



12 October 2011

Mr Des Hunt
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Nuplex Industries Limited

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Dear Des,

Thank you for your email and questions relating to the proposed resolution to increase the aggregate fee pool for directors.

By way of background, shareholders approved an increase in the fee pool from NZ\$650,000 to NZ\$1,000,000 in November 2007. Actual fees paid to directors in FY08 amounted to about NZ\$660,000 highlighting the limited amount of headroom that existed under the old fee pool at that time, hence an increase had been sought. The reasons for the growth in fees paid to directors between FY08 and FY11 inclusive are:

- a 3% increase in nominal main board fees in January 2010
- depreciation in the NZ\$/A\$ rate from 1.16 to 1.30. This is especially relevant in that offshore based directors were paid the same nominal amount but in Australian dollars and movement in the NZ\$/A\$ exchange rate has had a material impact on the actual fees paid
- the change in Chairman from Fred Holland (paid in NZ\$) to myself (paid in A\$)
- as from July 2010, all directors have been paid the same nominal amount in Australian dollars so as to ensure that all directors are paid on the same basis regardless of where they are based. At the same time the Chairman's fee was increased from 2 to 2.2 times the base directors' fee
- the establishment of a new Safety Health & Environment Committee with a Chair and 2 members.

Since July 2008, there has been only one increase in base directors' fees – a 3% increase in January 2010. This increase, almost two years ago now, was the first since July 2008. Aggregating the two increases that have occurred since the 2007 Annual Meeting, directors' fees have increased by 11.9%, less than the 13% CPI increase you mention.

As disclosed in the 2011 Annual Report, the total fees paid to directors amounted to NZ\$921,685. It is estimated that in the current FY12 year, with the overlap between Michael Wynter who is retiring and our newest director Jerry Maycock, and assuming an average NZ\$/A\$ exchange rate of 1.28, the headroom on the fee pool limit will be NZ\$69,000, which reduces to NZ\$18,000 if the FX rate drops to 1.35.

One of the many changes in board governance that we have made is to establish a Safety, Health & Environment (SHE) Committee. The safety of our people and the environments we work in are not only critical to the long term security and success of our operations, but the board feels a strong moral and fiduciary responsibility to ensure SHE is one of our top priorities. I am pleased to report that, partly as a result of this additional focus, our safety, health and environmental performance has improved markedly. This has resulted in significantly reduced operating costs.

The board is seeking an increase in the aggregate fee pool to give it sufficient headroom to address some or all of the following:

- future market based increases in director and committee fees
- possible depreciation of the NZ\$ relative to the A\$
- the potential to appoint additional directors. We are focused on executing our strategic initiatives which include growing Nuplex into the future. Hence, as we plan for the future we have determined that if and when Nuplex grows as expected, the workload and complexity of the group would most likely warrant the appointment of an additional director
- accommodate overlap of directors in accord with the director succession plan to provide certainty for the company and the incoming director
- appoint additional directors to committees or to set up new committees in order to enhance governance and company performance.

The board believe they have a responsible track record in setting directors' fees. For example, individual main board fees have increased by an average 3.4% per annum from \$80,000 to \$101,000 since July 2004 whilst net profits have grown from \$28.4m to \$66.5m.

Also, reflecting the board's commitment to conservative fee management, normally the board would review directors' fees each year using an external remuneration advisor. During the review in early 2011 it was decided that market movement did not warrant any change in fees and at this stage there is no intention to increase main board or committee fees.

Des, you have made mention of the cost to shareholders of the NZSC action. The circumstances giving rise to this matter arose nearly three years ago and as disclosed, the total cost to the company amounted to \$1.5m. Over this period the board has presided over an increase in net profit after tax from \$48m to \$67m reflective of the board's focus on increasing returns to shareholders.

I have seen some recent media coverage comparing directors' fees paid at Nuplex and Freightways. Given the significant differences involved in governance of Nuplex verses Freightways, I think this is an interesting comparison.

Nuplex is a global company with 22 manufacturing plants in 10 countries and revenues nearly 4.5 times those of Freightways. The board endeavours to hold board meetings at various sites each year often involving visits with key customers. For example, during the last year, 4 meetings were held in Auckland, 2 in Sydney and one each in Brisbane, Melbourne and Asia plus a number of teleconference meetings. Most board meetings involve a day's travel for some or all directors and generally extend over 2 days. In addition, we endeavour to visit operations in Asia or Europe or America each year and this generally involves 7-14 days overseas. Nuplex has also established three board committees to assist in the governance of the company and the meetings of these committees often involve additional travel if not held in conjunction with a board meeting. As we have highlighted on numerous occasions, most of our future growth is likely to come from outside Australia and NZ, and therefore this will continue to place additional workload and responsibilities on the board.

Finally, I think it's important to note that unlike some other companies, Nuplex has not paid fees to members of the Nominations Committee, nor paid travelling allowances to defray the time spent travelling to offshore meetings. With three new directors appointed in the last four years the Nominations Committee has been quite active.

Please feel free to call me to discuss any of these points further. We are due to meet up next week and I welcome the opportunity to talk through any concerns you have.

Thanks again for the opportunity to respond to your questions and comments.

Kind regards,

A handwritten signature in black ink that reads "Rob Aitken". The signature is written in a cursive, flowing style.

Rob Aitken
Chairman
Nuplex Industries Limited