

## Chairman's Address

### Annual Meeting of Shareholders

26 October 2011

#### Introduction

Skellerup is being transformed as a business. Today, I would like to explain what has changed and the benefits to you of those changes. This process began four years ago and is now well advanced.

#### Where were we?

Four years ago, Skellerup had become an agglomeration of businesses characterised by low organic growth. This encouraged a strategy of growth by acquisition – and that led in turn to high debt levels. The return on funds employed was simply inadequate.

However, the group included some high quality businesses that had potential for strong organic growth, and thus the company didn't necessarily need to grow by acquisition.

It's a very substantial project to shift the direction of a large and diverse group of companies. Changes might be needed in almost every aspect of the way the business functions. In our case, the changes started with the Board, reflecting a strong consensus about the issues that would need to be addressed.

The board changes focused on acquiring skills not strongly represented on the Board at that time – operational best practice and capital allocation skills.

Then the global financial crisis hit and a lot of good companies were faced with difficult trading conditions. The banking crisis led to a focus on debt reduction. This had a huge impact on Skellerup, since our debt was too high, and this ultimately led to two capital raisings in a difficult market, supported by major institutions and most shareholders. Although this diluted the shareholdings of those who did not participate, it helped to stabilise the business and this has ultimately been to the benefit of all shareholders.

About a year ago, David Mair was appointed Acting CEO to drive through changes that would ensure organic growth through a stronger customer focus, product development and operational improvements.

#### Have we been successful to date?

Four years ago, for the year ending 30 June 2007, continuing operations revenue was \$153.1 million. In comparison, to the end of June 2011, revenue was \$193.6 million an increase of 26.5%. Profit over the same period increased 120% to a record \$20.2 million. This is a dramatic improvement in what has been an unbelievably difficult environment. Of course, the two capital raisings increased the number of shares – to 192.8 million. At the increased profit level this gives earnings per share (because this is what is important to all of us as investors) of a record 10.5 cents. This compares with 6.8 cents in 2010; 6.7 cents in 2009 and 9.2 cents 2008. So there has been tangible improvement.

Less tangible, but just as important, a base has been built for improved performance into the future.

### **How far through this process are we?**

We are delighted with success to date, but more importantly, how much potential does Skellerup have? Our Board skills have been expanded to those able to assist in the development of a truly global business. In our view, our strategic direction is clear. The Board is operating more effectively.

We welcomed **Ian Parton** to our Board during May this year as an Independent Director. Ian has had an extensive career in engineering and business management. His past experience includes Managing Director and Regional Development Director of consulting engineering firm AECOM.

Ian brings to the Board considerable experience in strategic planning and global business development as well as strong corporate governance.

**John Thompson**, who has been a Non-Executive Director of the Company since May 2008, has decided to retire from the Board at this Annual Meeting for personal reasons.

John was the founder of Gulf Rubber, which the Company acquired in February 2006. His extensive knowledge in industrial polymer products has been invaluable to the Company during his time on the Board. We are sorry to see him leave us, and wish him well for the future.

As Acting Chief Executive over the past 16 months, **David Mair** has shown us the drive, insight, and energy he puts into the company. I am delighted that he was appointed to the permanent role as Chief Executive in August this year.

David's background of international operations management and international market development provides an excellent fit with our expansion of manufacturing capability and market penetration, particularly in Asia.

Over the last four years, **Liz Coutts** has not only led the Audit Committee well; she has also assisted management through a difficult transition.

### **Dividend**

The Company's dividend policy is to return to shareholders each year a total dividend payout of between 40% and 60% of NPAT. Accordingly, shareholders will have received a dividend of 4.0 cents per share last week.

### **Christchurch earthquake**

The earthquake that struck Christchurch on 13 June this year added further significant damage and disruption to a city only just beginning to recover from the series of earthquakes and aftershocks Christchurch has suffered for more than a year.

Through the whole sequence of events, Skellerup's people have shown tremendous resilience. In conditions that have been extremely trying – from both the personal and professional viewpoints – they have continued to make their own contribution to the smooth functioning of the business. Through all of the turmoil our customers experienced little or no interruption to supply.

I can say on behalf of the Board... we acknowledge the efforts of all those involved and we are quite simply grateful for the level of dedication they have shown. We have tried, in return, to provide support where needed, and I certainly hope this has been effective.

Luckily, all of Skellerup's 200 employees have come through the more than 8,000 events safely. We are relieved, too, that their families are safe and sound.

### **Conclusion**

Although this year sees the continuation of financial uncertainty in many of our markets, we are focussed on what we do have control of and David will elaborate in more detail what we are doing and why we are doing it.

We are encouraged by the company's strong performance this year and the solid equity position we have achieved. Furthermore, we believe that by keeping our focus on customers, our supply chain capability and our production capacity in both divisions, we are well placed to improve even in the event of an economic downturn. Our focus on product development has created closer links with our customers at many levels, and has brought new customers to almost all business units within Skellerup. This is a key area that we will continue to focus on in the coming year. Meanwhile our operational improvement programme – initially focused on our vacuum pump supply chain – will be rolled out to other parts of the business in coming years. These initiatives deliver substantial value in both the short and long terms, without requiring significant capital investment.

We will continue to invest in developing new sales channels and opportunities – not only in our existing markets, but also in emerging new markets such as China and South America.

We look forward to a very exciting year.

**Selwyn Cushing**

**26 October 2011**