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MANAGEMENT DISCUSSION & ANALYSIS FOR FINANCIAL RESULTS FOR THE 6 MONTHS ENDED 31 December 2014

Non-GAAP financial measures

Nuplex results are prepared in accordance with NZ GAAP and comply with NZ IFRS. This Management Discussion & Analysis includes non-GAAP financial measures which are not defined in NZ IFRS. The non-GAAP financial measures used in this presentation include EBITDA, net profit, significant items, ROFE, EBIT, gearing, funds employed, operating and fixed costs, capital expenditure and net debt.

Nuplex believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Nuplex, but they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP financial measures as reported by Nuplex may not be comparable to similarly titled amounts reported by other companies**.**

FINANCIAL OVERVIEW

PROFIT & LOSS

- **Net profit**[1] was $37.3 million, compared to $11.4 million in the prior corresponding half. The result includes significant items related to discontinued operations, the profit after tax on sale of Nuplex Specialties and Masterbatch of $13.8 million and a remediation provision expense of $3.4 million. The provision was recorded in relation to remediation of the Cheltenham site, where operations have been discontinued as a result of the sale of Nuplex Specialties. The prior corresponding half included a $14.6 million expense from significant items.

- **Net profit from continuing operations**[2] was $25.6 million and includes significant item expenses of $0.9 million. This compares with net profit from continuing operations of $6.3 million for the prior corresponding half, which included a $14.6 million expense from significant items.

- **Sales revenue from continuing operations** of $685.8 million was up 2.5% compared with the prior corresponding half of $668.8 million.
    - Had the New Zealand dollar remained unchanged over the period, sales revenue would have been up 4.1% to $696.0 million.

- **Operating EBITDA**[3] **from continuing operations** of $54.5 million was up 10.1% on the prior corresponding half of $49.5 million.

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[1] Profit attributable to equity holders of the parent as reported in the financial statements
[2] Profit for the period from continuing operations as reported in the financial statements
[3] Earnings from continuing operations before interest, tax, depreciation, amortisation, significant items, associates and minority interests.

- Had the New Zealand dollar remained unchanged over the period, EBITDA would have been $55.8 million, up 12.6% on the prior corresponding half.
- The EBITDA to sales margin increased to 7.9% from 7.4% in the prior corresponding half
- In comparison to the prior corresponding half, growth in EBITDA from continuing operations reflected:
  - Volume growth of 6.2%
  - A 5% decline in unit margins[4] (down 3% in constant currency[5] terms) primarily driven by margin pressure in ANZ. The increased portion of sales in Asia also impacted Group unit margins. In Asia, lower operating and overhead costs offset lower unit margins, resulting in comparable percentage EBITDA margins with other regions.

- Both **operating and fixed costs** were lower versus the prior corresponding half in per-unit terms as a result of rationalisation activities in ANZ and foreign exchange movements.

- **Unallocated costs** for the period were $4.4 million and largely reflect corporate costs. Corporate services are allocated back to the respective regions in line with their use of those services.

Table 1: Reconciliation of profit available to equity holders of the parent company to EBITDA from continuing operations

(NZ$m)	1H15 Total Group	1H14 Total Group
Profit attributable to equity holders of the parent	**37.3**	**11.4**
Profit from discontinued operations	**13.0**	**6.3**
Net profit attributable to equity holders of the parent from continuing operations	**24.3**	**5.1**
Provision related to RPC Pipe Systems	-	14.6
Other significant items before tax	1.2	0.8
Income tax credit on non-operating items	(0.3)	(0.8)
Operating profit after tax	**25.2**	**19.7**
Tax on operating profits	5.2	5.6
Minority interests (non-controlling)	1.3	1.2
Share of associates	(0.8)	(1.1)
Net financing costs	6.8	8.5
EBIT	**37.7**	**33.9**
Depreciation and amortisation	16.8	15.6
EBITDA from continuing operations	**54.5**	**49.5**

- The income **tax rate** applicable to operating profit for the period was 17.2%. The rate reflects the benefit of incentives in The Netherlands and Australia, and the continuing shift in earnings to lower tax rate jurisdictions.

[4] Defined as sales revenue minus raw material costs divided by tonnage
[5] Constant currency results are calculated by translating reported period results into New Zealand dollars at the average foreign exchange rates applicable in the prior corresponding period

- For the 2015 Financial Year, the tax rate on operating profits is expected to be approximately 22%.

- **Earnings per share** was 18.8 cents. This compares with 5.8 cents in the prior corresponding half and reflects the profit on sale of Nulpex Specialties and Masterbatch as well as the absence of sizeable significant items.

- An **interim dividend** of 10 cents per share has been declared by the Board.
  - It will be paid on 2 April 2015, to all shareholders on the register on 17 March 2015
  - The Dividend Reinvestment Plan will not be active
  - The interim dividend represents a 53% payout ratio of net profit available to shareholders, or 81% of net profit from continuing operations available to shareholders
  - The payout ratio from continuing operations exceeds Nuplex's target dividend payout ratio range of between 55 and 65% of earnings for the period. The dividend policy allows the Board to determine the dividend in the context of the company's current and expected performance and cash flow.

CASH FLOW

- **Operating cash flow** of $43.9m was up 63% on the prior corresponding half due to the non-recurrence of the prior period temporary increase in finished goods inventory in ANZ. This was undertaken to enable uninterrupted supply to customers whilst progressing the decommissioning of sites in ANZ.

- The **working capital to sales ratio** for continuing businesses was 14.1% as at 31 December 2014 compared with 14.6% as at 31 December 2013.
  - Following the divestment of Nuplex Specialties and Masterbatch, management now expects Nuplex's average working capital to sales ratio to be around 15%.

- **Stay-in-business capital expenditure** (SIB) for the half was $7.2 million, equivalent to 56% of depreciation.
  - SIB expenditure in 2015 Financial Year is expected to be approximately $14 million.
  - On a mid-cycle basis, on average, management continue to expect SIB capital expenditure to be approximately 75% of depreciation.

- **Capital expenditure for growth** was $23.2 million during first half of the 2015 Financial Year and mainly related to costs associated with Changshu ($12.0 million), Indonesia ($2.6 million) and Wacol ($7.2 million).
  - Capital expenditure for growth in the 2015 Financial Year is expected to be between $35 million and $40 million.
  - In the 2016 Financial Year it is expected to between $10 and $15 million.

BALANCE SHEET

- The average drawn **debt** for the period was $261 million compared with $284 million in the prior corresponding half.

- **Gearing**[6] has declined to 18.7% as at 31 December 2014, down from 31.1% as at 30 June 2014 following the application of the sale proceeds from the divestment of Nuplex Specialties and Masterbatch.

- The average **funding cost** over the half was 5.4%, down from 5.9% in the prior corresponding half as debt was paid down in the higher cost countries of Australia and New Zealand.

[6] As measured by net debt to net debt plus equity

- **Return on Funds Employed**[7] (ROFE) from continuing operations as at 31 December 2014 was 11.8%, up from 11.5% as at 30 June 2014 and 11.0% as at 31 December 2013.
  - The improvement was primarily driven by an improvement in EMEA's ROFE, which now exceeds the target rate of greater than 16%.
  - Nuplex continues to work towards achieving its Group ROFE target of over 16% by the end of the 2018 Financial Year.

DIVESTMENT OF NUPLEX SPECIALTIES AND MASTERBATCH

During the period, the agency and distribution business, **Nuplex Specialties**, and the plastic additives business **Nuplex Masterbatch** were sold for A$127.5 million to Axieo Pty Limited. These businesses had historically formed the reporting segment referred to as Specialties.

On 28 November 2014, the sale of the ANZ based businesses was completed. Work continues on completing the transfer of Masterbatch operations in Vietnam (which account for less than 5% of the transaction) which is expected to occur before 30 June 2015.

Net cash proceeds from the transaction were $133 million (A$122.7 milion). Net profit was $13.8 million which includes provisions of $5.7m in relation to redundancy and restructure costs as well as a write down of assets that will no longer be utlised post the divestment.

As a result of the sale, operations at Nuplex's Cheltenham site in Melbourne, Victoria have been discontinued. Cheltenham had been used as a warehousing site for the Specialties business. A $3.4 million after tax provision has been taken in relation to remediating this site to enable it to be sold.

SHARE BUY-BACK

The Board has resolved to pursue a share buy-back of up to 5% of issued capital. A further announcement will be made in the coming weeks once the Board has completed the necessary consultation with the NZX and the Australian Securities Exchange.

OPERATIONAL OVERVIEW

SAFETY

	Lost Time Injuries Rate per million hours worked		Reportable Injuries Rate per million hours worked	
	1H15	1H14	1H15	1H14
Employees	1.0	0.0	4.6	3.6
Contractors	0.0	4.4	5.1	4.4

During the period Nuplex saw an increase in its Lost Time Injury Frequency Rate for employees as a result of the occurrence of 2 lost time injuries compared to zero for the prior period. The number of employee reportable injuries was 9 this half, compared with 8 in the previous corresponding half. However, the Reportable Injury Frequency Rate increased due to the reduced number of exposure hours worked in ANZ as a result of restructuring and the sale of the Specialties and Masterbatch businesses in November.

[7] (Earnings before interest, tax and significant items) for the preceding 12 months divided by average opening and closing funds employed over the same twelve month period. Average funds employed excludes capital works under construction.

Management have initiated a renewed focus on safety observations and reporting 'near misses' and continue to roll out the global safety management system in each region to improve the ongoing safety performance.

CONTINUING OPERATIONS

Consisting of Nuplex's global resins operations, historically these businesses have been referred to in the accounts as the Resins segment.

Following the divestment of the largely ANZ focused Specialties segment on 28 November 2014, Nuplex will now report its continuing operations by geography.

Nuplex's **global** Coating Resins business (87% of sales from Nuplex's 1H15 continuing operations) develops and manufactures consistently high quality, innovative resins used in the formulation of surface coatings such as household paint, car paint, protective coatings for agricultural and construction equipment and infrastructure as well as coatings used on building materials, flooring, textiles, white goods and wooden furniture.

Resins bind together the ingredients of the coating, enabling it to adhere to the surface to which it has been applied. Importantly, resins strongly influence the performance and appearance of a coating by providing the required finish, colour-fastness, durability, and protection from abrasion, corrosion and sunlight.

The **ANZ focused** Composites business (10% of sales from Nuplex's 1H15 continuing operations) manufactures and distributes composite resins used in the formulation of fiberglass used in marine & leisure craft, building materials and general manufacturing. The leader in ANZ, it also has operations in Vietnam and Indonesia, targeting niche segments of the composites market. The Australian based Pulp and Paper and New Zealand based Construction Products businesses account for approximately 3% of Nuplex's 1H15 continuing operations.

Table 2: 1H15 Volumes by region

	1H15 vs 1H14	1H15 vs 2H14
EMEA	12.1%	(4.7)%
Asia	5.2%	11.0%
Americas	5.6%	(5.8)%
ANZ	(1.5)%	4.5%
TOTAL	6.2%	(1.3)%

Regional seasonality: EMEA and the Americas have a stronger second half due to the impact of summer vacation and the beginning of winter in the first half usually aligned with customers plant shut-downs prior to the end of the calendar year.

Overall **volumes** were up 6.2%. Volumes increased by 12.1% in EMEA, 5.6% in the Americas and 5.2% in Asia, offsetting a 1.5% decline in ANZ. The **EBITDA to sales margin** increased to 7.9% from 7.4% in the prior corresponding half.

On a constant currency basis, **unit margins** were down 3% largely due to the impact of margin decline in ANZ. The increased portion of sales in Asia also impacted Group unit margins. In Asia, lower operating and overhead costs offset lower unit margins, resulting in comparable percentage EBITDA margins with other regions.

Table 3: 1H15 sales and EBITDA by region

(NZ$ m)	SALES REVENUE					EBITDA				
	1H15 Actual	1H15 Constant FX	1H14 Actual	Change (%)		1H15 Actual	1H15 Constant FX	1H14 Actual	Change (%)	
				Actual FX	Constant FX				Actual FX	Constant FX
EMEA	292.2	295.2	278.1	5.1%	6.1%	27.2	28.4	20.5	32.8%	38.6%
Asia	157.0	159.7	153.6	2.2%	4.0%	18.3	18.3	17.4	5.0%	5.3%
Americas	83.1	83.1	77.8	6.8%	6.8%	10.4	10.4	9.2	12.9%	12.7%
ANZ	153.5	158.0	159.3*	(3.6)%	(0.8)%	3.0	3.1	9.3*	(67.5)%	(66.4)%
Unallocated costs	-	-	-	-	-	(4.4)	(4.5)	(6.9)		
TOTAL	685.8	696.0	668.8	2.5%	4.1%	54.5	55.8	49.5	10.1%	12.6%

* ANZ 1H14 has been restated in accordance with changes to segment reporting and now excludes the impact of corporate costs

Lower **raw material costs** started to became evident towards the end of the period as the benefit of the lower oil price worked its way through the production chain. The decline in raw material costs is varying by region and raw material, with the benefits to Nuplex being tempered by countervailing currency movements as well as price and contractual negotiations in the supply chain.

Europe Middle East Africa (EMEA)

Sales were up 5.1% (up 6.1% in constant currency) compared with the prior corresponding half.

Volumes grew by 12.1% as despite more moderate market conditions experienced when compared to the second half of the prior financial year, volume growth was strong when compared to the prior corresponding half, due to the continued improvement in the automotive industry in Europe, as well as increased activity in the industrial resins segments, including construction, Marine & Protective and Agriculture & Construction Equipment.

EBITDA growth of 32.8% (up 38.6% in constant currency) was driven by volume growth and margin improvement which was the result of product mix shift, the benefit of the prior year's procurement program and disciplined cost control.

Nuplex Germany delivered strong volume and earnings growth during the period. A number of the products acquired as part of the purchase of this business are helping drive market share gains, particularly in the Flooring segment. The operational efficiency program at Nuplex Germany has been implemented and is on track to deliver €1.5 million in the 2015 Financial Year.

Russia

The total investment in acquiring the site in Shebekino, near Belgorod, the upgrading of assets and investment in working capital remains €7 million. Currently work is ongoing to improve the production facilities and safety standards.

Given the economic outlook, near term demand is expected to be subdued. Nuplex is focusing on cost-effectively supplying the multi-national producers who currently import their coating resin needs. Additionally, Nuplex is re-assessing the timing and scope of future investment plans in Russia.

Asia

Sales were up 2.2% for the period (up 4.0% in constant currency).

Volumes were up 5.2%.

EBITDA for the region was $18.3 million, up 5.0% (up 5.3% in constant currency) compared with the prior corresponding half. Across the region, earnings benefited from procurement program benefits and tight cost control.

In China, volumes were steady as Suzhou remained capacity constrained ahead of the commissioning of the new site in Changhsu.

In Vietnam, volumes were up as the new capacity continued to be filled.

In Indonesia, volume growth towards the end of the period was driven by an improvement in business sentiment as a result of the introduction of the government policy to redirect fuel priced subsidies into national infrastructure projects.

In Malaysia, volumes were steady. Earnings benefited from a strengthening of the US dollar due to Malaysia exporting approximately 50% of its production priced in US dollars.

Growth projects

Over the past four years Nuplex has been investing US$47 million in expanding its capacity in Asia by 75%. Having expected the program to be completed by the end of 2014 this will now occur by the end of the 2015 Financial Year, following the commissioning of the new site in Changshu, China and the new capacity in Indonesia.

Construction of the US$35 million site in Changshu, China is complete. Final regulatory approvals are being sought and first production is expected to occur within the March 2015 quarter. The project is on budget, and is expected to incurr $16 million in capital expenditure in the 2015 Financial Year. The site will double Nuplex's capacity in China.

In Indonesia, the US$5.1 million, project to increase capacity by 40% is progressing on budget. The new reactor is in place and work is continuing to enable first production in March 2015.

Americas

Sales grew by 6.8% (up 6.8% in constant currency) compared with the prior corresponding half.

Volumes were up 5.6% reflecting growth in all the major industrial coatings markets served, including the Automotive OEM, Vehicle Refinish, Marine & Protective, Metal, and Flooring markets.

EBITDA growth of 12.9% (up 12.7% in constant currency) was driven by volume growth and margin improvement due to the product mix shift towards higher margin Industrial coating resins.

Australia and New Zealand (ANZ)

Sales were down 3.6% (flat in constant currency).

Volumes from continuing operations were down 1.5% compared with the prior corresponding half.

EBITDA of $3.0 million included $0.3 million of ANZ restructure costs and was down 67.5% (down 66.4% in constant currency) when compared to $9.3 million in the prior corresponding half, which included $2.7 million in restructure costs.

Restructure benefits realised in the period were offset by lower margins. An improvement in margins was achieved towards the end of the period. This is expected to continue into the second half of the 2015 Financial Year as actions to address pricing continue.

Coating resins (45% of sales from ANZ 1H15 continuing operations) margins continued to reflect the intense pressure in the Australian coating resins market that had initially became evident in the second half of the 2014 Financial Year as a result of excess industry capacity and intense competition throughout the value chain.

Composites (41% of sales from ANZ 1H15 continuing operations) experienced steady volumes in New Zealand. In Australia, Nuplex continued to maintain its market share, however, volumes were impacted by the decline in local manufacturing reducing demand for composite resins used in the Transport (eg; truck bodies and caravans) and General Laminator (eg; general manufacturing) market segments.

Pulp and Paper volumes were steady. Margins continued to be pressured by retailers and competition from imports.

Sales growth in the New Zealand focused Construction Products business reflected the buoyant construction market.

ANZ restructure

Cost and Benefits overview

In the first half of the 2015 Financial Year:

- $3.7 million of incremental benefits were realised and $0.3 million in costs were incurred.
- The restructure benefits realised during the period were more than offset by the significant reduction in margins which occurred in the second half of the 2014 Financial Year.
- Being able to manage production on a regional basis is delivering the planned lower manufacturing unit costs.

As margins started to improve towards the end of the period, the realisation of restructure benefits are expected to positively impact EBITDA in the second half of the current financial year.

In the 2015 Financial Year, Nuplex continues to expect to incur $0.8m in restructure costs and realise *incremental benefits* from:

- Manufacturing streamlining of $1.5 million.
- Business unit reorganisation of $3.8 million.
- The absence of $4.9 million in non-recurring costs associated with implementing the restructure initiatives in the prior corresponding half.

In the 2015 Financial Year, Nuplex continues to expect the *annualised benefits* from:

- Manufacturing streamlining of $6.0 million.
- Business unit reorganisation of $4.5 million.

In the 2016 Financial Year, Nuplex continues to expect *annualised benefits* from:

- Manufacturing streamlining of $6.5 million.
- Business unit reorganisation of $4.8 million.

Manufacturing streamlining update

The program of work to reduce the region's production capacity by 30% and increase the efficiency of the network is almost complete. Started in September 2012, the program enables Nuplex to manage production on a regional basis, manufacture more efficiently and have greater flexibility with regard to changes in market conditions.

Streamlining the manufacturing network was expected to be completed in December 2014 following the de-commissioning of the composite resins site at Canning Vale in Western Australia and subsequent transfer of that production to Wacol in Queensland. However, Canning Vale has been kept open for a further three months to meet local demand following the sudden closure of the only other local producer.

Work to increase the productivity of the streamlined network will be finished by the end of the 2015 calendar year once the improvements at the site in Wacol Queensland are completed. The total investment in improving the efficiency of the network is expected to be A$22 million of which A$13 million has been incurred in previous financial years.

2015 FINANCIAL YEAR OUTLOOK

Nuplex continues to expect that operating EBITDA, including a 5 month contribution from Nuplex Specialties and Masterbatch will to be between $115 and $125 million.

The 2015 Financial Year statutory results will report the performance of Nuplex's continuing operations - the global resins business. Nuplex expects EBITDA from continuing operations[8] for the 12 month period ending 30 June 2015 to be between $109 and $119 million.[9]

Nuplex expects growth rates will remain mixed by region. In Europe it is expected that markets will remain steady. Asia and North America are expected to continue to grow at rates consistent with the first half of the current financial year. Whilst in ANZ, market demand is expected to be relatively flat, with improvements coming from margin management.

The above guidance is based on foreign exchange rates as at 31 December 2014.

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[8] Excluding Nuplex Specialties and Masterbatch

[9] In 2014 Financial Year, EBITDA from continuing operations for the 12 months ended 30 June 2014 was $110.2m

Appendix information - Financial result including discontinued operations

Consolidated income (NZ$m)	1H15[1]	1H14
Sales Revenue	811.8	815.2
EBITDA	**60.4**	**59.5**
Depreciation and amortisation	(17.7)	(16.7)
EBIT	**42.7**	**42.8**
Net financing costs	(6.6)	(8.6)
Share of profits/(losses) of associates	0.8	1.1
Non-controlling interest	(1.3)	(1.2)
Tax on operating profits	(6.7)	(8.1)
Operating profit after tax	**28.9**	**26.0**
Significant Items		
Significant items before tax	5.7	(15.4)
Income tax credit on non-operating items	2.7	0.8
Net profit attributable to equity holders of the parent from continuing operations	**37.3**	**11.4**
Net profit attributable to non-controlling interests	1.3	1.2
Profit for the period from continuing operations	**38.6**	**12.6**

Segment analysis (NZ$m)	1H15[1]		1H14	
	Sales	EBITDA	Sales	EBITDA
Resins	685.8	58.9	668.8	56.4
Specialties	126.0	5.9	146.4	10.0
Unallocated costs		(4.4)		(6.9)
Total (including discontinued operations)	**811.8**	**60.4**	**815.2**	**59.5**

1 Includes 5 months of Specialties segment (consisting of Nuplex Specialties and Masterbatch)

The non-GAAP financial measures used in this document include:

- **Operating EBITDA** – Earnings before interest, tax, depreciation, amortisation, significant items, associates and minority interest.
- **EBIT** – Earnings before interest, tax, significant items, associates and minority interest.
- **Significant items** – Items that by a combination of their size, timing or irregular nature warrant separate disclosure to allow readers to better assess the recurring income generating capacity of the business.
- **Net profit** - Profit attributable to equity holders of the parent company as reported in the Statement of Comprehensive Income.
- **ROFE** – (Earnings before interest, tax and significant items) for the preceding 12 months divided by average opening and closing funds employed over the same twelve month period. Average funds employed excludes capital works under construction.
- **Funds employed** – Total equity plus current and non-current borrowings, as reported in the Consolidated Statements of Financial Position.
- **Gearing** – Net debt divided by net debt plus equity.
- **Net debt** – Borrowings minus cash and cash equivalents.
- **Operating costs** – Cost of sales as reported in the Statement of Comprehensive Income less raw material costs, plus distribution costs.
- **Fixed costs** – Marketing expenses plus Administration expenses, as reported in the Statement of Comprehensive Income.
- **Capital expenditure** – Payments for property, plant and equipment and intangibles as reported in the Statement of Cash Flows.
- **Constant currency** – Information is presented in constant currency because group results are derived in many different currencies and Nuplex believes it is helpful to the reader to understand the results excluding the impact of changes in exchange rates. Constant currency results are calculated by translating reported period results into New Zealand dollars at the average foreign exchange rates applicable in the prior corresponding period.