



29 October, 2004

### **CHAIRMAN'S ADDRESS**

To the Annual Meeting of Shareholders  
In Auckland on Friday, 29 October, 2004

A review of Nuplex's development over the past decade will make it very clear that we are a company on the move.

10 years ago we had established ourselves as a major New Zealand manufacturing and marketing business. By the year 2000, we had become a substantial trans Tasman operation, and at the end of our 2004 financial year we could be classed as being a growing Asia / Pacific company.

We are now set to take the next step in our development and become a trans national or global company.

The two key drivers behind our growth have been a determination to grow shareholder wealth and an imperative to have the financial strength, size, diversity and presence to be amongst the leaders in the markets in which we operate. Such a position is critical in an industry where ownership is becoming more concentrated and global as barriers to international trade are dismantled at an increasing pace.

Financial stability underpins our progress. A definition of an ideal company is one which provides good, solid performance, year in, year out. I am proud to say that by and large, Nuplex has delivered on that, giving us a sound financial base to make acquisitions, reinvest in the business, start up new operations, and reward shareholders.

In today's address I want to cover three key aspects of our business – our current financial strength, the next stage of our growth plans and governance and management of the company, particularly as it relates to an organisation taking yet another major step in its development.

#### ***Financial Foundation***

While sales or operating revenue are a good rule of thumb measure of a company's standing in the market, your directors are more focused on fundamentals of shareholder wealth. These include earnings before interest, tax, depreciation and amortisation or EBITDA; net surplus; free cash flow; earnings per share; and dividend.

The 2004 financial year was a good one for Nuplex, and in this series of slides I've plotted Nuplex's growth across the years between 1995 and 2004. I chose 1995 as the start point as that was the year when we became a truly trans Tasman company and had started to capitalise on our freedom from majority overseas corporate ownership.

Sales revenue	100 million to 655 million
EBITDA has gone from	12 million to 74 million
Net surplus from	7 million to 28 million
Earnings per share from	18.5 cents to 46 cents
And dividends from	9 cents to 24.5 cents.

Your Directors are proud of our history of growth. We are also pleased that the quality of our performance has been recognised by the market and has resulted in a step-change in our share price through the last financial year. Share price improvement, coupled with the dividend payment, yielded a 52% increase in Total Shareholder Return for the year ended 30 June 2004. This ranked Nuplex tenth in the PWC Corporate Value Report, which surveyed the value performance of New Zealand's 70 largest listed companies.

It also placed us above the 70<sup>th</sup> percentile when measured against the ASX300.

Our 2004 performance was based upon volume growth in most of our main market segments. We consolidated strong market positions, further realised synergies from the previous year's acquisition of APS, and recovered margins as we drove down unit costs.

A pleasing feature of the 2004-year was the progress made by our two smaller reporting divisions, Environmental Services and Construction Products, reflecting successful restructuring and refocusing programmes which were not fully in place until mid year. Although small in the context of the total Group, these businesses make a valuable contribution, exhibiting a return on assets above the group average and generating a high percentage of their profit in New Zealand, thus making a good contribution to available imputation credits.

We continued our process of growing and rationalising key business areas through three small acquisitions. They added to our technology portfolio, increased volume through our existing infrastructure, and added strategic value to our major resins business. These acquisitions are expected to make additional contributions in the years ahead.

Business growth into Asia continues to exceed expectations, with strong volume gains from new investment in Vietnam. This will be supported in the future with our entry into the Chinese market through acquisition of an existing coating resins manufacturing plant in Guangdong Province. This will take some time to make a significant contribution but we are confident that we have the technology and market know-how to be able to benefit from the dynamic growth of the region through this business to business operation.

Safety, health and environmental protection held a special focus for both your board and management through the past year. We are pleased that we have made progress on a number of fronts. These are detailed in the relevant section of our Annual Report but I would particularly like to note some highlights. Firstly, we continued the progress of reducing our injury frequency rate showing that management programmes are effective. Secondly, we improved our general environmental performance, and completed most of the projects that have been ongoing for a number of years to bring our major plants up to best practice. And thirdly, the gaining of resource consent for the United Environmental East Tamaki site was the culmination of excellent work by management with much appreciated support from the Auckland Regional Council.

As I mentioned earlier, the growth of Nuplex over the years has focused on the creation of shareholder wealth and not growth for growth's sake. It was driven by the need to adapt to changing regional and global industry dynamics. As our industry became more consolidated and global, it has been essential for Nuplex to change. There was a need to grow to be able to continue to support our customers with appropriate technology at a competitive price, to maintain a competitive return to investors and provide a competitive income for our all-important staff. It is a fact of life that the critical mass required to ensure a competitive and sustainable company continues to grow and can not generally be satisfied by single market or single product entities. This consideration has been the driving force behind our long-term strategy of both product and geographic diversification. We expect business growth to continue in the foreseeable future.

We also recognise that a lot of our shareholders expect dividend income. Your Board is pleased to be able to declare a 22.5% increase in dividend in line with our increase in normalised profit, even though further investment will be required to satisfy future growth needs.

### ***Next Growth Stage***

At 30 June 2004 our senior debt as a percentage of total debt plus equity stood at 32%, down from 34% last year and remains comfortably within our various bank-lending ratios.

The solid financial foundation on which Nuplex stands places us in a sound position to take the next step in our growth strategy. In mid October, we announced the acquisition of the Coating Resins operation from the European headquartered multi national group, Akzo Nobel.

While some see it as audacious for a New Zealand based company to buy a business with a turnover of some \$475million, an EBITDA in excess of \$30 million, an employee base of more than 750 and nine operating facilities spread across the United States, Brazil, Britain, Holland, Malaysia, Indonesia, Thailand and China, your directors view it as the next logical step to take.

It fits with the criteria we set ourselves in the late 1990s of being a substantial player in our principal fields of operation. We have been a manufacturer of coating resins since 1960 and have current operations in Auckland, Sydney, Brisbane, Campbellfield and Wangaratta in Victoria Australia, and of course in Vietnam and Guangzhou in China. It is a business we know.

Akzo Nobel's Coatings Resins' intellectual property rights, technological expertise, know how, and partnership arrangements with leading coating manufacturers, makes them an important and significant global supplier.

Their business will add significantly to our ability to service existing coating resin customers in the Asia/Pacific region as we add world's leading R & D facilities and manufacturing facilities to our portfolio.

It will also put us into different geographic and currency zones by giving us major representation in the important North American and European markets, and will improve our coverage of the rapidly growing Asian markets.

Adding 60 to 70% to your revenue income in one bite, and becoming a company with a turnover well in excess of \$1 billion, may seem to some as being a major challenge. I do not want to underplay the task ahead of us, but we have a decade of successful experience behind us in terms of acquiring companies and integrating them into our operations in a way that grows their value and the value of Nuplex. This deal has all the right characteristics for a successful outcome.

Thorough due diligence has been completed with the assistance of leading global consultants, and the terms of the acquisition have been agreed with the vendor.

It was pleasing to receive strong Australasian institutional support for our recent share placement, raising much of the equity funding for the proposed acquisition. As a result, we have a greater spread of investors with shareholding outside New Zealand now at 12%, reflecting the increasing international status of your company. We have announced that the remainder of the equity will be raised from existing shareholders by way of a rights issue, dividend reinvestment plan, or share purchase plan. Further details will be provided as soon as we receive relevant advice from stock exchanges and regulatory bodies.

Our Managing Director John Hirst will give you a more detailed overview of the opportunity Coatings Resins represents in his report.

For my part I want to reiterate some important points

- The return on investment based on the \$200 million purchase price is expected to comfortably exceed the cost of capital
- Based on the funding arrangements proposed, the acquisition is expected to add to earnings per share in the 2005 / 2006 financial year

- At the end of this financial year the senior debt leverage of the Group will be 46% compared to 32% at the end of last year
- The acquisition is subject to your agreement, and to this end a special meeting will be held on November 23. Prior to that date shareholders will receive full documentation covering the acquisition and funding proposals.

### **Corporate Issues**

As Nuplex becomes more global, and we grow in size and geographic diversity, the value of having a Board of Directors with wide and varied range of experience becomes ever more evident. All of our directors have demonstrated long and successful careers in senior management and chief executive roles in regional and global business. Their knowledge of and experience in markets in which we now operate, and aspire to operate in the future, ensures a valuable contribution towards the successful strategic direction of the company. You are being well served by your directors.

As an aside I would mention that we were all delighted to learn that Bryan Kensington has been honoured as a Distinguished Fellow by the Institute of Directors for his services to business generally and to the Institute specifically. I am sure that you will all join me in congratulating Bryan on this well deserved honour.

Your directors are well supported by the management team, ably led by our Managing Director who has a very open and inclusive management style and leads a very strong management team with skill, experience and an engaging enthusiasm.

The Board has been occupied during the year in reviewing our corporate governance practices to ensure that we meet the requirements of the codes of best practice developed by various regulatory bodies, including the NZX and the ASX.

In general our governance practices were in line with the codes but we have made improvements in the areas of written charters, policies, and terms of reference. Updated documents have been posted on our web site for any interested party's reference.

We also reviewed our remuneration practices to ensure they are in line with our peer group. As this can be a sensitive and sometimes controversial issue, the Remuneration Committee engaged a leading regional remuneration consultant with wide-ranging experience to update us on current practice.

The Board is recommending an increase in the non-executive directors' fee pool, which is fully outlined in the Notice of Meeting. It takes into account peer remuneration levels, the company's growth since 2000 when the fee pool was last set, the length of time required for non-executive directors to adequately fulfil their role given Nuplex's growing complexity, and most importantly given our expansion plans, the flexibility to appoint an additional director.

It should be noted that the proposed new figure has been set for three years and we certainly do not expect the company's profits to stand still over this period.

To bring our management remuneration package in line with modern practice we are proposing to introduce a long-term incentive plan, which will give key executives rights to a parcel of shares if Total Shareholder Return exceeds the median of our peer group of companies over a three year period. This will align managers' interests with shareholders' interests, and will assist in the recruitment and retention of quality key managers. This programme has been targeted to ensure that the executives will only do well if shareholders do well.

We will be asking for shareholder support for these two proposals later in the meeting, and shareholders will have the opportunity then to express their views.

We are about to become a global company, and in global terms what we are proposing by way of directors and senior executives remuneration is fair and equitable, and necessary. At the appropriate time I will look forward to shareholders' support for these recommendations.

### ***Summary***

I started this address by saying that Nuplex has been a company on the move for the past decade. First Australia, then Vietnam, then China. Now we are proposing in one acquisition to move into Brazil, the United States, Britain, Holland, and significantly strengthen our representation in Asia.

We are to become a global resin company operating in the broad geographic markets of the Americas, Europe, Asia and Australasia.

These are indeed exciting times for Nuplex, and your directors are determined that the next three years will be a period during which shareholders will achieve sustained wealth gains.

I will now ask John Hirst, our Managing Director, to report to you on the first quarter performance, forecasts for the rest of the year and a picture of the opportunities available to us from our proposed acquisition.

After John has completed his presentation I will call for questions on the issues raised by the two addresses.

Fred Holland  
Chairman