

HELLABY HOLDINGS LIMITED

Annual General Meeting

5 November 2009

CHIEF EXECUTIVE'S ADDRESS:

(slide 1) John Williamson, Chief Executive

Thank you, Bill, and good afternoon everyone.

(slide 2) Our starting point

At last year's annual general meeting, we indicated to shareholders that Hellaby was half way through a two year performance turnaround project. We stated that our primary focus for the coming financial year was balance sheet reform by way of ongoing working capital improvement, and I said that this could be achieved despite worsening economic conditions.

We had established a clear portfolio mix and we had set clear performance criteria for our subsidiaries, with a focus on improving working capital, cashflows and return on investment.

It was obvious last year that we were facing abnormally poor trading conditions, but even then we never expected the economy to implode to the extent that it has over the past year.

(slide 3) What we achieved

This past financial year has been an incredibly challenging period, and the unprecedented deterioration in trading conditions has unsurprisingly affected all of Hellaby's operating divisions.

Our priority was therefore to ensure that Hellaby weathered the economic storm. The 2009 profit result reflected the very tough conditions we experienced as well as the impact of providing against the loan receivable arising from the previous year's BBQ Factory divestment.

We are very pleased with our balance sheet improvement. We have rigorously driven working capital disciplines across all subsidiaries, maintained clear financial and productivity targets, and focused at group level on cashflow generation and debt reduction from our existing investments.

And perhaps of greatest long-term significance for shareholders, we have greatly strengthened our subsidiary senior management teams with additional talent.

Over the past two years, Hellaby has taken a much greater hands-on approach to our businesses. This has been a major cultural turnaround. In fact the culture change in some of our businesses over the past financial year has been massive, and is reflected in some of the initiatives and outcomes that I'll be commenting on today. If I could sum up the culture of Hellaby today, it is one of ownership and accountability.

(slide 4) Strong cash generation and debt reduction

Looking first at the balance sheet.

In the year to June 2009 our working capital disciplines generated free cashflows of close to \$48 million, which is a 55% increase on the previous year and a 170% improvement on the prior year.

This in turn enabled us to reduce our core bank debt by 40%, and total net debt by 26%. Over the year, inventories were reduced by 19% and total debtors decreased by 33%.

These balance sheet improvements are quite outstanding given that they have been achieved during a severe economic downturn. Furthermore, we believe that we can improve on this.

The key to this has been process and people – and that culture change I referred to. We took an 'old-fashioned' approach, introducing clear working capital targets and

rigorous review processes across all subsidiaries, and our dialogue with management was at times very blunt. Critically, our subsidiary chief executives and senior management teams collectively stepped up to the plate and delivered. Ultimately this balance sheet reform has been driven by a group of people who have discovered that leaner working capital generates free cashflow and opens a door to future growth opportunities.

For Hellaby at a group level, this balance sheet reform has enabled us to refinance with our principal bank Westpac for a two year period, and to maintain control of our destiny. We have substantially de-risked the business in a year of challenging conditions, and I am very proud of what our wider management team has achieved.

As our focus now shifts to growth in 2010, I commit to our shareholders that we will not take our eye off the ball with regard to further improving our balance sheet and gearing position. We can still do better.

(slide 5) Operations

Following a portfolio review two years ago, and the subsequent divestment of smaller non-core assets, we now operate within four distinct investment groupings – Automotive, Equipment, Packaging and Footwear. Each business in Hellaby's portfolio has a strong market position in its particular sector.

The recession and consequent restructuring has impacted on all our operating divisions, as can be seen in the next four slides. Generally, our focus has been on putting in place the appropriate initiatives to reconfigure our businesses around lower activity levels.

(slide 6) Automotive

Our Automotive division has, in the circumstances, delivered a relatively solid performance and demonstrated that it operates in a reasonably defensive sector.

The strong performers in this division - and in fact for the whole group - were BNT (our automotive parts business) and HCB (our battery business). Unfortunately their results were offset by the lower earnings of TRS (our tyre and wheel business) and Diesel Distributors. Both of these businesses experienced tough trading conditions,

and their earnings were further impacted by restructuring costs in their Australian operations.

Our TRS business has experienced a 30% year-on-year decline in tyre and wheel demand, due to declining tractor and forklift imports and reduced farm spending. This statistic raises some obvious concerns about the New Zealand economy as we look for signs of demand recovery from the agricultural and industrial sectors going forward.

Despite the difficult trading conditions and restructuring in some businesses, our Automotive division generated \$27.5 million free cashflow in the year to June 2009, which was a 37% improvement on the previous financial year.

(slide 7) **Equipment**

Our Equipment division underwent a major restructuring and working capital improvement programme in adapting to a severe downturn in the capital goods sector.

Between October 2008 and June 2009, market demand for new forklifts and construction equipment declined by more than 50% year-on-year. This was a dramatic and reasonably sudden market collapse, and necessitated a major restructure. We have lowered our overheads, reduced inventories and forklift rental fleet numbers, and reformed internal processes.

Both AB Equipment and Eurolift have significantly strengthened senior management teams, and the companies have made good progress on working capital. AB Equipment reduced its inventories by 40% during the second half year. In addition, we have established TradedEquipment.com as a channel to market for surplus used equipment.

The Equipment division generated almost \$17 million free cashflow, which was a 62% improvement on the previous financial year.

While we expect the depressed market conditions to continue in this sector for another six months, we also expect to come through this downturn with a much

leaner distribution model and in a strong position to capitalise on any lift in demand or other market opportunities.

(slide 8) Packaging

Margins and profitability in our Elldex Packaging group were impacted during the first half year by resin pricing and currency movements. Earnings performance improved during the second half year as we better aligned internal processes, production planning and pricing. Overall performance was nonetheless disappointing.

On a positive note, we have now merged our three business units – Elldex, PPL and Chequer - into one single Elldex Packaging group entity, and integrated our Auckland plant into the Wellington and Christchurch manufacturing facilities.

With expansion into the dairy, bread, meat and horticulture food packaging sectors, Elldex is now less reliant on the retail and supermarket sectors. Elldex's performance for the first quarter of this current financial year is ahead of target and last year, and we consider the group restructuring and market repositioning to be a success.

(slide 9) Footwear

Hellaby's footwear division has now experienced a prolonged period of difficult retail conditions, with the final quarter of the 2009 financial year arguably the toughest quarter faced in the last two years.

Since taking management control of Number 1 Shoes one year ago, we have worked closely with that business to improve several areas of its performance. The senior management team has been strengthened over recent months, and turnaround initiatives implemented. Number 1 Shoes has undertaken a major clearance of slow-moving stocks, and while this has had a short-term negative impact on margin and therefore earnings, inventory levels are now considerably cleaner. Internal processes have been substantially improved over recent months to ensure better inventory management going forward.

Number 1 Shoes same store sales improved by 1.3% year-on-year on the back of heavy inventory discounting. While Hannahs' Australasian same store sales

decreased by 2.7%, the performance of our Australian *Pulp* stores improved significantly.

With 115 stores in New Zealand and 15 stores currently in Australia, Hannahs and Number 1 Shoes are collectively a major player in the retail footwear sector. We do see opportunities for further profitable growth, both in New Zealand and in Australia.

(slide 10) Capital management

Capital management

Although our earnings have been greatly reduced this past year, we have substantially de-risked the business by improving the group's balance sheet and debt gearing.

Our reduction of total net debt (including capital notes) by 26% to \$103 million is an excellent performance milestone.

Hellaby's gearing (total net debt to total net debt plus equity) at 30 June this year was 55%, compared to 61% at 30 June 2008. We are targeting a further improvement in gearing this year, excluding acquisitions.

As advised to the market in July, we have refinanced our banking facilities in June for a further two years to July 2011.

Over the next financial year, management is targeting further balance sheet improvement, and we will stringently allocate capital to create a platform for organic and transactional growth.

The Board's decision not to pay a dividend at year end reflects not only our earnings result for the year, but the Board's preference to retain cash while economic conditions remain uncertain. Going forward, however, Hellaby will resume its stated dividend policy of distributing approximately 50% of NPAT.

The \$50 million capital notes issued in 2006 mature in June 2011. Your Board is already considering the best approach from options available, and that will be communicated well ahead of the maturity date.

(slide 11) BBQ Factory impairment

BBQ Factory

In June 2008 Hellaby divested the loss-making BBQ Factory for a deferred consideration of \$5.8 million. During the past year we received \$1.35 million of repayments against this outstanding loan. This was lower than the repayments scheduled under the original sale terms.

Our Board therefore decided to fully provide against the remaining debt of \$4.44 million.

We consider this a prudent approach, and this should enable us to soon close a disastrous legacy chapter for Hellaby. Hellaby will seek to recover more of the remaining debt over future months.

It is disappointing to note that were it not for this impairment, our NPAT guidance for this last financial year would otherwise have been exceeded.

(slide 12) Stakeholder communications

Stakeholder communications

Our objective has been to improve the way we engage with our stakeholders. This includes taking a transparent and straightforward approach to our activities, and clearly describing what we do to stakeholders.

We have aimed to become more proactive in our communication with the market, and we are keen to attract more institutional and habitual investors to our share register over time.

I believe that this year's annual report gives a clear outline of our divisional composition, our performance objectives and of our broad investment strategy going forward.

We have also reviewed and improved our corporate governance policies and frameworks over recent months, and these can be found in this year's annual report and in the governance section of our company's website.

I hope that shareholders will agree that we are now communicating better with the market.

(slide 13) Priorities this year

Our priorities this year

Hellaby's balance sheet reform and operational turnaround are largely complete, and we have a much clearer portfolio strategy.

Now, following two years of restructuring, our focus shifts to growth.

Our key challenges this financial year will be to:

- improve our earnings quantum and reliability
- further improve our debt gearing
- improve our return on investment, and
- begin pursuing acquisition opportunities which meet our investment criteria

We have developed a robust strategic framework for Hellaby, which will enhance our earnings, productivity and portfolio mix in future years through the application of our 'buy, build and harvest' philosophy.

In order to achieve our strategic goals, we will need to put immense focus into better understanding 'lean distribution', 'lean retail' and 'lean supply chain'.

We will be looking to grow, both through the organic expansion of our existing divisions, as well as entering new sectors that we believe will fit appropriately with our portfolio.

In order to achieve our strategic growth targets, we will need to consider raising equity to help fund further investments.

(slide 14) Outlook

Looking forward

We are yet to encounter the so-called 'green shoots' in our industry sectors. For the first quarter of the current year, market conditions have remained very difficult, particularly in the agricultural, equipment and retail sectors. After one quarter, group earnings are behind last year .

We are anticipating a slow first half year for group earnings, followed by a stronger second half.

Whilst our Automotive and Packaging divisions are performing relatively well for the first quarter, we do not expect to see an uplift in our Equipment and Footwear divisions until the second half of this financial year. Overall, we are expecting to see gradual economic improvement from the third quarter of this financial year – in other words after January 2010 rather than before.

In this current year, our focus will remain on improving our return on investment. This will include continuing to tighten financial disciplines and streamline our businesses, as well as realising the benefits of the operational improvements actioned over the past year.

In our year end announcement we advised the market that we expect significantly improved earnings for the coming year. This extraordinary economic environment makes forecasting performance for the current year extremely difficult, and we simply repeat what we said in late August for our year end announcement – which is that we expect to achieve significantly improved earnings for the coming year.

(slide 15) Superior shareholder returns

Shareholders will have seen this share price chart in our recent annual report. It shows a declining trend over recent years to March 2009 as concerns about debt

gearing, reduced earnings, the BBQ Factory fiasco and lower dividends have progressively impacted on our share price.

(slide 16) In conclusion

We have now dealt with the major legacy issues.

Naturally we are not at all comfortable with this historic price trend, and I can assure you that a 40 cent share price does nothing for the ego. The share price improvement over the past six months is a small but nonetheless important step back in the right direction.

Your Board and management team are committed to delivering superior shareholder returns in the future. Our objective will be to achieve total shareholder returns superior to the NZX50 average.

Our priority is therefore to ensure that the company performs and grows, thereby improving shareholder returns and restoring investor and market confidence in Hellaby.

We're still operating in markets that are as tough as they were six months ago. However, we are confident that Hellaby is now substantially de-risked, and we're working very hard to be in the best possible shape to capitalise on future opportunities as the economy recovers.

We believe that we have turned the corner.

Thank you