

S&T Annual General Meeting 17 November 2016

Address by Sir John Anderson, Chairman, S&T Board of Directors

The last year has proved a very challenging one. In December 2015 the steel prices dipped to a 13 year low, and then the second half of the year centred on questions and media attention around seismic mesh, and the pile casing supplied to a highway project.

These events overshadowed an otherwise very solid performance, building on the foundations from prior years, which is reflected in the highest dividend pay-out since 2007.

[Slide: Performance Highlights]

Looking at the results in a little more detail:

- Full year revenue increased by 3% to a record \$516 million.
- After tax profit increased by 20.4% to \$25.8 million, and recognises a one-off contribution of \$6.4 million from the sale of the Bowden Rd property in Auckland.
- Underlying earnings, which includes a \$2.7 million impact for the quality issues, were \$19.4 million, and Dave will talk to more about quality issues in his address.
- Earnings per share increased by 18% to 28.9 cents.
- And cash-flow increased by \$1.1 million to \$25 million.

As we have said several times before, the Board remains committed to providing shareholders with a solid performing company returning sustainable dividends.

With that commitment, the Board declared a second dividend of 13.5 cents, which when coupled with the first half dividend of 9 cents, gives a total of 22.5 cents per share for the year.

This equated to \$20.3 million and a 78% pay-out ratio.

The company remains in a sound position and we are comfortable with the balance sheet structure and current debt. At the end of June, an equity ratio of 34.7 per cent, and an EBITDA to Debt ratio of 2.4 (excluding the one-off quality costs) is a secure position, noting that much of the capital within S&T is invested in liquid assets of inventory and debtors rather than fixed assets, and the owned properties are carried at a 2006 valuation.

The Company continues to strengthen its foundations upgrading the fabric of S&T, including new facilities, equipment and systems, while at the same time, bringing new companies into the fold.

Management has also presented a refreshed strategy and endorsed by the Board, that builds on the extensive improvement initiatives executed so far, and reflects the likely trading environment over the medium term.

Last year I talked about MSL, NZ's leading Fastener Company, and Aquaduct, now known as S&T Plastics, which expands S&T's capability in large bore high density polyethylene. Both continue to make good progress.

More recently we have announced the acquisition of Composite Floor Decks Ltd, known as CFDL. CFDL allows S&T to enhance its supply and install capability for steel floor decking systems.

The Board has also approved almost \$8.0m from within S&T's \$32 million reinvigoration programme for the next phase of facility upgrades, and those will be completed through the 2017 calendar year.

As you may appreciate, the Company continues to execute the strategy to upgrade the business while increasing the company's capability via carefully selected acquisitions.

In recent times, these very positive outcomes have been overshadowed by other issues. The most recent is the potential class action against manufacturers and suppliers of seismic mesh being promoted by an Auckland law firm. S&T has been named specifically in several media reports, yet we still have not had any direct communication from those involved.

As Dave indicated in his letter to you our shareholders on the seventh of September, we believe that any class action would face a number of significant hurdles to be successful, the first and probably most significant is that we believe Steel & Tube's seismic mesh is compliant, and therefore there can be no claim.

Obviously we have been as concerned as anyone on talk of such action, so we made a point of talking to the Insurance Council and listening to what other experts such of the Society of Structural Engineers are saying. Both of those organisations have challenged the lawyer's assertions and claims over insurance cover and housing safety.

Paul Campbell, the President of the Structural Engineering Society said in a public statement that he felt prompted because of media reports around a proposed class action to reassure homeowners on steel mesh.

He has said that even if mesh is only half as good as the current Standard requires, it is still at least 10 times better than what was used prior to 2012, and infinitely better than unreinforced slabs. He also stated that virtually all residential construction where mesh has been used to reinforce slabs, the reduction in ductile capacity if mesh did not meet the required standard will be insignificant.

That is what the experts say, however if and when things develop, we will keep you, our shareholders informed.

[Slide: Board Refresh]

Moving to the Board of Directors.

The Board has been discussing a Board refresh programme, and is now in the process of executing that in an orderly and planned manner.

As Chairman of the Board, I am due to retire by rotation. I offer myself for re-election in the short term, however at some stage during 2017, I intend to retire from the Board after we have appointed two new directors as I will now describe.

The process to appoint new directors is underway. The process for the first director, via executive search, is well advanced with a short list of candidates.

The process will continue for a second director. This second director is expected to join through the first half of calendar year 2017. This will, at least temporarily, increase the Board to seven directors, and whether this remains will be subject to further discussions.

From the refreshed Board, a new Chairman will be selected. The new Chairman will assess the Board composition to determine its appropriateness to move S&T forward, including the size of the Board and the roles of the two Australian directors Dean Pritchard and Rosemary Warnock, both of whom are due for re-election next year. If the size of the Board is to increase this may result in an increase in director fee pool which may be put to shareholders at the next annual meeting in 2017.

Returning to the present and in line with our constitution and the NZX rules, Anne Urlwin is retiring by rotation and has made herself available for re-election.

As I have mentioned, I am also retiring by rotation, and like Anne, offer myself for re-election in the short term, and these will be addressed later in the proceedings.

[Slide: Outlook]

Now moving to the outlook...

The NZ economy remains in modest expansion, with construction continuing to underpin much of the activity important to S&T.

Despite the high NZ dollar, manufacturing remains resilient and continues to slowly recover towards pre GFC levels.

Deferred dairy investment continues to impact several parts of the business, however there appears to be increased optimism as commodity prices firm.

Pleasingly from our perspective, global steel prices have firmed this year, and despite the fundamentals of excess capacity in much of the raw material and finished product supply chain, there are some key supply issues coupled with an increasing commitment to address excess production capacity, particularly in China.

We are encouraged by this.

As a company, we remain in good shape and the refreshed strategy will build on the foundations that were put in place over the last few years and will leverage the increasing suite of capabilities that now reside within S&T.

Before handing over to Dave, on behalf of the Board, I would like to thank Dave, the leadership team and staff for their continued support, particularly through those challenging periods I mentioned earlier. From a financial perspective, to return the second highest underlying earnings post the GFC was a very solid result.

Thank you

[ENDS]