

MANAGING DIRECTOR'S REPORT ►

OUR ONGOING FOCUS on product development continues to deliver new and better products, which significantly out-perform our competitors' products.



Although the first half of the year brought pleasing gains, tightened trading conditions experienced throughout the global economies, and particularly in our key industrial markets within the USA and Europe, made 2009 one of the most challenging years in recent history.

For the full year, revenue for our continuing businesses increased by 5.2%. This reflected difficult trading conditions experienced in the second half of the year, which resulted in contraction in revenue by 11.4%. As a result, our Net Profit after Tax (NPAT) on a continuing operations basis for the full year reduced by 8.9% to \$9.7m before abnormals. This result is better than our revised profit forecast of April 2009.

The Agri Division reported overall revenue growth of 13%, with a 3.9% increase in EBITDA. This reflected ongoing increasing demand for our dairy rubberware, despite a worldwide fall in milk prices. Although the dairy industry is affected by reduced consumer spending, because the majority of our products are consumable by nature and essentials for dairy farming, we are confident that the division will remain resilient.

Dairy International and Stevens Filterite, servicing domestic and export customers with essential consumable milking products, both continued to perform well, with volumes increased from last year through market share gains.

While we continued to grow market share for vacuum pumps due to our ability to assist our end users with product development, fewer dairy farm conversions this year in NZ resulted in lower demand. However, this was somewhat offset by increased export volumes - particularly to the UK and Europe - on the back of improvements to our product range.

Our USA dairy rubberware distributor, Conewango, reported a solid year's trading, and continues to hold market share. This is partly due to the development and introduction of new and improved products, despite pressure from falling cow

numbers and low dairy farm profitability due to low milk pricing and high feed costs.

The release of the Footwear Division's new high-tech Quatro Gumboot profiled later in this report was a significant contributor to earnings growth, offsetting a reduction in demand primarily caused by de-stocking initiatives by customers. Our high quality manufacturing operation in Jiangsu China is leveraging the success of its production of the Quatro boot, and continuing to extend its contract manufacturing operations for other international brands.

NZ Dairy was affected by reduced expenditure within the farming sector, combined with general reductions in stocking levels by distributors.

The broad-based downturn in international manufacturing operations had a significant impact on our Industrial Division. Revenues for the second half year were 20.4% down on the corresponding half last year, after a relatively strong first half. As a consequence, EBITDA was 36% down for the full year.

However, there were reassuring indications that trading conditions are beginning to stabilise, and while we cannot expect significant growth in our markets for some time yet, we are hopeful that the worst is over.

With the automotive industry in disarray in the early months of 2009, demand for automotive driveshaft couplings was severely affected. Despite this, revenues for Gulf Rubber and Tumedei increased over the first half of the year, reinforcing the wisdom of the rationalisation and re-grouping of manufacturing operations between the two companies.

Despite the tough conditions, both companies have continued to invest in new and improved products, as well as in market development to better service their Original Equipment Manufacturer (OEM) dominated customer base.

Thorndon Rubber also reported increased revenues from its sales of rubber rollers and other rubber products within New Zealand.

Deks Industries, which produces waterproof flashings and plumbing fittings, grew its market share in Australia and New Zealand, and is making good headway in the USA. The company has increased its level of outsourced manufacture over the past year, enabling improved efficiencies. Its new lead replacement roof flashing product introduced to the Australian market last year, together with further refinements that have been added to this product family over the past year is continuing to gain market share and providing pleasing growth.

Sales of industrial vacuum pumps by Masport in the USA slowed dramatically in the second half, in both the key industrial waste and oilfield sectors. The lower volume of units sold affected both Flomax and Skellerup Jiangsu, who support Masport's operations through development, design and manufacturing. The development this year of new market-leading pumps will stand us in good stead when the market ultimately recovers.

STRATEGIC OUTLOOK

While we have been affected – in some areas significantly – by the global recession, we believe we have put in place a stable platform that will not only enable us to survive the uncertainties of the next period, but position us to leverage growth as soon as market conditions improve.

Our current financial position was facilitated by our divestment of non-core businesses and the capital raising last year, which led to a reduction in bank debt. The current share offering will further solidify this position. This will enable us to cautiously invest in opportunities that may emerge as the world economy stabilises, to strengthen our market position.

CONTINUED PRODUCT DEVELOPMENT FOCUS

Our ongoing focus on product development continues to deliver new and better products, which significantly out-perform our competitors' products.

The energy and discipline that we invest in evaluating customer needs and requests, and developing and testing new formulations and products, are key strengths of the Group.

Over the past year, we have seen exciting developments in a varied range of products - including the launch of the new Quatro gumboot from our footwear division, a new foaming dip cup designed and produced by Ambic UK, extension of the Dektite range of roof flashing products, and significant developments in the performance of rubber couplings for the automotive industry achieved by Gulf Rubber in Australia.

While getting new products into OEM customers is often a slow process, we are confident that we are now well placed to benefit from the significant amount of development work carried out in recent years.

We constantly review our manufacturing options in order to maintain a fundamentally sound mix between in-house and outsourced manufacturing capability. Achieving an optimal balance of low-cost manufacture and high-tech formulations and specifications remains our goal. This will be a key to maintaining our market leading position.

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OUR CORE OFFERING of dairy rubberware and industrial products provides, in the main part, essential componentry for a range of different industries. We remain confident of market demand in those areas.

SALES REVENUE OF CONTINUING OPERATIONS BY MARKET LOCATIONS



TRENDS IN MARKETING AND DISTRIBUTION

The spread and depth of our global distribution channels continues to be another key asset. An increasing proportion of our revenue is sourced from the markets within Europe, Asia and the USA; and, although our market share in each of these key sectors is still relatively low, it continues to increase towards a critical mass, which will ultimately position us well to leverage significant future growth.

Following the restructure of operations at Tumedei, our ability to market products from other companies within the Skellerup family throughout Europe via Tumedei's distribution networks continues to develop. Our sales team at Tumedei has been strengthened through the addition of three experienced sales managers from within the industry in Italy, and the transfer of Gulf Rubber NZ's European Sales Manager, Jason Steele, to Italy.

Although our USA operations have experienced some of the toughest economic pressures anywhere in the world, our mature and robust connections there are ready to leverage growth as the first signs of recovery begin to show.

While our interests in Asia initially identified that region as a source of manufacturing capability, we also see opportunities there for our products over time. Our Dairy International team has made good progress in China with sales of dairy rubberware and dairy vacuum pumps.

OUR PEOPLE

This has been a very stable year for our management team, with no significant changes to roles of our key personnel.

Within Skellerup, we continue to facilitate information exchange between our technical teams and our marketing personnel, aiming to reinforce our culture of innovation, boost our ability to leverage the application and cost-effectiveness of product development work, and support career development.

We are frequently reminded of the dedication that Skellerup people give to their work in many ways, and many locations around the world. Over the past year, for example, we have seen Skellerup staff in China make a huge effort to meet an urgent production order for footwear, and Skellerup Rubber Services staff worked around the clock to replace rubber componentry for industrial equipment at NZ Steel.

So many of our staff in New Zealand, and increasingly those working in locations around the world, show their commitment to the company through long service, thinking outside the square, and 'going the extra mile' to meet the needs of our customers and the other Skellerup staff they work with. That loyalty is the cornerstone of our ongoing success in today's challenging environment.

LOOKING TO OUR FUTURE

While we believe that we have weathered the worst of the current global economic storm, we remain prepared for our markets to remain at current levels for some time to come.

Hindsight reinforces the wisdom of our strategies over the past few years to focus on our strengths in technical polymer development and production, reduce debt, and make the most of the opportunities for synergies within the group. The current share offering will place us in an even stronger financial position going forward.

Our core offering of dairy rubberware and industrial products provides, in the main part, essential componentry for a range of different industries. We remain confident of market demand in those areas.

Our continuing penetration into major markets within Europe, Asia and the USA is due to our strong distribution networks as well as our reputation for high quality, innovative and practical products in our targeted areas.

Although we do not anticipate a rapid recovery to favourable market conditions we have the benefits of an exceptionally loyal group of staff, management and directors, strong technical expertise, a balanced manufacturing model, and appropriate breadth within our distribution channels to be well placed for the future.

As we approach our Centenary next year, we recognise the inherent strength of Skellerup and its ability to withstand all of the varied challenges in the marketplace over the past 100 years. From humble origins as a supplier of rubberware to New Zealand dairy farmers, the company has grown steadily to become a global specialist in technical polymer products, with development, manufacturing and marketing operations worldwide.

When the current economic storm abates, armed with our exceptional capability in product development, cost-effective manufacturing facilities, and strong international networks and distribution channels, we will be ready to deliver our shareholders sound future growth into our second century.

Donald Stewart



Managing Director