SKELLERUP

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**Skellerup Holdings Limited**
**Annual Shareholders Meeting 26 October 2016**
**Chairman's Address**

I would like to welcome you all here today – a particular welcome to those who are attending their first Skellerup ASM, including my fellow director Alan Isaac. I am sure Alan's leadership skills and commercial nous will be a great asset to Skellerup.

Those who are not attending their first ASM may recognise some familiar themes in my remarks today. Firstly, the importance we place on maintaining a strong balance sheet and a consistent dividend policy. Secondly our strategic initiatives in key overseas markets supported by our commitment to innovation and growth, and last but not least, the development of our outstanding new flagship facility at Wigram.

Many of these themes are related. It is the Board's confidence in our long-term prospects, and management's delivery of strong operating cash flow, that has encouraged us to maintain a total dividend payment of nine cents per share for the financial year ended 30 June 2016 which is 85 percent of NPAT.

It is our ability to expand into new markets and new products without compromising our existing business activities that has enabled us to offset reduced returns from our domestic customers over the past year.

And it is our commitment to innovation and growth that has driven the creation of our new dairy rubberware facility at Wigram. Next month's official opening will be a major milestone for Skellerup: the investment we have made in this asset will ensure we maintain our position as a global leader in the design, development and manufacturing of new materials and new products, and allow us to take those new products to markets around the world more quickly and cost-effectively.

The Wigram facility not only signifies our confidence in our own prospects, it also demonstrates our commitment to Canterbury, to New Zealand, and to the dairy industry. While milk powder and other commodity prices remain somewhat volatile, we think the dairy industry will remain a key contributor to the New Zealand economy in the long term and we are proud and pleased to play a part in that through providing the industry with world-leading food-grade rubberware.

Skellerup is a global business, with more than three-quarters of our revenue coming from sales into overseas markets, but we remain a New Zealand company – and while much of our growth potential lies overseas, we greatly appreciate the continuing support of our local customers, and understand how important it is that we continue to anticipate their product needs and develop solutions to meet those needs.

For our Agri division customers, the development of the Wigram facility will help us do that even more efficiently.

The two years since we broke ground at Wigram has been an exciting time for us. The Woolston site has been the centre of the company for more than 70 years. I believe our new site at Wigram will serve us and our customers for at least as many years again.

I would like to reiterate how fortunate we have been to have the services of Sir Ron Carter, who has overseen this project since the beginning. Sir Ron's knowledge and experience has been a great asset to us, and his guidance has ensured we will complete this very significant undertaking on time and within budget. More importantly, we have to date achieved that with zero harm to the staff and contractors involved, and with no effect on customer supply and product quality: an outstanding result that is a tribute to everybody involved.

I mentioned our focus on broadening our customer base and extending our product range as we identify appropriate opportunities to do so. The positive results of that strategy can be seen both in the geographic diversity of revenue sources, and in the improved earnings generated by our Industrial Division, where EBIT was up nine percent. Overall, we have established a strong and cost-competitive platform for our Industrial Division, and we expect further gains in the year ahead as the investment we have made in our structure and our people continues to pay off.

In the past year, this improvement has helped balance reduced earnings from our Agri Division. Soft international prices for dairy commodities and the lower pay-out for New Zealand dairy farmers meant fewer dairy conversions and shed upgrades, and a halt to the recent trend of growth in the size of the country's dairy herd. Inevitably, that meant reduced demand for tubing and some of our higher-margin products.

Having said that, demand for replacement liners, which play an important part in ensuring farmers meet the highest animal health and milk quality standards, remained steady. Cows need to be milked, irrespective of financial and commodity market fluctuations. Our farming customers recognise the value our products provide, and we appreciate their support. Long may it continue.

On balance, we end the year in a strong financial position. In the face of significant headwinds in some of our most important markets, we have maintained relatively consistent levels of revenue and profit, while our operating cash flow strengthened, up 74 percent to $30.9 million. This cash flow has funded a total dividend pay-out of $17.4 million plus partially funded capital investment of $40.1 million. We closed the year with net debt of $26.9 million, which represents just 17 percent of equity. This strong position is despite the significant expenditure associated with our Wigram development which is has required an investment (net of insurance proceeds) of almost $40 million over the past four years.

The Board and I remain confident that we have the strategies and the people to drive further improvement in the coming year. We currently expect NPAT for FY2017 to be between $20 million and $22 million; David Mair will provide more detail on this in his presentation.

I would like to thank all my fellow shareholders for your attendance today and your support during the past year, and hand over to David.