged with delivering on that performance will indeed succeed.

Moreover, whilst our NPAT might be off from a year ago, Skellerup still has very strong operating cash flows – a key sign of a very healthy business. At balance date, net debt was just \$2.2 million; around half of what it was last year. That gives us great flexibility not least for Project Viking which I will get on to in a moment.

Another validating factor for this company is its dividend. The total dividend pay-out for the year ended 30 June 2013 was 8.0cps. That is the same as what we paid out last year and a measure of confidence that the board has in the Company.

Now Christchurch. You will have noted in our Annual Report that we have secured prime land in the Wigram Business Park. Ngai Tahu has been and will be an excellent partner for us. In addition, Sir Ron Carter has agreed to lead Project Viking and to oversee the establishment of the new facility at Wigram Business Park. Sir Ron is one of the most respected figures in New Zealand business and engineering having been a partner responsible for major projects including the development of the Tasman Pulp and Paper Mill, the Motonui gas-to-gasoline plant and the Mangere Wastewater Treatment Plant. His vast experience is invaluable in ensuring that the quite specific requirements for Project Viking are met at best quality and cost to Skellerup.

Our Christchurch Agri operation provides us with a great example of smart successful manufacturing. The skills and experience of our staff, which have been built up over many years to produce and develop products that our customers want provides that platform for our recommitment to Christchurch. We are excited at having identified a new 3.4 ha site within Christchurch to house what is now the second-largest design and manufacturing supplier of rubberware to the international dairy industry.

As we have indicated previously, the \$7.1 million land purchase and construction of the new world-class Christchurch facility which is set to commence early next year will be funded out of insurance proceeds, cash reserves and unused banking lines.

In conclusion, without doubt the 2013 financial year did throw up some challenges. But when you operate on a global stage this is always going to be the case. The Company today is more robust and better positioned to withstand any external shocks that will inevitably impact our business from time

to time. Operationally, we believe we are on the right path to capitalise on opportunities. Our outlook for the year ahead and beyond is positive. We are seeing signs of improvement in the Industrial division and are focussed on capitalising on our position and presence to grow this part of our business in the months and years ahead. Our Agri business continues to provide us with steady underlying earnings in difficult times, and growth opportunities particularly as global demand increases for safe and high-quality food. Good progress is being made to relocate our Christchurch operations. With net debt at historic lows and cash flow strong Skellerup remains in excellent health.