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Strong Agri result boosts Skellerup profit

Key Points for the year ended 30 June 2014:

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- Skellerup's earnings up on previous year - Record performance from Agri division and solid performance from Industrial division - Annual dividend payout increases to 8.5cps - Project Viking gathers pace as Skellerup commences approximately \$30 million build project of a world-class Dairy Rubberware Development and Manufacturing facility in Christchurch Skellerup continued its strong focus on positioning its international manufacturing and distribution operations for growth as it delivered another solid earnings performance.

Reported net profit after tax (NPAT) was an exceptional \$41.1 million, up 116% from the \$19.0 million reported a year earlier. However the result was positively impacted by a \$20.4 gain from settlement of the Canterbury earthquakes insurance claim and negatively by a large \$1.6 million cost for settlement of an historical product claim. Group revenue was up a more modest 4% on the previous year to \$196.6 million. A substantial strengthening in the New Zealand dollar vs the Australian dollar in particular dampened underlying improvement as over a quarter of the Group's revenues are earned in Australia.

Chief executive officer David Mair said: "It was a solid year for the Group and a year in which significant progress was made across our businesses. We are very pleased with the performance of our Agri Division. We have benefited from a buoyant NZ dairy sector leading to increased sales of liners and tubing, increased sales from an expanded footwear range plus a contribution from the acquisition of two small businesses to augment our animal hygiene product offering. Our reputation, range and global scale in this sector means we are well placed to take advantage of an expected regulatory change in Europe, which will drive growth as larger, more efficient dairy units replace smaller operations. In China, opportunities will grow as they increasingly look to strengthen food safety standards. These trends will help offset the impact of any drop in farm returns in New Zealand, which if sustained will inevitably lower demand for dairy shed consumables."

"Good progress was made in our Industrial division albeit with improvements in returns accruing at a pace slower than what we would like. We have focussed on investing in our team and product range, winning new business in all markets. In particular, we have continued to invest in the US market with a number of new sales positions being created across our business. We have and will continue to strengthen our product offering to this key market. We are confident by investing now, earnings growth will follow, also aided by our competitive manufacturing bases in Vietnam and China."

Agri Division The Agri Division which manufactures and distributes products for the global dairy industry, reported a 10% increase in EBIT to \$21.7 million on revenue of \$80.2 million, up 11% on the previous year. The result was underpinned by a buoyant New Zealand dairy sector which lead to increased demand for dairy liners and tubing. Footwear sales were also up with both the domestic and international markets growing helped by a product range which now includes specialist fire and forestry boots plus Bandals which were launched in the NZ summer of 2013/2014. The division also expanded its animal hygiene business with the purchase and integration of two small businesses to augment the Ambic branded product range which is designed and manufactured in the UK. Design work was completed for our world class Dairy Rubberware Development and Manufacturing facility at Wigram Christchurch. Calder Stewart Industries have been contracted to build this new approximately \$30 million facility with

construction to commence before Christmas 2014 and the relocation into the completed facility scheduled to commence 12 months later.

Industrial Division The Industrial Division which manufactures products globally with customers in more than 30 countries, reported EBIT of \$13.5 million on revenue of \$116.2 million. This result was in line with the previous year despite absorbing the impact of the settlement of a long running product claim with Marley. The US market delivered steady growth across our industrial rubber and vacuum pumps business as expected and we are well placed to continue to capture both demand growth and market share. The Australian market was tough for much of the year reflecting sluggish demand in the construction and infrastructure industry in particular. This market, now appears to be slowly picking up and we are well placed to capitalise on this with our competitive and broadened product range. We have also expanded our presence in the foam product area with the acquisition of an Australian competitor and the appointment of a new General Manager to spearhead our growth plans in the market.

Canterbury Earthquakes As reported in March Skellerup settled its insurance claim resulting in a gain of \$20.4 million. The reported gain includes proceeds to fund the future relocation of the Dairy Rubberware business to Wigram in Christchurch. The costs of this relocation are not permitted to be recognised until incurred meaning part of this gain will be eroded by costs in future years.

Dividend Directors have resolved to maintain the 5 cents per share dividend pay-out, reflecting the strong operating cash flows and confidence in the underlying business. This brings the total dividend payout for the 30 June 2014 financial year to 8.5cps an increase of 6% over the prior year.

Concluding Comments Chairman Sir Selwyn Cushing said: "The underlying performance of the group was solid. Once more our Agri division posted a very pleasing performance whilst the Industrial division continued to make positive steps forward. Shareholders were rewarded with an increase in the annual dividend pay-out of 8.5 cps, up from 8 cps last year. I am pleased that we will soon commence construction in Christchurch where we have committed more than \$30 million to developing a world class manufacturing facility at Wigram. This is a significant step for our dairy business and great news for Christchurch. Following the full settlement of the insurance claim in Christchurch we have no debt and cash in the bank of \$16.4 million as at 30 June 2014. Looking forward we remain cautiously optimistic about the year ahead."

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