DuluxGroup

ANNUAL REPORT 2016

imagine
a better place

Front Cover:
'Hamptons House, Brighton' by Austin Design Associates.
Photographer: Derek Swalwell

DuluxGroup is a leading marketer and manufacturer of premium branded products that enhance, protect and maintain the places and spaces in which people live and work.

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Our Core Purpose

At DuluxGroup we help our consumers to imagine and create better places and spaces in which to live and work. We call this...

imagine
a better place

Our Values

We have four key values that guide us in finding smarter, market leading solutions for consumers and our retail and trade customers.

- Be consumer driven, customer focused.
- Unleash your imagination.
- Value people, work safely and respect the environment.
- Run the business as your own.

Our Growth Strategy

We seek above-market growth rates by:

- extending our market leading Dulux paints & coatings and Selleys sealants & adhesives businesses in Australia, New Zealand and Papua New Guinea;
- transferring our core marketing, sales and supply chain capabilities to other home improvement categories in Australia and New Zealand; and
- continuing to seek low risk ways to develop positions offshore, including those we have seeded in Asia and the United Kingdom.

DuluxGroup aims to deliver growth through a combination of organic growth and acquisitions.

Our growth enablers

Premium brands and marketing

Innovation and technology

Leading customer service

Our people and culture

Comprehensive distribution across retail and trade channels

Broad product portfolio

Financial discipline

All of these elements underpin a strong and sustainable competitive advantage, a stable earnings profile and a platform for compelling growth options.

2016 Highlights

A solid operating result, driven by profit growth in Dulux, Selleys, Yates and Lincoln Sentry.

$130.4m

NET PROFIT AFTER TAX (NPAT)

↑15.6% on a statutory basis

↑4.6% on an underlying basis*

$201.1m

EARNINGS BEFORE INTEREST AND TAX (EBIT)

↑4.5% 2015 equivalent EBIT* of $192.4 million

1.3x

NET DEBT TO EBITDA ONLY SLIGHT INCREASE ON 1.2X IN 2015, DESPITE INVESTMENT IN THE NEW DULUX PAINT FACTORY

$1.72b

SALES REVENUE

↑1.7%

87%

CASH CONVERSION**

↑4pts

Safety

INJURY RATES DOWN 11%, WITH SERIOUS INJURIES DOWN 40% AND SERIOUS 'NEAR MISS' INCIDENTS DOWN 11%, REFLECTING STEADY PROGRESS TOWARDS 'A FUTURE WITHOUT HARM'.

24.0cents

ANNUAL DIVIDEND, FULLY FRANKED

↑6.7% 71% payout ratio on NPAT

* Excludes non-recurring items incurred in FY15, which are outlined on page 19.

** A definition of cash conversion is provided in page 31.

INVESTING FOR GROWTH

- Continuing to invest in the fundamentals of brands, innovation and customer service to build on our premium branded, market leading positions in core markets. A number of new products were launched during the year, and our iconic brands and businesses were recognised in a number of ways, including:
  - Dulux and Yates voted Australia's most trusted brands again in their respective categories
  - Customer service awards including Dulux Paints Australia winning Mitre 10 Supplier of the Year and State Hardware Association Awards, and Dulux Paints New Zealand winning Guthrie Bowron Supplier of the Year
- Acquired Craig & Rose paints, a premium paint business in the United Kingdom. For a modest investment, it provides a local brand, R&D, manufacturing and distribution capability from which to grow in the UK over the longer term
- Acquired the Munns lawn care business in Australia, providing Yates an expanded product category presence
- New, state-of-the art, water-based paints factory on track to open in Melbourne in late 2017, which will use the next generation in manufacturing automation and paint technology to support growth in our world class Dulux paints business for decades to come
- Opened a new third-party operated distribution centre to support ongoing growth in our Dulux and Selleys businesses in New South Wales, further improving our customer service in a cost and capital effective way

DuluxGroup at a Glance

DuluxGroup's brands have been trusted and relied upon for generations. Brands such as Dulux, Selleys, Yates, Cabot's and B&D are household names with the highest consumer awareness in their respective markets.

***

PAINTS AND COATINGS ANZ

One of Australia and New Zealand's leading marketers and manufacturers of premium branded decorative paints, woodcare coatings, texture coatings, protective coatings, industrial and powder coatings products.

EBIT

$156.5m ↑ 6.6%[1]

CONSUMER AND CONSTRUCTION PRODUCTS

Selleys is one of Australia and New Zealand's leading marketers and manufacturers of adhesives, sealants, fillers, paint preparation and other general maintenance products for the residential home improvement market.

Parchem is a leading manufacturer and supplier of construction chemicals, decorative concrete products and related equipment for Australia and New Zealand's civil engineering, industrial, commercial and residential construction markets.

EBIT

$29.5m ↑ 1.0%[1]

*** Geelong Library and Heritage Centre by ARM Architecture Photo by: John Gollings

GARAGE DOORS AND OPENERS

A leading manufacturer and marketer of garage doors and automatic openers for the Australian and New Zealand residential, commercial and industrial markets.

EBIT

$16.1m ↓ 5.8%

CABINET AND ARCHITECTURAL HARDWARE

Lincoln Sentry is one of Australia's leading distributors of premium quality hardware and components to the cabinet making, window, door and glazing industries. It is a proud supplier of quality brands including Blum, Hera, SecureView, Assa Abloy and Breezway.

EBIT

$12.5m ↑ 38.9%

OTHER BUSINESSES

DuluxGroup's 'Other businesses' include:

- Yates, which is one of Australia and New Zealand's leading manufacturers and marketers of products for home gardening and small scale commercial horticulture;
- the paints business in Papua New Guinea, where Dulux is a clear market leader;
- the DGL Camel business in China and Hong Kong and the DGL International business in South East Asia, which have targeted niche positions across categories, including decorative and specialty coatings, adhesives, sealants and paint accessories; and
- Craig & Rose, a niche premium, paint company in the United Kingdom, acquired by DuluxGroup in August 2016.

EBIT

$14.5m ↓ 8.8%

* Distributed Brand.

** DuluxGroup Limited is an Australian company that owns the Dulux® trade mark in Australia, New Zealand, Papua New Guinea, Samoa and Fiji only and the Cabot's® trade mark in Australia, New Zealand, Papua New Guinea and Fiji only. DuluxGroup Limited is not associated with, and has no connection to, the owners of the Dulux® and Cabot's® trade marks in any other countries, nor does it sell Dulux® and Cabot's® products in any other countries.

1. Excluding non-recurring items incurred in FY15, which are outlined on page 19.

Chairman's Report

I am pleased to report that DuluxGroup has continued to grow and increase profits this year. During our sixth consecutive year of underlying profit growth, we also reinvested for ongoing growth in our principal Australian and New Zealand markets and further developed niche offshore growth opportunities.

Market conditions

Underlying demand fundamentals remained generally strong in DuluxGroup's core market – the maintenance and improvement of existing homes. Underpinned by an existing stock of approximately 10 million homes in Australia, of which about 70% are older than 20 years, this market accounts for two thirds of DuluxGroup revenue. Low interest rates, stable GDP growth and high house prices further reinforced the long term resilience of this market.

Changes in retail hardware channels, including the closure of Masters, delivered some short term revenue challenges. However, our heritage Dulux, Selleys and Yates businesses effectively managed these, delivering excellent results and growing margins, despite this short term pressure.

Although of less significance to DuluxGroup, the new housing segment continued to grow strongly. Approvals have peaked, however a solid pipeline of work is yet to be commenced and completed. DuluxGroup is deliberately less exposed to this lower margin segment of the market.

While commercial markets were positive, other non-residential construction continued to be negatively affected by declining investment in resources infrastructure. With civil infrastructure investment yet to fill the gap, there was some revenue impact on those parts of our business more exposed to these sectors.

The New Zealand market was generally favourable, but our Papua New Guinea business, in particular, was significantly affected by deteriorating economic conditions in the wake of continuing downturn in major resource projects.

The result

A 4.6%[1] increase in group net profit after tax (NPAT) was driven by solid earnings growth across most businesses. Diluted earnings per share (EPS) growth was 3.7%[1], continuing year-on-year EPS growth since DuluxGroup emerging as an independent company in 2010.

Our net debt to EBITDA ratio increased slightly. Strong cash conversion was slightly offset by the increased capital expenditure related to our new water-based paint factory, which is scheduled to open in Melbourne in late 2017. However, our debt levels remain at the lower end of our range, providing a comfortable level of flexibility to fund capital expenditure in targeted growth projects.

Shareholder returns

The Board has declared a final dividend of 12.5 cents per share, fully franked, taking the total dividend for the year to 24.0 cents per share, which represents a 6.7% increase on the 2015 equivalent, and a 71% pay-out ratio on NPAT. The record date for the final dividend is 17 November 2016 and the dividend payment date is 9 December 2016. DuluxGroup's Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend.

Since DuluxGroup listed as an independent company in July 2010 total shareholder return has been 235% compared with 64% for the ASX200 Accumulation Index[2].

Growth and investment focus

This above-market TSR has been delivered alongside reinvestment to secure longer term growth for DuluxGroup.

The new Dulux and Selleys distribution centre opened in Sydney in June this year. It has replaced our outgrown existing warehouses and has capacity to support the strong growth ahead for these two businesses. This purpose-built facility is owned and operated by a specialist third party logistics provider, and has a strong financial payback.

Construction is well underway on Dulux's new state-of-the art, water-based paints factory in Melbourne. At $165 million, this is DuluxGroup's largest capital expenditure project to date and sets up our world-class Australian paints and coatings business for growth for decades to come. It will provide a solid financial payback through cost savings and operational efficiencies. It will also produce more advanced paint products, reduce the level of waste and significantly reduce the fire and flood risk in our paint production. It is on track to begin production in late 2017.

During the year, we continued to profitably grow our existing paints, specialty coatings and adhesives businesses in Australia and New Zealand. These businesses represent approximately two thirds of DuluxGroup revenue. Dulux and Selleys are high quality performers, and this year they again did well despite some of the market pressures I mentioned earlier. Considerable progress was made in reshaping the Parchem Construction Products business to be more exposed to projected growth in civil infrastructure markets, reducing Parchem's focus on resource sector related construction.

Our core paints, specialty coatings and adhesives focus is supplemented by DuluxGroup's presence in other home improvement categories in Australia and New Zealand including garden care, garage doors & openers and cabinet & architectural hardware. In June DuluxGroup acquired the Munns lawn care business in Australia, expanding Yates' brand portfolio.

We are also continuing to seed niche offshore growth opportunities, focussed primarily on our paints and Selleys businesses. In August DuluxGroup acquired Craig & Rose, a small UK-based paints business.

1. Excluding non-recurring items in FY15, which are outlined on page 19.
2. Based on closing prices at 30 September 2016.

6.7%

INCREASE IN TOTAL DIVIDEND

For a modest investment we have secured a premium paint brand combined with local manufacturing capability. It provides a solid foundation for measured growth in the UK over the medium to long term.

Safety and sustainability

Our people and Board remain focussed on continuously improving the safety and sustainability of our operations. Central to this is identifying and managing significant risks to ensure that we prevent harm and make a positive contribution to the communities where we operate. During the year we made good progress against our four focus areas of disaster prevention, fatality prevention, injury prevention and sustainability. The number of serious near misses involving fatality risks and the number of recordable injuries both fell 11%. Our recordable injury rate is very good by industry standards and it was pleasing to also see a 40% reduction in the most serious injuries. It has been more than three decades since a major incident or disaster occurred in our chemical manufacturing processes. Given the likely high consequence of any such incident, constant vigilance is a priority. Product stewardship improvement remained our key sustainability priority and all businesses made good progress during the year.

Our people and operations

DuluxGroup employs approximately 4,000 people throughout the globe, with more than 3,000 of those located here in Australia.

Our employees at all levels feel a strong sense of ownership for our businesses and iconic brands, which is reflected in the vast majority of eligible employees choosing to hold shares in DuluxGroup in their own right.

Likewise, our executive remuneration structure is designed to focus executive effort on the long term strength and prosperity of the company, and provides clear and direct alignment with shareholder interests through share ownership. This is demonstrated by the high levels of share ownership amongst our Executive team and our requirement that all senior managers build a meaningful shareholding in DuluxGroup in addition to their long term incentive scheme shares. The full details of the Remuneration Framework are outlined in the Remuneration Report on page 67.

Diversity

Increasing the gender, cultural and age diversity of DuluxGroup's workforce remains a key priority for the Board and management. We are employing proportionally more women than ever before, including at the graduate level, and more women are in senior management roles than at any time in our history. Four of our business units are now led by women, twice as many as last year, and in the traditionally male dominated sales area six state managers are women. We still have some way to go, but the growing representation amongst graduates, middle and senior management provides a pipeline of candidates for future general business manager and executive roles.

Board renewal

In June, Graeme Liebelt joined the Board. All of the other directors were appointed at the time of, or soon after, DuluxGroup's demerger from Orica six years ago. It is a key part of our succession planning that we identify candidates with the desired skills to ensure renewal and orderly succession when the need arises. Graeme is clearly one such candidate and I am pleased to welcome him to the DuluxGroup Board. I would also like to express my thanks, on behalf of all shareholders, to Gaik Hean Chew, who will retire from the Board at the upcoming Annual General Meeting. Amongst her many valuable contributions, Gaik Hean has provided an important international perspective to our deliberations over the past six years and we wish her well in her future endeavours.

Thank you

I would also like to thank Patrick Houlihan, his management team and all employees for their contribution to another successful year at DuluxGroup.

On behalf of Board members, I thank you our shareholders for your continued support.

With DuluxGroup well positioned for ongoing profit growth, the outlook for your company remains very strong. I look forward to the next opportunity to update you on DuluxGroup's performance.

PETER KIRBY
8 NOVEMBER 2016

Managing Director's Report

I am pleased to report that DuluxGroup has delivered another year of solid profit growth.

Group performance

2016 Net Profit After Tax (NPAT) was $130.4 million, an increase of 4.6% compared with the 2015 equivalent NPAT of $124.7 million.

Sales revenue increased 1.7% to $1.72 billion. Otherwise solid growth was offset by the short term impact from changes in our Australian and New Zealand retail channels, combined with ongoing decline in Australian resources infrastructure and Papua New Guinea markets.

Earnings before interest and tax (EBIT) was $201.1 million, an increase of 4.5% excluding non-recurring items incurred in the prior year[1].

The result was underpinned by strong financial discipline to effectively manage margins and retain strong cash flow performance.

Business performance

The result was driven by consistent earnings growth in Australia and New Zealand from DuluxGroup's heritage businesses: Dulux Paints & Coatings, Selleys Consumer Products and Yates Garden Care.

Dulux, Selleys and Yates makes up more than two thirds of DuluxGroup revenue and collectively grew earnings by 6.2%, and individually delivered record profits.

The Dulux trade and specialty coatings parts of these businesses performed particularly well, which demonstrates the value of our broad end-market approach.

B&D Garage Doors & Openers, Parchem Construction Products and Lincoln Sentry Cabinet & Architectural Hardware, which were acquired in late 2012, collectively delivered EBIT growth of 8.6% in mixed market conditions.

These businesses make up about 25% of DuluxGroup's revenue. They are all profitable market leaders and are together delivering a solid return on the original cost of acquisition.

Lincoln Sentry delivered excellent revenue and profit growth and Parchem managed margins and costs to maintain profit in very tough markets. B&D is proving more challenging and we have more work to do to take this from a good business to a consistently strong performing business.

Earnings in DuluxGroup's offshore businesses, which represent around 5% of DuluxGroup's revenue, were down by $2.7 million, solely due to market decline in Papua New Guinea, with China and South East Asia improving.

Growth driven by consistent investment in premium brands, innovation and customer focus

Profitable growth has been delivered amidst ongoing competition from global competitors and ongoing changes in retail customer channels.

For our Dulux, Selleys and Yates businesses, the past 18 months have been marked by a number of changes in Australian and New Zealand retail customer channels. The fall-out from the Masters stores closures, the consolidation in the independent hardware segment in Australia and the transition of our paints brands out of Mitre 10 in New Zealand have all presented challenges.

Our businesses have responded well, delivering solid results and continuing to build their market leading positions. This success has been driven by ongoing investment in our premium brands through marketing, new product innovation and relentless focus on customer service. A number of new products were launched onto the market and we have significantly stepped-up our digital capability to interact with our consumers in real time to help them 'imagine and create a better place.'

It was pleasing to see that Dulux was again voted Australia's most trusted paint brand and is this year's fourth most trusted brand overall across any surveyed product category, and Yates was once again voted Australia's most trusted garden care brand.

4.6%

INCREASE IN GROUP NET PROFIT

EARNINGS BEFORE INTEREST AND TAX (EBIT) WAS $201.1 MILLION, AN INCREASE OF 4.5% EXCLUDING NON-RECURRING ITEMS INCURRED IN THE PRIOR YEAR.[1]

We are continuing to build B&D, Lincoln Sentry and Parchem, which are already profitable market leaders, into better businesses. We have strengthened sales, marketing and customer service capability to take these businesses to a higher level of performance.

Lincoln Sentry has developed into a consistently strong performer since acquisition, growing earnings by 19% on a compound annual basis. It continues to grow its position as one of Australia's leading distributors of premium branded cabinet and architectural hardware with incremental market share growth.

Parchem's topline growth has been challenged by the decline in infrastructure markets, particularly resources related. It has made good progress on restructuring the business, reshaping its distribution strategy, reducing costs and increasing its focus on the stronger civil infrastructure and commercial construction market segments.

B&D now has a fit for purpose customer sales and service structure and has invested to ensure it has the right product mix to deliver profitable growth. It has built a new brand position – 'Home Safe Home' – based on consumer insights, and has invested in new products, advertising and digital marketing to support it. The foundations are strong, and the focus is now on profitable revenue growth, whilst managing costs and margins, and continuing to build its premium brand position.

We are transferring capability into our more recently acquired businesses, including Porter's which has now extended its distribution reach with bespoke displays now installed in 40 stores across the Dulux Trade Store and independent paint specialist network throughout Australia and New Zealand.

Offshore, we have recently acquired the Craig & Rose paint company in the United Kingdom (UK). This is a small business with a premium brand and good growth potential from investment in marketing and better distribution. This acquisition also gives us a good physical base to potentially launch other brands and ranges into the UK market, for example Selleys and Porter's.

Success driven by culture

A major focus for the Executive Team this year has been ensuring that we have the right culture to be a truly consumer driven and innovative company. Six years of consecutive profit growth is a healthy platform from which to build an even stronger company. Our people at all levels are embracing opportunities to live the Values that will guide our success:

- Be consumer driven, customer focused.
- Unleash your imagination.
- Value people, work safely and respect the environment.
- Run the business as your own.

Our people are motivated to continuously improve their understanding of our consumers and to be imaginative in finding better and smarter ways to deliver what they need. In doing so, the fundamentals of financial discipline, customer service and ensuring the safety of ourselves and others have not changed.

An unwavering safety focus is consistently nominated by our employees as one of the things they most value about working at DuluxGroup. We encourage and reward proactive reporting of anything that could potentially cause injury, and I am pleased that the level of reporting increased to record levels this year. This marks six years of continuous improvement in this area.

Senior management changes

In February this year Siobhan McHale joined the DuluxGroup Executive Team as Executive General Manager of Human Resources.

We also increased the gender diversity in our senior management ranks, through both external appointment and internal promotion of women to the roles of: Director of Dulux Marketing ANZ; Selleys Global Marketing Director; General Manager of Automatic Technology; General Manager of Cabot's; and Technology Manager for Dulux ANZ.

Thank you

Employees at all levels have contributed to another successful year of profit growth and I thank each of them for their ongoing commitment.

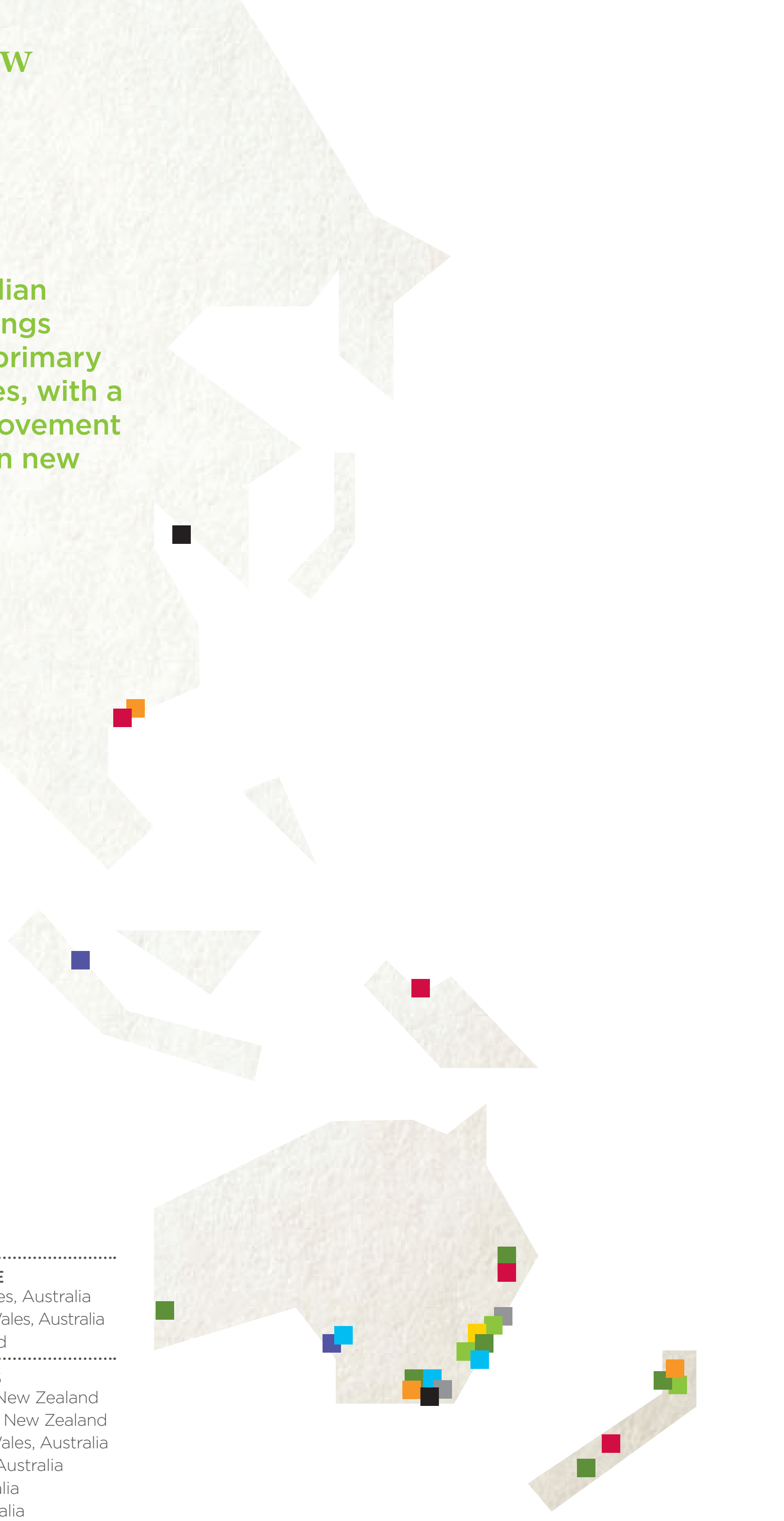
I would also like to thank Peter Kirby and the rest of the DuluxGroup Board. Finally, I thank you our shareholders for continuing to invest in DuluxGroup.

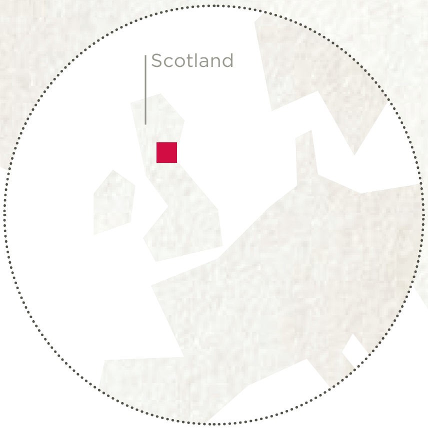
PATRICK HOULIHAN
8 NOVEMBER 2016

1. Non-recurring items in FY15 are outlined on Page 19.

Markets and Sectors

DuluxGroup is predominantly an Australian and New Zealand paints, specialty coatings and adhesives company. DuluxGroup's primary end-market focus is on residential homes, with a bias towards the maintenance and improvement of existing homes and a smaller focus on new residential construction.





OUR LOCATIONS

DuluxGroup employs approximately 4,000 people in Australia, New Zealand, Papua New Guinea, South East Asia, China and the United Kingdom. It has:

- 20 main manufacturing sites
- 19 distribution centres
- approximately 120 company owned trade outlets

MAIN MANUFACTURING SITES

DECORATIVE PAINTS
Rocklea, Queensland, Australia
Gracefield, Wellington, New Zealand
Guangdong Province, China
Lae, Papua New Guinea
Edinburgh, Scotland, UK

WOODCARE
Dandenong, Victoria, Australia

TEXTURE COATINGS
Beverley, South Australia
Shah Alam, Selangor, Malaysia

POWDER COATINGS
Guangdong Province, China
Dandenong, Victoria, Australia
Auckland, New Zealand

PROTECTIVE COATINGS
Dandenong, Victoria, Australia

SELLEYS CONSUMER PRODUCTS
Padstow, New South Wales, Australia

PARCHEM CONSTRUCTION PRODUCTS
Wyong, New South Wales, Australia

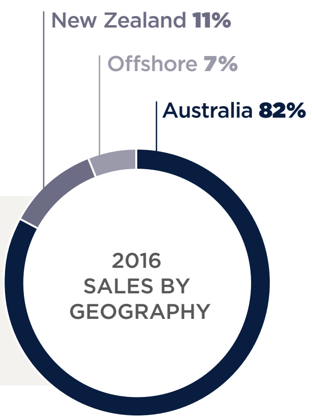
YATES GARDEN CARE
Wyee, New South Wales, Australia
Mt Druitt, New South Wales, Australia
Auckland, New Zealand

B&D GARAGE DOORS
Hornby, Christchurch, New Zealand
East Tamaki, Auckland, New Zealand
Revesby, New South Wales, Australia
Clontarf, Queensland, Australia
Kilsyth, Victoria, Australia
Malaga, Western Australia

AUTOMATIC OPENERS
Dalian, China

INNOVATION AND TECHNOLOGY CENTRES
(DuluxGroup Head Office)
Clayton, Victoria, Australia
Padstow, New South Wales, Australia
Beverley, South Australia.

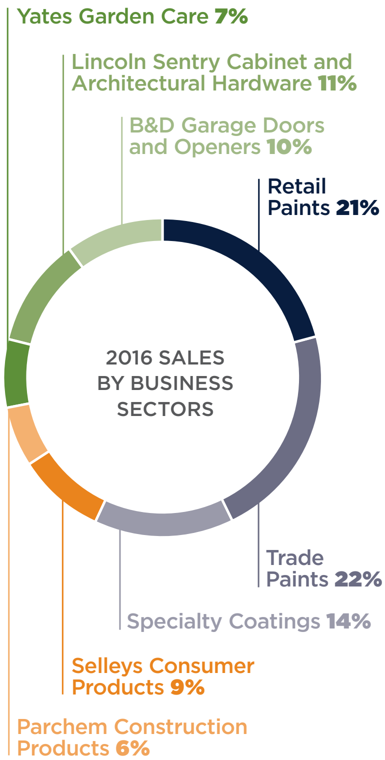
DuluxGroup holds market leading positions in Australia, New Zealand and Papua New Guinea, with exposure to higher growth regions in Asia and a small presence in the United Kingdom.



OUR PRODUCTS:

Paints, specialty coatings and adhesives account for more than 70% of group revenue.

"A broad portfolio of products and markets."



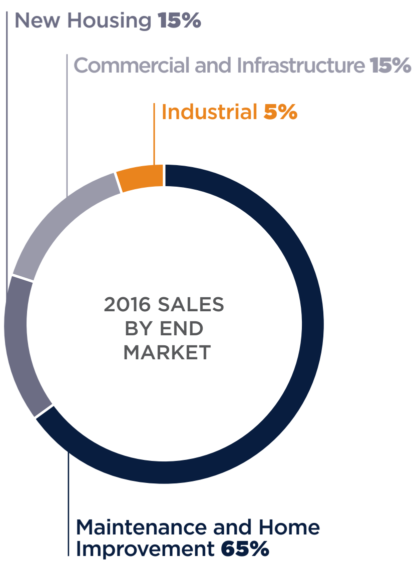
OUR END MARKETS:

Approximately two thirds of DuluxGroup's business is focused on the maintenance and improvement of existing homes. Throughout economic cycles consumers have continued to invest in making their homes 'a better place', whether it be through do-it-yourself (DIY) projects or engaging a trade professional.

DuluxGroup also has some focus on new housing, with a bias towards the premium end of the market where consumer choice of brands plays a greater role. When consumers are deciding which products to use in their own living spaces – whether it be in an existing or a new home – they seek out brands they know and trust.

Approximately one fifth of DuluxGroup's business comes from commercial, infrastructure and industrial markets.

"DuluxGroup's primary focus is on residential markets, with a strong bias towards existing homes. This is complemented by a presence in commercial and infrastructure markets."

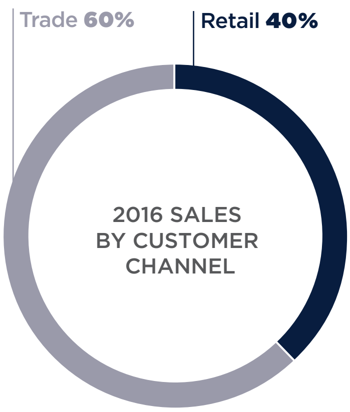


OUR CUSTOMER CHANNELS:

Almost two thirds of DuluxGroup's business is delivered via trade channels, comprising an extensive network of customers including, painters, specifiers, architects, engineers, designers, builders, concreters, cabinet makers, garage door dealers, project and facilities managers.

In addition to our own extensive company trade store network, DuluxGroup's products are sold through thousands of retail customer outlets ranging from large national home improvement and grocery retailers to specialist paint and decorating stores, smaller family-owned hardware stores and garden centres.

"DuluxGroup invests in its iconic brands and focuses on providing innovative product solutions to drive growth and success through its retail and trade customers."



* Note: Indicative DuluxGroup revenue splits based on FY16 revenue

Strategy and Growth

OUR OBJECTIVE

To deliver long term shareholder value by focussing on premium branded, innovative products that enable consumers to imagine and create better places and spaces in which to live and work.

STRATEGY

Our strategy is to develop market leadership positions in premium branded consumer and trade products, enabled with differentiated technologies. We aim to leverage our core capabilities to be the 'natural owner' of a portfolio of businesses that generates sustainable growth. Our enabling capabilities are in: marketing and consumer engagement; innovation and technology; retail and trade customer service and experience; architectural and engineering specification; and supply chain excellence.

WHERE WE PLAY

Our major focus is on markets and market segments that deliver consistent growth and strong returns, with an emphasis on the relatively stable existing home renovation and maintenance markets (65% of Group revenue). As context, Australia has about 10 million existing residential dwellings, and approximately 70% are more than 20 years old. This focus is complemented by exposure to new housing (15% of Group revenue), and commercial, infrastructure and industrial sectors (20% of Group revenue).

We focus on well structured markets where our ability to leverage our position, brands and technology allows us achieve premium margins and returns on capital employed and to continually improve the utilisation rates of existing assets and cost base.

HOW WE PLAN TO GROW

We seek above-market growth rates by:

- extending our market leading Dulux paints & coatings and Selleys sealants & adhesives businesses in Australia and New Zealand;
- transferring our core marketing, sales and supply chain capabilities to other home improvement categories in Australia and New Zealand; and
- continuing to seek low risk ways to develop positions offshore in the paint and Selleys businesses, including those we have seeded in Asia and United Kingdom.

DuluxGroup aims to deliver growth by a combination of organic growth and acquisitions.

The company's key priorities are:

- Extend the market leadership positions of our established and profitable Dulux, Selleys and Yates businesses, by both improving the base business and seeking close to the core opportunities beyond this base;
- Deliver the upside value in B&D, Parchem and Lincoln Sentry by transforming their marketing, sales and supply chain capabilities;
- Lock down medium-term growth opportunities, for example in domestic construction chemicals, and in low risk but sensible offshore positions; and
- Pursue business enhancement opportunities, including the new paint factory, distribution centre projects and company-wide projects to improve productivity.

Review of Operations

RESULT SUMMARY

- **Sales revenue** of $1,716.3M, increased by $28.5M (+1.7%)
  - Heritage DuluxGroup ANZ (Dulux, Selleys, Yates) up 2% ($18.0M), in overall flat markets
  - B&D, Lincoln Sentry and Parchem businesses collectively up 2% ($9.9M) in mixed markets
  - Offshore (Papua New Guinea, Asia and UK) down 3% ($3.5M) driven by weak markets in PNG
- **EBIT** of $201.1M, increased by 14.7%. Excluding the impact of non-recurring items in FY15 (relating to our key supply chain projects), EBIT increased $8.7M (+4.5%)
  - Heritage DuluxGroup ANZ up $11.2M or 6.2%
  - B&D, Lincoln Sentry and Parchem businesses collectively up $2.7M or 8.6%
  - Offshore down $2.7M due to PNG market decline
  - Corporate increased $2.4M due to additional growth expenditure (primarily UK related)
  - Depreciation and amortisation declined by $2.6M, primarily due to a group wide review of useful asset lives
- **Net profit after tax (NPAT)** of $130.4M increased by 15.6%. Excluding the impact of non-recurring items in FY15, NPAT increased by $5.7M or 4.6%
- **Cash conversion** was strong at 87%, favourable to the prior year's 83%
- **Operating cash flow** was $144.9M, a decrease of 7.4%. Excluding the cash impact of non-recurring items, operating cash flow declined 1.0%, primarily due to higher tax payments
- **A final dividend** of 12.5 cents per share, taking total dividends for the year to 24.0 cents per share, fully franked, an increase of 6.7% on the prior corresponding period (pcp) and represents a dividend payout ratio of approximately 70%

RESULTS	FULL YEAR ENDED 30 SEPTEMBER		
A$M	**2016**	**2015**	**% CHANGE**
Sales revenue	1,716.3	1,687.8	1.7%
EBITDA	233.4	210.2	11.0%
EBITDA excluding non-recurring items	233.4	227.3	2.7%
Depreciation and Amortisation	(32.3)	(34.9)	7.4%
EBIT	**201.1**	**175.3**	**14.7%**
EBIT excluding non-recurring items	201.1	192.4	4.5%
Net profit after tax (NPAT)	**130.4**	**112.8**	**15.6%**
NPAT excluding non-recurring items	130.4	124.7	4.6%
Operating cash flow	144.9	156.5	(7.4%)
Operating cash flow excluding non-recurring items	155.0	156.5	(1.0%)
Cash conversion excluding non-recurring items	87%	83%	4.0 pts
Net debt inclusive of USPP hedge value	300.6	276.9	(8.6%)
Net debt to EBITDA	1.3	1.2	(8.3%)
Diluted earnings per ordinary share (EPS) (cents)	33.5	29.2	14.7%
Diluted EPS excluding non-recurring items (cents)	33.5	32.3	3.7%
Final dividend per share (cents)	12.5	11.5	8.7%
Total dividend per share (cents)	24.0	22.5	6.7%

Refer to glossary on page 31 for definition of terms
Note: Numbers in this report are subject to rounding. 'nm' = not meaningful.
Non-recurring items are outlined on page 19.

RESULT BY SEGMENT

Key components of the result include:

- Consistent EBIT growth from Paints and Coatings ANZ on solid revenue growth, impacted by retail market timing dynamics and the impact of the FY15 Dulux paints exit from Mitre 10 NZ;
- EBIT growth from Consumer and Construction Products ANZ with growth from Selleys, and Parchem flat despite lower revenue (weak resources infrastructure markets);
- EBIT decline in Garage Doors and Openers, driven by one-off costs in the first half and weaker markets in the second half;
- Very strong EBIT growth from Cabinet and Architectural Hardware driven by continued 8%+ revenue growth and benefits from margin improvement initiatives;
- Decline in EBIT in Other businesses driven by weak markets in PNG, partly offset by EBIT improvements in Yates, DGL Camel China and SE Asia; and
- Increase in Corporate costs, reflecting increased investment in growth activities, including costs associated with the acquisition of Craig & Rose in the UK in the second half. Corporate Costs for FY17 are expected to be in line with FY16.

SALES AND EBIT BY SEGMENT	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	% CHANGE
Sales revenue			
Paints & Coatings ANZ	890.6	870.8	2.3%
Consumer & Construction Products ANZ	253.9	266.2	(4.6%)
Garage Doors & Openers	177.9	169.5	5.0%
Cabinet & Architectural Hardware	187.7	172.8	8.6%
Other businesses	217.0	221.6	(2.1%)
Eliminations	(11.0)	(13.1)	16.0%
Total sales revenue	**1,716.3**	**1,687.8**	**1.7%**
EBIT, excluding non-recurring items			
Paints & Coatings ANZ	156.5	146.8	6.6%
Consumer & Construction Products ANZ	29.5	29.2	1.0%
Garage Doors & Openers	16.1	17.1	(5.8%)
Cabinet & Architectural Hardware	12.5	9.0	38.9%
Other businesses	14.5	15.9	(8.8%)
Business EBIT	**229.1**	**217.9**	**5.1%**
Corporate	(28.0)	(25.6)	(9.4%)
Total EBIT, excluding non-recurring items	**201.1**	**192.4**	**4.5%**

Further discussion on the results of the segments follows from page 20.

OTHER ITEMS

RESULTS	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	% CHANGE
EBIT excluding non-recurring items	**201.1**	**192.4**	**4.5%**
Net finance costs	(19.9)	(21.3)	6.6%
Tax expense	(52.1)	(47.9)	(8.8%)
Non-controlling interests	1.4	1.5	nm
NPAT excluding non-recurring items	**130.4**	**124.7**	**4.6%**
Non-recurring items (net of tax)	–	11.9	nm
NPAT	**130.4**	**112.8**	**15.6%**
Effective tax rate excluding non-recurring items	28.8%	28.0%	

- **Net finance costs** included a $2.6M (non-cash) charge relating to the unwinding of discounting of the supply chain and other provisions. The total was $1.4M lower than the pcp due primarily to lower prevailing base interest rates, with an average all-in net cost of debt[1] of 4.8% (5.2% in the pcp)
- **Income tax expense** reflected an effective tax rate of 28.8% (28.0% in the pcp excluding non-recurring items). The effective tax rate for FY17 is expected to be in the range of 29% to 30%
- **Non-recurring items** in FY15 related to the supply chain project provisions – refer page 19

1. All-in net cost of debt – calculated as net finance costs excluding the unwinding of the discount on provisions and defined benefit fund interest and includes $0.9M of capitalised interest associated with the new paint factory.

BALANCE SHEET

Balance sheet movements are compared to September 2015. Comments by exception are as follows:

- **Trade working capital (TWC)** was adversely impacted during the year by stock building activity in preparation for industrial action at Rocklea and higher inventory balances in businesses impacted by softer sales, such as Parchem. As a result, rolling (or average) TWC as a percentage of sales was 16.0%, compared to 15.2% in FY15. However, given the strong focus on working capital improvement initiatives in the second half, year-end TWC as a percentage of sales was broadly in line with prior year, at 15.3%. We are targeting improvement in rolling TWC in FY17;
- **Property plant & equipment** increased largely due to the investment in the new paint factory and acquisitions;
- The **defined benefit fund liability** increased by $34.4M from September 2015, following a regular actuarial reassessment of the fund liability during FY16. Key changes include a reduction in the discount rate and an increase in assumed pension take-up rate; and
- **Net debt** inclusive of the USPP hedge value increased by $23.7M during FY16, reflecting cash flow performance, in particular, expenditure on the new paint factory.

BALANCE SHEET	FULL YEAR ENDED 30 SEPTEMBER	
A$M	2016	2015
Inventories	218.9	216.0
Trade debtors	252.3	253.2
Trade creditors	(208.3)	(212.6)
Total trade working capital	262.9	256.6
Non trade debtors	13.4	12.6
Deferred tax balances (net)	43.4	37.3
Property, plant & equipment	312.0	261.9
Intangible assets	234.0	232.1
Investments	6.5	6.3
Non trade creditors	(42.8)	(38.3)
Defined benefit fund liability	(56.5)	(22.1)
Provision for income tax	(14.4)	(19.5)
Provisions (excluding tax)	(88.0)	(98.3)
Net debt inclusive of USPP hedge value	(300.6)	(276.9)
Other	(4.8)	(0.4)
Net Assets	**365.2**	**351.2**

Refer to glossary on page 31 for definition of terms.

CASH FLOW

Operating cash flow excluding non-recurring items was $155.0M, $1.5M (1.0%) lower than the pcp. The key drivers offsetting higher EBITDA were:

- **Income taxes paid** ($13.0M unfavourable compared to the pcp) – largely due to the flow on impact of prior period growth in taxable income; and
- **TWC movement** ($9.9M favourable compared to the pcp) – reflects a relatively flat performance in TWC as a % of sales in FY16 compared to an increase in the pcp

Key drivers of the remainder of the cash flow are:

- Investing cash outflows increased by $32.4M, due primarily to increased capital expenditure relating to the new paint factory ($41M in FY16 compared to $5M in FY15).

Cash conversion excluding non-recurring items was 87%, 4% points favourable to the pcp, with lower maintenance capital expenditure and lower TWC outflow the key drivers.

STATEMENT OF CASH FLOWS	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	% CHANGE
Operating cash flows excluding non-recurring items			
EBITDA	233.4	227.3	2.7%
Trade working capital movement	(8.7)	(18.6)	53.2%
Other	(11.7)	4.2	nm
Income taxes paid	(52.5)	(39.5)	(32.9%)
Net interest paid	(15.5)	(16.9)	8.3%
Operating cash flow	**144.9**	**156.5**	**(7.4%)**
Less non-recurring cash items included above	(10.1)	–	nm
Operating cash flow excluding non-recurring items	**155.0**	**156.5**	**(1.0%)**
Net investing cash flows			
Capital expenditure	(60.8)	(29.4)	(107%)
Acquisitions	(13.3)	(11.5)	(15.7%)
Disposals	0.5	0.3	66.7%
Dividends received	0.5	0.0	nm
Investing cash flow	**(73.0)**	**(40.6)**	**(79.8%)**
Financing cash flow before debt movement	**(93.6)**	**(57.0)**	**(64.2%)**
Total cash flow before debt movement	**(21.8)**	**58.9**	**nm**
Cash conversion excluding non-recurring items	**87%**	**83%**	

Refer to glossary on page 31 for definition of terms.

NON-RECURRING ITEMS

There were no non-recurring items impacting EBIT or NPAT in FY16. However, cash flow was adversely impacted by the utilisation of the supply chain restructuring provisions (provided for in FY15).

The non-recurring items recognised are outlined below:

NON-RECURRING ITEMS	FULL YEAR ENDED 30 SEPTEMBER		
A$M	EBIT	NPAT	OPERATING CASH FLOW
Supply chain provision payments			(10.1)
Total 2016	**–**	**–**	**(10.1)**
Supply chain restructuring provisions	(17.0)	(11.9)	–
Total 2015	**(17.0)**	**(11.9)**	**–**

Paints and Coatings Australia and New Zealand

One of Australia and New Zealand's leading marketers and manufacturers of premium branded decorative paints, woodcare coatings, texture coatings, protective coatings, industrial and powder coatings products. With a heritage dating back almost a century, Dulux has grown to become the number one brand for home owners and trade professionals. Strong investment in marketing and new product innovation is reflected in industry leading brand recognition. Dulux is regularly named as one of Australia's 'most trusted' brands.

PAINTS & COATINGS ANZ	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	% CHANGE
Sales revenue	890.6	870.8	2.3%
EBITDA*	172.8	165.1	4.7%
EBIT*	156.5	146.8	6.6%
*EBIT % Sales**	*17.6%*	*16.9%*	
Non-recurring items	–	(13.8)	

* measures exclude non-recurring items in 2015.

EBIT

$156.5m

UP $9.7M OR 6.6% (EXCLUDING NON-RECURRING ITEMS IN PRIOR PERIOD)

STRONG PERFORMANCE IN AUSTRALIA AND STRONG SECOND HALF PERFORMANCE IN NEW ZEALAND

Sales revenue up $19.8M (+2.3%)

- Revenue grew 3%[1] in the Australian business and was flat in New Zealand
- In Australia, revenue growth largely reflected broadly flat markets overall and modest price benefits reflecting a shift toward premium products (eg. new Dulux Wash & Wear)
- Overall markets were broadly flat with the adverse impact of short term, retail market timing dynamics offsetting growth in other sectors (trade renovation and repaint, new housing and commercial)
  - Within the Australian decorative paint market:
    - The renovation and repaint market (typically 75% of market volume) declined 4.5% (compared to 5% market growth in FY15 and long term average of 1.0–1.5%). The trade sector of this market grew strongly. However, the retail sector declined, largely reflecting the sell-in to retail channels of cheap paint in the prior year, the promotional sell-in of Dulux's new Wash & Wear range in the second half of 2015 and to a lesser extent, the impact of the closure of Masters. Excluding these impacts, we estimate 'sales out' from retail channels was positive, led by Bunnings
    - New housing (typically 20% of market volume) grew at 5%, reflecting growth in completions, and the commercial market (5% of market volume) also grew at 5%
  - The texture and powder coatings markets grew strongly (new housing driven)
  - The protective coatings market declined (soft construction and mining markets)
- Market share in Australia was maintained despite strong growth in the new housing sector, in which DuluxGroup's share is strategically lower
- Consistent with guidance, New Zealand sales were flat, with strong growth in H2 offsetting the revenue decline in H1. The impact of the Dulux exit from Mitre 10 New Zealand (which impacted H2 FY15 and H1 FY16) has fully cycled through. The NZ market grew modestly.

EBIT growth of $9.7M (+6.6%) before non-recurring items

- Strong EBIT growth in Australia, reflecting the sales growth together with good fixed cost control and lower depreciation costs
- Input costs increased modestly, reflecting a skew to more premium products
- New Zealand EBIT was effectively flat with a stronger second half largely offsetting the first half decline
- The EBITDA margin improvement was within the trade and specialty coatings businesses, with EBITDA margin flat in the retail businesses

FY17 Outlook

- The fundamentals for the Paints and Coatings ANZ business remain sound. The Masters stock liquidation sale may have a minor transitional impact on the market in the first half of FY17, but we expect underlying demand, particularly in the renovation and repaint market, to continue to grow in line with the historical 1.0–1.5% growth in volume terms
- Input costs are expected to increase in line with inflation
- We expect some minor commissioning costs associated with the new paint factory in late FY17, which we aim to absorb
- EBIT margins are not expected to increase in FY17

1. Percentages shown are approximations only.

Consumer and Construction Products Australia and New Zealand

This segment consists of Selleys sealants, adhesives, fillers and other consumer home improvement products and Parchem construction chemicals and related products in Australia and New Zealand.

Selleys was established in Sydney in 1939 with a focus on invention and creativity. That legacy has endured, and today Selleys is a leading choice for Australian and New Zealand consumers and tradespeople when it comes to household adhesives, sealants, fillers, paint preparation and other home maintenance products.

Parchem's origins date back to 1958. Since that time, it has grown to be a leader in the manufacture and supply of construction chemicals, decorative concrete products and related equipment for Australia and New Zealand's civil engineering, industrial, commercial and residential construction markets.

CONSUMER & CONSTRUCTION PRODUCTS ANZ	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	% CHANGE
Sales revenue	253.9	266.2	(4.6%)
EBITDA*	32.6	32.6	0.0%
EBIT*	29.5	29.2	1.0%
*EBIT % Sales**	*11.6%*	*11.0%*	
Non-recurring items	–	(3.2)	

* measures exclude non-recurring items in 2015

EBIT

$29.5m

EXCLUDING NON-RECURRING ITEMS, UP $0.3M OR 1.0%

GROWTH FOR SELLEYS AND A FLAT RESULT FOR PARCHEM DESPITE CHALLENGING MARKETS

Sales revenue down $12.3M (-4.6%)

- Selleys sales were marginally below the prior year, with strong growth in strategic hardware and other partners offset by de-stocking activities across the Woolworths hardware group and lower internal sales (eg. exports to our Asian businesses, as we switch to locally sourced products). Excluding these issues, Selleys grew underlying revenue by more than 4%
- Parchem sales were (as expected) adversely impacted by weak markets, particularly the resources infrastructure market in Australia

EBIT up $0.3M excluding non-recurring items (1.0%)

- Selleys EBIT increased, reflecting good cost control and depreciation benefits
- Parchem EBIT was flat, with the impact of the lower revenue offset by the benefit of gross margin initiatives and the cost reduction programs undertaken in FY15 and FY16

FY 17 Outlook

- The fundamentals for Selleys remain strong, underpinned by a recent step up in new product development and marketing. The majority of the Woolworths hardware group de-stocking activities now appears to have been absorbed by the business
- Market conditions remain challenging for Parchem. The annualised impact of the structural and margin initiatives implemented over the last two years, together with a continued re-focus towards civil infrastructure and commercial construction markets, should provide a buffer against some continued market weakness. Further work on optimising the product portfolio, distribution and costs is also likely to be undertaken in FY17

SELLEYS Polyfilla Rota Cota Hillmark parchem CONSTRUCTION SUPPLIES FOSROC* AVISTA CONCRETE PLUS LTD

* Distributed brand

Gisborne War Memorial Theatre, New Zealand,
Dulux Colour Awards entrant
By: Shand Shelton
Photographer: Doug Mountain

Garage Doors and Openers

B&D was founded in Sydney in 1946. Ten years later, the B&D Roll-A-Door debuted at the Sydney Home Show to immediate success. An icon of the suburban landscape was born. Today DuluxGroup's Garage Doors and Openers business is one of the leading marketers and manufacturers of garage doors and automatic openers for the Australian and New Zealand residential, commercial and industrial markets. The B&D Roll-A-Door has gone on to be named one of Australia's most successful inventions.

GARAGE DOORS & OPENERS	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	%
Sales revenue	177.9	169.5	5.0%
EBITDA	22.6	23.4	(3.4%)
EBIT	16.1	17.1	(5.8%)
EBIT % Sales	*9.1%*	*10.1%*	

EBIT

$16.1m

DOWN $1.0M OR 5.8%

CHALLENGING SECOND HALF MARKETS AND ONE-OFF COSTS IMPACTED RESULT

Sales revenue up $8.4M (+5.0%)

- Australian markets were flat overall, with growth in the first half offset by weakness in the second half, particularly in the last quarter. New Zealand markets were positive with growth across all end markets, particularly new housing
- Share outcomes were positive, driven by New Zealand, the openers business and the WA acquisition (Gliderol's WA business was acquired in November 2015). Price increases were achieved to largely offset input cost increases
- Excluding Gliderol WA, sales increased 2.2%. Growth in new housing was largely offset by a decline in the renovation and repair dealer channel

EBIT decline of $1.0M (-5.8%)

- EBIT decline was largely attributable to one-off costs including the first half centralisation of customer service centres from state based to a national centre (approximately $0.5M) and the impact of the second half market weakness, which impacted fourth quarter revenue and margins. Costs were generally well managed in the second half

FY 17 Outlook

- The business has been investing in growth initiatives, including the release of new products (eg. Auto-Lock) and the relaunch of the B&D brand towards the end of FY16
- Given the lower than expected result, and notwithstanding these growth initiatives and the lower cost base following second half restructuring, improvement of this business remains work in progress

Cabinet and Architectural Hardware

The Lincoln Sentry cabinet and architectural hardware distribution business was established in Brisbane in 1986. Since then, it has evolved to become one of Australia's leading distributors of premium quality hardware and components to the cabinet making, window, door and glazing industries. It supplies quality brands including Blum, Hera, SecureView, Assa Abloy and Breezway.

CABINET & ARCHITECTURAL HARDWARE	FULL YEAR ENDED 30 SEPTEMBER		
A$M	2016	2015	% CHANGE
Sales revenue	187.7	172.8	8.6%
EBITDA	14.8	11.4	29.8%
EBIT	12.5	9.0	38.9%
EBIT % Sales	*6.7%*	*5.2%*	

EBIT

$12.5m

UP $3.5M OR 38.9%.

CONTINUED STRONG REVENUE GROWTH AND IMPACT OF MARGIN IMPROVEMENT INITIATIVES.

Sales revenue up $14.9M (+8.6%)

- Sales growth was led by the cabinet hardware business, in solid markets, primarily focused on the renovation of existing homes
- Share outcomes were positive, particularly in cabinet hardware
- Positive price outcomes were consistent with supplier price increases together with improved pricing discipline

EBIT growth of $3.5M (+38.9%)

- EBIT growth was driven by the flow through of the sales growth, together with fixed cost leverage and margin improvement initiatives

FY 17 Outlook

- The business remains well positioned for continued growth

* Distributed brand


SMEG

Other businesses

DuluxGroup's 'Other businesses' include:

- Yates, which is one of Australia and New Zealand's leading manufacturers and marketers of products for home gardening and small scale commercial horticulture. Products include seeds, pest & disease control, lawn care, fertilisers, pots, potting mix and organic gardening products. From its inception in 1883, Yates has grown into the fabric of the Australian and New Zealand community and is regularly named one of its 'most trusted' brands.
- The paints business in Papua New Guinea, where Dulux has been manufacturing since 1968 and is a clear market leader.
- The Craig & Rose paints business in the United Kingdom, a niche manufacturer and marketer of premium paint products, which was acquired by DuluxGroup in August 2016.
- The DGL Camel business in China and Hong Kong (51% owned by DuluxGroup) and the DGL International business in South East Asia. DuluxGroup has been operating in Asia for more than two decades. These businesses have targeted niche positions across categories, including decorative and specialty coatings, adhesives, sealants and paint accessories.

OTHER BUSINESSES	FULL YEAR ENDED 30 SEPTEMBER		
A$M	**2016**	**2015**	**% CHANGE**
Sales revenue	217.0	221.6	(2.1%)
EBITDA	17.3	19.1	(9.4%)
EBIT	14.5	15.9	(8.8%)
EBIT % Sales	*6.7%*	*7.2%*	

EBIT

$14.5m

DOWN $1.4M OR 8.8%

EBIT IMPROVEMENT IN YATES, CHINA AND SOUTH EAST ASIA WAS MORE THAN OFFSET BY A DECLINE IN PNG DUE TO WEAK ECONOMIC CONDITIONS

- **Yates ANZ** revenue declined modestly due to soft markets, driven by poor weather conditions in peak selling periods and lower sales to Masters, partly offset by sales from the Munns acquisition (from June 2016). EBIT growth was supported by favourable product mix and good cost control
- **DGL Camel** revenue grew modestly in soft markets due to market share gains associated with the Camel Professional paint relaunch in Hong Kong and China. Modest EBIT improvement reflected margin improvement initiatives
- The **South East Asian** business produced higher sales and EBIT largely driven by strong growth in Vietnam
- The **PNG business** was significantly impacted by weaker economic conditions, which deteriorated further in the second half. For the full year, EBIT declined by more than $3M due to lower sales and a weakening Kina. Despite this, the PNG business remains profitable
- The Craig & Rose **UK paints business** acquired in August now forms part of this segment. No material contribution was made during the year

FY17 Outlook

- We expect growth in Yates, China and South East Asia to more than offset the management, sales and marketing investment we plan to make in the UK
- The outlook for the PNG economy remains weak, with an improvement in economic conditions dependent on international investment in major resources projects. Costs are being reduced within the business with the objective to mitigate any further short term market weakness

* DuluxGroup Limited is an Australian company that owns the Dulux® trade mark in Australia, New Zealand, Papua New Guinea, Samoa and Fiji only and the Cabot's® trade mark in Australia, New Zealand, Papua New Guinea and Fiji only. DuluxGroup Limited is not associated with, and has no connection to, the owners of the Dulux® and Cabot's® trade marks in any other countries, nor does it sell Dulux® and Cabot's® products in any other countries.

SUPPLY CHAIN INVESTMENTS

The first of the two supply chain investment projects, the NSW distribution centre, successfully commenced operation in July. The new paint factory remains on time and budget.

NSW Dulux and Selleys distribution centre

The new distribution centre was completed on schedule and budget in early June. Transition from the Selleys Moorebank and Dulux Padstow distribution centres occurred during June and July and the new centre was fully operational from 25th July 2016. The centre is owned and operated by Linfox.

New Dulux water-based paint factory

The new paint factory remains on track to be delivered on time and budget ($165M).

Substantial progress has been made on construction of the new factory during the year. Site works commenced in December 2015 and as at the end of October 2016 the main building is complete and installation of major plant and equipment has commenced.

During the year, capital of $41M was spent on the new paint factory which is below the previous estimate for this financial year of $60M. The lower spend reflects minor delays on non-critical path items and payment terms.

The project is due for commissioning in mid-2017, with production in late calendar 2017. A schedule outlining the latest estimated capital expenditure associated with the new paint factory, together with an outlook for other group capital expenditure follows:

DULUXGROUP CAPITAL EXPENDITURE

A$M	2015	2016	2017	2018	TOTAL
New paint factory[1]	5	41	90	29	165
Other Projects	25	20	25-30	25-30	
Total	**30**	**61**	**115-120**	**54-59**	

Once the factory opens, the annualised depreciation increase will be approximately $7M. For the first full year of operation of the new paint factory (FY19), we expect a neutral EBIT outcome, with operational savings offsetting incremental depreciation. During FY17 and FY18 minor commissioning costs will be incurred.

1. New paint factory capital expenditure includes capitalised interest.

DURING THE YEAR THREE ACQUISITIONS WERE COMPLETED, FOR TOTAL CONSIDERATION OF $13.5M.

ACQUISITIONS

Craig & Rose

In August 2016 DuluxGroup acquired Craig & Rose, a small UK-based paint business. The acquisition of a premium paint brand in the UK combined with local manufacturing capability is consistent with DuluxGroup's strategy of growing niche positions in offshore markets.

Munns

In June 2016 DuluxGroup acquired the Munns lawn care business. The acquisition expands the Yates brand portfolio in the lawn care segment and provides growth opportunities through Yates' more extensive sales and distribution network.

Gliderol WA

In November 2015 DuluxGroup acquired Gliderol's Western Australian garage door and openers business. The rationale for the acquisition was to obtain a Western Australian sectional door line, and to increase WA market share (given B&D's share in WA has historically been lower than in other states).

GLOSSARY

- **Acquisitions** – represents 'payments for purchase of businesses'.
- **Capital expenditure** – represents the 'payments for property, plant and equipment' and 'payments for intangible assets' per the financial statements.
- **Cash conversion** – is calculated as EBITDA excluding non-recurring items, less movement in trade working capital and other operating cash flow movements excluding interest and tax, less minor capital spend (capital expenditure less than $5.0M), as a percentage of EBITDA excluding non-recurring items.
- **Diluted EPS excluding non-recurring items** – represents diluted EPS adjusted for the non-recurring items outlined on page 19.
- **Disposals** – represents 'proceeds from disposal of property, plant and equipment'.
- **EBIT excluding non-recurring items and EBITDA excluding non-recurring items** – refer to note 2 in the financial statements. Directors believe that the result excluding these items provides a better basis for comparison from period to period.
- **EBITDA** – represents EBIT plus depreciation and amortisation.
- **Net debt** – refer to note 14 in the financial statements.
- **Net debt inclusive of USPP hedge value and Net debt to EBITDA** – are calculated by taking closing net debt, adjusted to include the asset balance relating to the cross currency interest rate swap and interest rate swap established to hedge the United States dollar (USD) currency and interest rate exposures relating to the US Private Placement (USPP) debt. Net Debt to EBITDA reflects this measure as a multiple of the most recent twelve months of EBITDA before non-recurring items.
- **Net profit after tax (NPAT)** – represents 'Profit for the year attributable to ordinary shareholders of DuluxGroup Limited' per the financial statements.
- **Non trade creditors** – represents the 'other payables' portion of 'trade and other payables'. Balances reflect the management balance sheet, which is based on different classification and groupings than the balance sheet in the financial statements.
- **Non trade debtors** – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets'. Balances reflect the management balance sheet, which is based on different classification and groupings than the balance sheet in the financial statements.
- **NPAT excluding non-recurring items** – represents NPAT, excluding the non-recurring items outlined on page 19. Directors believe that the result excluding these items provides a better basis for comparison from period to period.
- **Operating cash flow excluding non-recurring items** – the equivalent of 'Net cash inflow from operating activities', less the cash component of the non-recurring items outlined on page 19.
- **Rolling TWC to rolling sales** – calculated as the 12 month rolling average of month end TWC balances divided by the most recent 12 months sales revenue. This figure is not directly extracted from the financial statements.
- **Trade working capital (TWC)** – represents the net trade receivables portion of 'trade and other receivables' plus 'inventory', less the trade payables portion of 'trade and other payables'. Balances reflect the management balance sheet, which is based on different classification and groupings than the balance sheet in the financial statements.

Future Financial Prospects

DuluxGroup considers a range of external indicators in assessing outlook. These include the performance of the markets in which DuluxGroup's businesses operate, raw material prices and other cost drivers.

MARKET

Overall, DuluxGroup's end market exposure is biased to the existing home, with 65%[1] of revenue relating to maintenance and home improvement. DuluxGroup also has a meaningful exposure to new construction, with 15%[1] of revenue relating to new residential housing and 15%[1] relating to commercial and infrastructure construction. The remaining 5%[1] of revenue relates to industrial markets.

Lead indicators for our key markets remain largely positive, supported by GDP growth in Australia and New Zealand, high property prices and low interest rates.

Renovation and improvement to existing homes tends to be impacted by factors such as gross domestic product, interest rates, house prices, consumer confidence and housing churn. Renovation statistics themselves, whilst an important measure, do not capture all the activity relevant to DuluxGroup, as many of the projects relevant to DuluxGroup are below any recordable threshold.

The key existing homes segment is expected to continue providing resilient and profitable growth, underpinned by:

- 10 million existing dwellings in Australia, of which two thirds are detached homes
- 70% of these are more than 20 years old

Underlying market demand for this end market is generally resilient and consistent given that many of the projects that use our products focus on maintenance activities of the existing home, are individually of relatively small value and often are, or can be, do-it-yourself in nature.

The new housing construction market, which has experienced strong growth over the past three years, is expected to remain strong throughout financial year 2017. Although housing approvals have peaked, the lag between approvals and completions should provide a solid pipeline of work, though biased to the multi-residential market. DuluxGroup businesses are strategically less exposed to this lower margin sector. DuluxGroup's exposure to this segment is late cycle.

The outlook for commercial and infrastructure markets is expected to be subdued overall. In Australia, commercial construction and maintenance markets are expected to remain solid. Engineering construction projects are expected to continue declining throughout financial year 2017, particularly in the resources sector, before stabilising in financial year 2018. Although the pipeline of public infrastructure projects is building, particularly in major urban transport, increased spending is not sufficient to offset the decline in private sector engineering construction expenditure.

In New Zealand, markets are expected to remain strong, underpinned by the new housing construction market.

Growth rates in the Chinese and Hong Kong paints, coatings and adhesives markets are expected to be relatively subdued. The outlook for the PNG economy remains weak, with an improvement in economic conditions dependent on international investment in major resources projects.

RAW MATERIALS AND OTHER COSTS

DuluxGroup has a wide range of raw materials. The two largest are latex resin and titanium dioxide, both of which are key ingredients in paint. Input costs are expected to increase in line with inflation for paint and coatings in 2017.

Approximately 30-40% of input costs have a direct or indirect link to other currencies, such as the US dollar, the Euro and Chinese Renminbi. If there is a material weakening of the Australian dollar during the year, then input costs may be adversely affected.

In general, and over a number of years, DuluxGroup has mitigated input cost variation, particularly in its paint and coatings businesses, through a number of cost and price-related mechanisms. DuluxGroup will endeavour to continue to achieve this outcome in future.

INVESTMENT

DuluxGroup has a strong history of continuing to invest in marketing and innovation. We aim to continue to invest in marketing in line with top line sales growth.

Significant capital expenditure for construction of the new paint factory will continue over the next two financial years. Details of this expenditure profile are outlined on page 30 of the Operating and Financial Review.

OVERALL OUTLOOK

Subject to economic conditions and excluding non-recurring items, we expect that 2017 net profit after tax will be higher than the 2016 equivalent of $130.4M.

Directors expect to maintain a dividend payout ratio on NPAT before non-recurring items of approximately 70% on a full year basis.

Outlook commentary related to specific business segments

Paints and Coatings ANZ

- The fundamentals for the Paints and Coatings ANZ business remain sound. The Masters stock liquidation sale may have a minor transitional impact on the market in the first half of FY17, but we expect underlying demand, particularly in the renovation and repaint market, to continue to grow in line with the historical 1.0-1.5% growth in volume terms
- Input costs are expected to increase in line with inflation
- We expect some minor commissioning costs associated with the new paint factory in late FY17, which we aim to absorb
- EBIT margins are not expected to increase in FY17

1. Indicative revenue splits for DuluxGroup

Consumer and Construction Products ANZ

- The fundamentals for Selleys remain strong, underpinned by a recent step up in new product development and marketing. The majority of the Woolworths hardware group de-stocking activities now appears to have been absorbed by the business
- Market conditions remain challenging for Parchem. The annualised impact of the structural and margin initiatives implemented over the last two years, together with a continued re-focus towards civil infrastructure and commercial construction markets, should provide a buffer against some continued market weakness. Further work on optimising the product portfolio, distribution and costs is also likely to be undertaken in FY17

Garage Doors and Openers

- The business has been investing in growth initiatives, including the release of new products (eg. Auto–Lock) and the relaunch of the B&D brand towards the end of FY16
- Given the lower than expected result, and notwithstanding these growth initiatives and the lower cost base following second half restructuring, improvement of this business remains work in progress

Cabinet and Architectural Hardware

- The business remains well positioned for continued growth

Other businesses

- We expect growth in Yates, China and South East Asia to more than offset the management, sales and marketing investment we plan to make in the UK
- The outlook for the PNG economy remains weak, with an improvement in economic conditions dependent on international investment in major resources projects. Costs are being reduced within the business with the objective to mitigate any further short term market weakness

Other

- Corporate costs for the FY17 year are expected to be in line with FY16
- The effective tax rate is expected to be 29-30%
- DuluxGroup is targeting operating cash conversion of 80%+, excluding non-recurring cash flow items (e.g. utilisation of the Rocklea restructuring provision)

Material Business Risks

The DuluxGroup Board and management have established controls that are designed to safeguard the Company's interests and the integrity of its reporting. These include accounting, financial reporting, safety and sustainability, crisis management, fraud and corruption control, delegations of authority and other internal control policies and procedures.

The Board has also established practices for the oversight and management of key business risks. In particular, DuluxGroup maintains a risk management framework that includes the development and maintenance of risk registers within each business and at a consolidated group level for the most material risks. The Board reviews this consolidated risk register annually, with input as appropriate from the relevant Board committees, and individual risks are discussed by the Group Executive on a rotating basis across the year. The material business risks that have the potential to impact the Company's future financial prospects and strategic imperatives, are outlined below, together with mitigating actions undertaken to minimise these risks.

The risks outlined are not in any particular order and do not include generic risks that affect all companies (eg execution risk, key person risk) or macro risks such as significant changes in economic growth, inflation, interest rates, employment, consumer sentiment or business confidence, which could have a material impact on the future performance of the Company.

RISK	NATURE OF RISK	ACTION/PLANS TO MITIGATE
Growth	An inability to identify and execute sustainable growth opportunities, and/or the risks associated with pursuing further growth, could impact the Company's long term profitability.	• Experienced internal growth and M&A capability supported by external advisers as appropriate • Board oversight of growth activities
Key customer relationships	DuluxGroup's largest retail customers represent a significant portion of total revenue. Loss of revenue from key customers could impact the Company's profitability.	• Ongoing investment in iconic brands (marketing and innovation) to drive consumer activity into our key retail channels and to assist our customers in succeeding • Continued focus on providing superior customer service • A broad base of retail and trade customers maintained
Business continuity including catastrophic event or hazard in manufacturing and distribution operations and/or IT systems	DuluxGroup's operations could be impacted by accidents, natural disasters, failure of critical IT systems or other catastrophic events that have the potential to materially disrupt its operations.	• Disaster recovery plans in place for all major sites and critical IT systems • Increased focus on addressing cyber security threats • Rigorous safety and hazard identification, audits and prevention systems at key sites, with significant ongoing investment in these systems • Insurance policies; including business interruption cover • Construction of the new water-based decorative paint factory in Melbourne is progressing and will significantly reduce fire and flood risks
Competitive threats/ market disruption	There is a risk that DuluxGroup's multinational competitors or new disruptive entrants could bring product innovations or lower cost to the Australian market, threatening DuluxGroup's market share and/or operating margins.	• Strong, established brands supported by ongoing marketing investment • Significant investment in local innovation and product formulation capability, to ensure products and services are well-suited to our markets • Use of multinational suppliers for key decorative paint raw materials to reduce potential technology exposure • Active international product benchmarking program

RISK	NATURE OF RISK	ACTION/PLANS TO MITIGATE
Erosion of brand equity	DuluxGroup's iconic brands are relied upon for their quality and premium performance. A significant loss of brand equity could have a material adverse effect on revenue and profit.	• Active product stewardship focus • Systematic quality assurance and testing process • Investment in product innovation • Investment in brands
Product liability or other litigation	Litigation relating to product liability, product recall, regulatory controls or environmental practices could result in a materially adverse financial impact.	• Investment in quality assurance and governance practices • Well developed customer service and complaints response processes • Insurance policies
Key input volatility	Supply disruption and/or non-availability of key input materials could impact revenue and/or price volatility, including the effect of foreign exchange fluctuations, could impact operating margins.	• Utilisation of a range of suppliers • Robust supplier selection processes • Contingency supply arrangements • Insurance policies including business interruption • Active raw material cost and gross margin forecasting processes • Foreign exchange hedging program
Regulatory – safety	A death or major injury in the workplace would be devastating for employees and families and could jeopardise the Company's reputation as a first-choice employer.	• Heavy focus on disaster prevention, fatality prevention and personal safety • Significant investment in dedicated safety resources, training and audits • *Refer to the Safety & Sustainability Report for further information*
Industrial relations	DuluxGroup product supply could be materially impacted by prolonged industrial disputes related to the renegotiation of collective agreements.	• DuluxGroup has multiple manufacturing and distribution sites • Ongoing development of industrial relations capability • Continual focus on site based productivity improvement and positive employee relations • Enterprise agreement negotiations are conducted within established governance structures including defined negotiation frameworks and steering committee oversight
Project execution risk – construction of new water-based paint factory	A significant delay or cost overrun to the project could limit available capital resources for the Company and/or damage DuluxGroup's reputation to deliver future large scale projects.	• Rocklea manufacturing facility can continue to manufacture water-based paint so that in the event of a delay there is no threat to customer supply • Experienced project management team supported by good project governance (e.g. steering committee, Board oversight) • Robust contractor selection processes • Detailed design work completed prior to project commencement • Regular independent project audits • Contract works insurance policies

Safety and Sustainability Report

Welcome to the 2016 DuluxGroup Safety and Sustainability Report. During the year we continued our focus on improving management of significant risks to prevent harm, with good outcomes achieved in a number of areas. These outcomes included:

- **Disaster prevention:** No major incidents (e.g. fire) involving disaster risks, although a major near miss involving a solvent spill at Parchem Wyong occurred. A thorough investigation was completed and corrective actions implemented.
- **Fatality prevention:** We remained fatality free and our serious near misses involving fatality risks decreased 11%, while our total hazard and near miss reporting increased 8% to a positive, historic high level.
- **Injury prevention:** An 11% reduction in recordable injuries, including a 40% reduction in serious injuries. Workers compensation performance remained positive, with claims and premiums sustained at historic low levels.
- **Sustainability:** Continued product stewardship improvements (e.g. product reformulation) to prevent potential harm to our customers, consumers and the environment. A further 5% reduction in water consumption, while waste to landfill increased 9% due to improved cleanup and data capture across newer sites.

STRATEGY

In order to achieve DuluxGroup's safety and sustainability vision of 'A Future Without Harm', our improvement priorities are focussed on ensuring effective identification and management of the material risks associated with our products, operations and people. This includes all facets of our business activities to ensure we meet the expectations of all stakeholders, including our customers and consumers. An integrated approach to management of our risks means that all DuluxGroup businesses operate within a common safety and sustainability strategic framework that is focussed on four differentiated risk areas.

SAFETY & SUSTAINABILITY STRATEGY	
Disaster prevention	Prevention of disasters such as a major fire or explosion from manufacturing process safety risks and handling of dangerous goods
Fatality prevention	Prevention of fatalities from common significant hazards such as forklifts, working at height and driving
Injury prevention	Prevention of non-fatal injuries and illnesses from everyday hazards such as manual handling, sharp objects and exposure to noise or chemicals
Sustainability	Prevention of community and environmental harm from all activities, including product stewardship, resource efficiency and land protection

This differentiated strategic approach recognises that a singular management focus on everyday injuries does not prevent high consequence events such as major fires, fatalities or environmental legacies. These strategies are underpinned by a focus on risk management basics (e.g. incident reporting, change management) and most importantly, leadership and culture. The strategies are linked to a continuous improvement focus, reinforced by targeted improvement plans and measurable performance indicators.

GOVERNANCE

Safety and sustainability governance across DuluxGroup is achieved via regular management reviews and due diligence processes.

SAFETY & SUSTAINABILITY GOVERNANCE	
Board Committee	A Board Safety and Sustainability Committee that meets four times per year to review performance, objectives and strategies, in addition to reviews at each Board meeting
Executive Council	A Group Executive Safety and Sustainability Council that meets three times per year to review performance, approve strategy and lead implementation, in addition to reviews at each Group Executive meeting
Assurance process	An annual safety and sustainability assurance process whereby all businesses report on improvement progress and develop prioritised plans
Audit program	A safety and sustainability audit program for all businesses to assess effectiveness of risk management and identify improvement priorities

All line managers are responsible for managing safety and sustainability risks, supported by a number of dedicated specialists. Senior management remuneration is linked to safety and sustainability performance, including leading improvement activities (e.g. implementation of specific improvement actions for effective management of process safety, fatality and product stewardship risks) and lagging performance indicators (e.g. injury rates).

PERFORMANCE

1. Disaster Prevention

Our priority focus on prevention of high consequence incidents such as a major fire or explosion from manufacturing process safety risks in our factories (e.g. flammable solvents, combustible dusts) or from handling of dangerous goods continued during the year. More than 32 years has elapsed since our last major incident (fire) involving a chemical process safety risk, however we know from the regular occurrence of such high consequence events in similar industries around the world that continuous vigilance and improvement action is required.

The key improvement activity in this area is our in-depth Periodic Hazard Study process, which involves a deep multi-month hazard analysis to ensure that effective critical risk controls are being implemented and sustained. Specialist progress reviews are conducted every six months, including updating of each site's process safety lead indicator scorecard, to ensure improvement actions are effective. This is further supported by Disaster Prevention Protocols that specify the minimum, generic control standards for management of flammable solvent and combustible dust risks.

Following a near miss incident involving solvents at Parchem Wyong in October 2015, external specialist consultants were engaged to complete a global best practice review of the group's process safety management framework. The review rated our framework at 83% versus 342 organisations and operating sites with similar risk profiles (that is, we are operating in the top 17%). Several elements of the group framework were rated as excellent and a number of best practice improvement opportunities were also identified. Overall the best practice review confirmed that our framework is appropriate and reinforced the need to continue focus on improving effective implementation, especially at more recently acquired sites.

FOCUS AREA	2016 PRIORITIES	
Process safety	Manufacturing with flammable solvents and combustible dusts	• Completion of Periodic Hazard Studies at two more factories (DGL Camel Dongguan Powders and Dulux Dandenong South Powders) • Continued implementation of improvement plans at all nine factories where studies have previously been completed, including six-monthly progress reviews and use of lead indicator scorecards • Internal disaster prevention protocol reviews at all relevant factories and implementation of actions to address any identified significant gaps • External specialist global best practice review of our process safety management framework to identify improvement opportunities
Dangerous goods	Storage, handling and distribution of dangerous goods	• Completion of specialist dangerous goods audits and associated actions at a number of sites, together with review of our group standard to ensure minimum standards are clearly defined

2016 PERFORMANCE

- There was one major process safety near miss incident during the year, involving a 700L spill of flammable solvent at Parchem Wyong. Our emergency response ensured no solvent was lost to drains, however evaporation of some solvent to atmosphere did occur. Dispersion modelling confirmed that there was no exceedance of health or environmental criteria beyond the site boundary, although odour thresholds may have been exceeded for a short period of time. The NSW EPA subsequently issued a $15k infringement notice. A thorough investigation of the incident was completed and corrective actions implemented, including learning for other sites.
- There were no serious process safety near miss incidents across our remaining factories and more than six years has elapsed since the last incident in Australia, New Zealand or PNG, and more than two years in China. This represents significant improvement over time.
- There were no serious incidents involving storage and handling of dangerous goods (e.g. loss of containment) across the business during the year.

2. Fatality Prevention

Our focus on prevention of fatalities also remained a key priority during the year. The foundations of our fatality prevention strategy are hazard and near miss reporting, auditing of significant risks, risk management basics (e.g. permit to work, management of change), and implementation of protocols that prescribe higher levels of mandatory risk controls than traditional, historic standards. Our hazard and near miss reporting ('Total General Learning Incidents') is a foundation of maintaining risk awareness, especially for high consequence risks, so that we can take action before harm occurs.

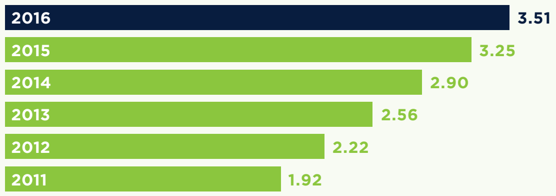
During 2016 we continued this improvement work in order to protect our people and ensure we sustain our current fatality-free performance of more than 22 years. From further benchmarking with peer organisations in similar risk sectors we continue to recognise that this is exceptional safety performance, however it cannot be taken for granted and the imperative for constant improvement in our management of significant fatality risks remains.

FOCUS AREA		2016 PRIORITIES
Fatality risks	Common fatality risks, including: • forklifts • racking • falls • electrical safety • machine guarding • lifting equipment • traffic management • driving	• Continued implementation and verification of forklift, racking and machine guarding protocols across DGL Camel. This included investment to improve racking and segregate pedestrians. • Continued implementation of electrical and falls protocols across all businesses. This included improvements to upgrade electrical installations, ensure effective isolation and improve training. • Commenced implementation of new protocols for traffic management and lifting equipment, plus completion of further significant risk audits and associated actions

2016 PERFORMANCE

- Serious near miss incidents involving fatality risks decreased 11%. Across our heritage Dulux, Selleys and Yates businesses, serious near misses remained 48% below peak levels recorded in 2011. Similarly across the B&D, Parchem and Lincoln Sentry businesses, serious near misses were 45% lower than the peak number recorded in 2013 following acquisition.
- Good progress was made in continuing to drive proactive identification and reporting of all hazards and near misses ('Total General Learning Incidents') with total numbers increasing 8% to a positive historic high level of 3.51 per employee.

Total General Learning Incidents



3. Injury Prevention

During 2016 we maintained our focus on prevention of common injuries and associated compensation claims from non-fatal risks such as manual handling, hazardous chemicals and slips, trips and falls. Manual handling risks are our major source of injuries and we continue to invest in reducing these risks via changes to workplace and equipment design. This is supported by risk assessments, training in standard operating procedures, health assessments and monitoring, and near miss reporting.

FOCUS AREA		2016 PRIORITIES
Injuries and health	Common non-fatal injury risks and associated compensation claims, including: • manual handling • sharp objects and tools • chemicals • noise • slips, trips and falls • health and well-being	• Continued implementation of targeted injury reduction plans for the 10 largest sites, plus development of plans for the next 10 sites • Continued improvements in management of compensation claims and premiums • Completed over 1,900 health assessments and over 400 hygiene tests to monitor employees working with chemicals or high-risk activities • Conducted various well-being activities across all businesses, such as walking and fitness programs, and a variety of health initiatives (e.g. mental health, skin health, diet)

2016 PERFORMANCE

- Our Recordable Case Rate, or the number of employee and contractor injuries requiring time off work, restricted duties or medical treatment per 200,000 hours, decreased 11% to 1.63. Our serious injuries, involving more than 10 days of lost and/or restricted time, decreased 40%.
- Compensation claims performance remained positive with premiums and claims (numbers and costs) sustained at historic low levels of 30% and 12% less respectively than three years ago.

Recordable Case Rate

4. Sustainability

Sustainability priorities during the year remained product stewardship, resource efficiency, land protection, and prevention of community harm. Our annual product stewardship assessment and improvement process is focussed on enabling all businesses to deliver product enhancements that reduce our sustainability impacts and ensure we continue building on our strong heritage in this area. Management of operating site impacts and community safety are focussed on continuous improvement in management of relevant significant risks and ensuring we meet community expectations.

Participating in, and engaging with, the communities where we work continued to be an important priority during the year. Our focus is on supporting these communities with our products and resources to jointly enable our safety and sustainability vision of 'A Future Without Harm'.

FOCUS AREA		2016 PRIORITIES
Products	Product stewardship risks, including: • post-consumer waste • renewable resources • consumer safety • chemicals of concern • packaging	• Completion of annual product stewardship improvement plans and product group risk assessments across all SBUs • Review of chemicals of concern management and development of a new group standard • Implementation of a new contract (toll) manufacture evaluation process to manage significant sourcing risks
Operations	Resource efficiency (waste, water, energy) and land protection	• Development of new landfill waste and liquid waste reduction plans for the largest generating sites • Continued monitoring and investigation of historic soil and groundwater contamination risks
Community	Community safety, regulatory compliance and community engagement	• Continued management of all significant risks to prevent community harm and ensure compliance • Conduct of a broad range of community engagement activities across all businesses

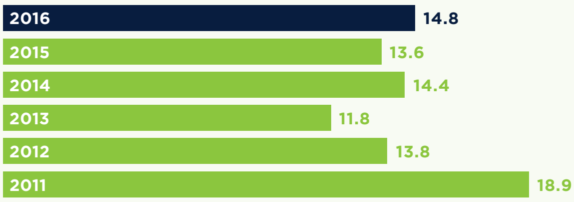
SAFETY AND SUSTAINABILITY REPORT

2016 PERFORMANCE – PRODUCTS	
Post consumer waste	• Dulux Australia worked with the Australian Paint Manufacturers' Federation in launching the new waste paint recovery scheme, Paintback. Implementation commenced in May, with 70 collection points to be established across Australia. • Dulux Envirosolutions developed and released new paint brush storage and cleaning systems that eliminate cleaning solvents and extend brush life
Renewable resources	• Dulux Acratex developed new lightweight render products containing recycled raw materials that also deliver benefits to applicators via reduced weight
Consumer safety and chemicals of concern	• Parchem reformulated a joint sealant product to replace the traditional polyurethane formulation with non-hazardous silicone technology • Selleys trialled new products based on non-hazardous silicone technologies and/or MCCP free polyurethanes, with commercialisation expected in 2017 • Dulux Auto Refinish reformulated primer and tinter products to eliminate a common hazardous aromatic solvent • Yates proactively phased out a range of fungicides, encouraging customers to adopt less hazardous alternatives • DuluxGroup PNG provided safety training and auditing for key customers supplied with chlorine, anhydrous ammonia and phosphine products
Packaging and labelling	• Dulux, Selleys and Yates continued a major project to update labels and safety data sheets to ensure GHS compliance by the end of 2016
Sourcing	• Lincoln Sentry reviewed LED lighting supplier life cycle assessments, certification and applications, plus engaged with installers to provide education • Group Procurement commenced implementation of a new evaluation process for key contract manufacture suppliers to identify and manage sourcing risks

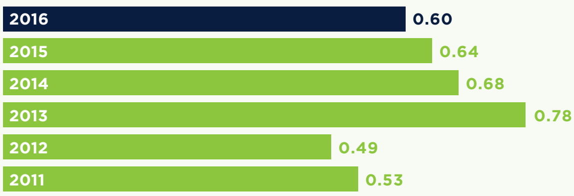
2016 PERFORMANCE – OPERATIONS

- **Waste generation:** Waste to landfill (kilograms per tonne of production) increased 9% to 14.8 kg/t, primarily due to a one-off cleanup at Parchem Wyong and improved waste provider data collection across Lincoln Sentry. These increases offset a 20% reduction across B&D from introduction of recycling programs and a further 11% reduction at Dulux Rocklea associated with the full impact of bulk bag recycling introduced in 2015.
- **Water consumption:** Water consumption (kilolitres per tonne of production), including water used in production processes and in products as a raw material, decreased 5% to 0.60 kL/t, primarily due to further efficiency improvements across DGL Camel China who have reduced consumption by more than 60% since 2013. More than 40% of water consumed across our coatings manufacturing sites is used as raw material in water based products.

Waste to Landfill (kg/t)



Water Consumption (kL/t)



- **Energy consumption:** Total energy consumption (gigajoules per tonne of production) remained steady at 0.77 GJ/t. DuluxGroup meets the Australian National Greenhouse and Energy Reporting System (NGERS) reporting criteria, due to use of solvents in formulation of products. Excluding this raw material use, the operational energy consumption and greenhouse gas emissions from our Australian sites and businesses are below the reporting thresholds. The total greenhouse gas emissions (Scope 1 and 2) from our Australian sites and business activities were 33,400 tonnes (CO2-e or equivalent carbon dioxide emissions), 2% lower than 2015, primarily due to lower fleet fuel emissions. Total energy consumed was 485,000 GJ, 7% lower than 2015, primarily due to decreased solvent consumption at Dulux Rocklea.
- **Land protection:** The company has undertaken a number of investigations in prior years to ensure potential soil and groundwater contamination issues are identified and managed. Further monitoring was completed during the year and no significant issues were identified.

2016 PERFORMANCE – COMMUNITY	
Community safety	• The company's emergency response service responded to 555 calls during the year, compared with 614 calls in 2015. This service provides emergency support 24 hours a day, with more than 98% of calls involving minor human and animal exposures to products during use. • There was one serious distribution incident during the year, compared with one such incident in 2015. The incident involved a spill and exposure to nitric acid at a customer site in PNG during delivery of a 200L drum. The incident was fully investigated and corrective actions implemented.
Regulatory compliance	• There were no regulatory prosecutions or prohibition notices received during the year, compared with none in 2015. There were five improvement and/or infringement notices received compared with five in the prior year, all of which were fully investigated and addressed.
Community engagement	• Yates launched the Raise A Patch initiative to promote a healthy approach to fundraising via sale of seed packets and encourage home gardening • Dulux Australia continued its partnership with Surf Life Saving Clubs Australia, with more than 145 clubs painted to date • Dulux New Zealand continued its conservation partnership with the Department of Conservation to paint and protect 973 lodges and huts across the country • DuluxGroup businesses and employees donated time and resources to support a wide variety of community projects

5. Integration and Leadership

Integration of acquisitions to ensure effective management and targeted improvement of all significant safety and sustainability risks remained an important priority during the year. Continuing to develop the safety and sustainability leadership capability of our managers, and thereby ensure we maintain and support the optimum culture, also remained an important priority during the year. This focus recognises that our culture ultimately determines the degree of success we can achieve in aspiring to prevent all harm and that our leaders create the culture.

FOCUS AREA		2016 PRIORITIES
Acquisition integration	Effective management of significant risks in acquired businesses	• Continued integration of the Porter's Paints business
Leadership and culture	Continuous development of leadership capability and culture	• Continued delivery of our Safety and Sustainability Management and Leadership Programs, which provide managers with the contemporary understanding of how to effectively manage risks and how their actions influence and create culture • Commenced development of advanced leadership, management refresher, and employee leadership programs for introduction in 2017.

2016 PERFORMANCE
• **Acquisition integration:** Across Porter's Paints we continued implementation of prioritised improvement and integration actions to address findings from 2015 significant risk audits of all sites and ensure medium term alignment of standards, processes and culture • **Leadership and culture:** We delivered Safety and Sustainability Leadership Programs to 20 senior managers and Safety and Sustainability Management Programs to 70 operations and commercial managers. More than 170 managers have now completed the leadership program and more than 350 managers have completed the management program.

6. Key Focus Areas 2017

DuluxGroup's key priorities during 2017 will be the continued focus on our four primary improvement strategies and the supporting elements to those strategies.

2017 PLANNED IMPROVEMENTS

Disaster prevention

Completion of new five yearly periodic hazard studies at three sites, comprising identification of process safety risks. Continued implementation and review of improvement actions from studies at sites completed in prior years

Fatality prevention

Continued focus on near miss reporting and implementation of fatality prevention protocols, with particular focus on traffic management and lifting equipment

Injury prevention

Continued implementation of targeted risk reduction plans for the 20 operating sites and areas that account for the majority of non-fatal injuries and workers compensation claims

Sustainability

Continued implementation of product stewardship, chemicals of concern management, and waste reduction plans

Leadership

Continued delivery of our leadership and management programs across all levels of the organisation

RIGHT: Marcoola Surf Life Saving Club in Queensland, protected by Australia's leading paint.

DULUX IS PARTNERING WITH SURF LIFE SAVING AUSTRALIA TO REPAINT SURF CLUBS THROUGHOUT AUSTRALIA WITH AUSTRALIA'S LEADING PAINT BRAND

Our Board

PETER KIRBY
BEc (Hons), MA (Econ), MBA

Chairman and Non-Executive Director since July 2010. Chair of the Remuneration and Nominations Committee and member of the Audit and Risk Committee.

Former Director of Macquarie Group Limited August 2007 to July 2014 and of Macquarie Bank June 2003 to July 2014. Former Director of Orica Limited from July 2003 to July 2010 and former Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. Peter was also Chairman and Director of Medibank Private Limited, a member of the Board of the Business Council of Australia and the Chairman/CEO of ICI Paints and member of the Executive Board of ICI PLC.

PATRICK HOULIHAN
BSc (Hons), MBA

Managing Director and Chief Executive Officer since July 2010. Member of the Safety and Sustainability Committee.

Former CEO of Orica Limited's DuluxGroup division and member of Orica Limited's Group Executive from February 2007 to July 2010. Patrick was also the Yates General Manager, Selleys Sales Director and Dulux Marketing Director. Patrick has been an employee of DuluxGroup since 1989. Patrick is a Director of the Murdoch Childrens Research Institute.

STUART BOXER
BEng (Hons)

Executive Director and Chief Financial Officer since July 2010.

Former CFO and General Manager Strategy of Orica Limited's DuluxGroup division from October 2008 to July 2010. Stuart was previously CFO of Southern Cross Broadcasting (Australia) Limited and, prior to that, held various senior strategy and finance roles at Village Roadshow Limited and LEK Consulting.

GAIK HEAN CHEW
BPharm (Hons)

Non-Executive Director since August 2010. Chair of the Safety and Sustainability Committee and member of the Remuneration and Nominations Committee.

Director of KCA International. Former Director of CPS Color Group of Finland. Gaik Hean has more than 32 years' experience in the paints and chemicals sectors, most recently as Chief Executive of ICI Paints Asia from 1995 until 2008 and also as the former Managing Director of ICI Singapore.

GARRY HOUNSELL
BBus (Accounting) FCA, CPA

Non-Executive Director since July 2010. Chair of the Audit and Risk Committee and member of the Remuneration and Nominations Committee.

Chairman of Helloworld Limited since October 2016 and Director of Treasury Wine Estates Limited since September 2012, Spotless Group Holdings Limited since March 2014 and Integral Diagnostics Limited since October 2015. Garry was Chairman of PanAust Limited from 2008 to 2015 and was a Director of Qantas Airways Limited from 2005 until 2015, Director of Orica Limited from 2004 until 2013, Director of Mitchell Communication Group Limited from 2006 until 2010, Director of Nufarm Limited from 2004 until 2012, and is a former Senior Partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen.

ANDREW LARKE

LLB, BCom, Grad Dip (Corporations & Securities Law)

Non-Executive Director since October 2010. Member of the Audit and Risk Committee and member of the Remuneration and Nominations Committee.

Chairman of IXOM Limited (formerly the Chemicals Division of Orica Limited) since October 2015 and non-executive Director of Diversified United Investment Limited since March 2015. Andrew was Managing Director and Chief Executive of IXOM Limited prior to his appointment as Chairman. Andrew was also Group General Manager, Mergers & Acquisitions, Strategy and Technology at Orica for 12 years and Group General Manager of Orica's Chemicals Division from 2012 until 2014. Prior to that he was General Manager of Strategy and Mergers & Acquisitions at North Limited.

GRAEME LIEBELT

BEc (Hons)

Non-Executive Director since June 2016. Member of the Remuneration and Nominations Committee and member of the Safety and Sustainability Committee.

Chairman of Amcor Limited since December 2013, Director of Amcor Limited since April 2012, Director of ANZ Banking Group Limited since July 2013 and Director of the Australian Foundation Investment Company Ltd since June 2012. Graeme is also a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Institute of Company Directors and of the Australian Academy of Technological Sciences and Engineering. He was the Managing Director and CEO of Orica Limited from 2005 to 2012 and Executive Director of Orica Limited from 1997 to 2012. Graeme has also held a number of senior roles, including CEO of Orica Mining Services from 2000 to 2005 and Managing Director of Orica Limited's DuluxGroup division from 1995 to 1997.

JUDITH SWALES

BSc

Non-Executive Director since April 2011. Member of the Audit and Risk Committee and member of the Safety and Sustainability Committee.

Chief Operating Officer Transformation and Innovation for Fonterra Co-operative Limited. Former director of Foster's Group Limited from May 2011 to December 2011. Judith has more than 21 years' experience in high profile, global, consumer facing companies. Previous roles include Managing Director of Heinz Australia and Chief Executive Officer and Managing Director for Goodyear & Dunlop Tyres ANZ. Judith is also a former Managing Director of Angus & Robertson and has held positions at UK retailers WH Smith plc and Marks & Spencer plc.

SIMON BLACK

LLB, BCom, Cert Gov (Admin), CSA (Cert)

Company Secretary and General Counsel since July 2010.

Former Senior Legal Counsel at Orica Limited's DuluxGroup division from January 2006 to July 2010. Former Senior Legal Counsel for Orica Limited's Chemicals division from October 2004 to January 2006 and former Senior Legal and Business Affairs Adviser at Universal Pictures International, London, UK.

Our Executive

PATRICK HOULIHAN
BSc (Hons), MBA
Managing Director and
Chief Executive Officer

Patrick joined the DuluxGroup business in 1989 as a research chemist and has since progressed through a succession of technical, commercial and senior leadership roles including Selleys Sales Director, Dulux Marketing Director, and Yates General Manager. Patrick was appointed CEO of Orica Limited's DuluxGroup division and a member of the Orica Group Executive in February 2007. Patrick was appointed to his current role upon the demerger of the DuluxGroup division from Orica Limited in July 2010.

STUART BOXER
BEng (Hons)
Executive Director and
Chief Financial Officer

Stuart joined the DuluxGroup business in October 2008 as CFO and General Manager Strategy. Prior to joining DuluxGroup, Stuart held a number of senior positions including CFO of Southern Cross Broadcasting (Australia) Limited and various senior strategy and finance roles at Village Roadshow Limited and LEK Consulting. Stuart was appointed to his current role upon the demerger of the DuluxGroup division from Orica Limited in July 2010.

PATRICK JONES
BBus (Hons), CPA
Executive General Manager
– Dulux Paints and Coatings

Patrick joined ICI in 1995 and moved into the DuluxGroup business in 1999. He was appointed to his current position in May 2011. Patrick has undertaken a variety of commercial and business management roles including General Manager of the Paints New Zealand Business from May 2008. Other roles previously held by Patrick include National Retail Manager for Dulux Paints Australia, Bunnings Business Manager, Independents Business Manager and State Sales Manager.

BRAD HORDERN
BEng (Hons)
Executive General Manager
– DuluxGroup Supply Chain

Brad was appointed to his current role in November 2006. Before joining DuluxGroup, Brad held a number of senior operational roles including Group Manufacturing Manager for SCA Australasia, Logistics Director for Campbell's Arnott's Australia and National Operations Manager for Snack Brands Australia (previously Frito-Lay Australia).

JULIA MYERS
BSc (Hons)
Executive General Manager
– Selleys Australia and New Zealand

Julia was appointed to her current role in January 2014. Julia joined DuluxGroup in 1990 as a business analyst based in Slough, UK. Since then, Julia has undertaken a variety of functional, commercial and business management roles including Group IT Manager, Sales Force Effectiveness Manager, Dulux Independents Business Manager and Cabot's Business Manager. Most recently, Julia was Executive General Manager of Dulux Paints New Zealand.

MARTIN WARD

Executive General Manager
– Consumer and Construction Products

Martin was appointed to his current role in April 2014. He has extensive business leadership and management experience, including as General Manager Strategic Marketing for DuluxGroup, Managing Director of Selleys, General Manager of Cabot's, as well as other senior strategic planning and brand marketing roles during more than 20 years with DuluxGroup. Martin was also a partner at Origin Capital Group in the merchant banking sector and Company Director at retailer Inspirations Paint Stores.

RICHARD HANSEN

BBus (Marketing and Management)

Executive General Manager
– Dulux Paints New Zealand

Richard was appointed to his current role in January 2014. During more than 15 years with DuluxGroup, Richard has held a range of sales, marketing and business management roles in the Dulux, Selleys and Yates businesses. Most recently he was Business Manager for Selleys Australia and New Zealand.

JENNIFER TUCKER

LLB, BCom

Executive General Manager – Yates

Jennifer was appointed to her current role in July 2014. Jennifer joined DuluxGroup in 2005 as a senior brand manager for Selleys. She has since progressed through a succession of sales, marketing and business development roles, including Yates Marketing Manager, Selleys Channel Business Manager and Paint Accessories Business Manager. Prior to joining DuluxGroup, Jennifer held sales and marketing roles at Luxaflex and Rheem Australia.

STEVEN LEIGHTON

Executive General Manager
– B&D Garage Doors and Openers

Steven joined DuluxGroup in his current role in November 2015. Prior to joining DuluxGroup, Steven held various roles at 20th Century Fox Home Entertainment, Inc including Executive Vice President of Northern Europe, Asia Pacific and Latin America, Managing Director of UK and Managing Director of Australia. Steven was also Chief Executive Officer of the Hawthorn Football Club in Melbourne from 2003 to 2004, Managing Director for Heinz (Australia and then Asia) and has held General Manager positions at Mayne Nickless Express, Berrivale Orchards and Cadbury.

SIOBHAN MCHALE

BA(Hons), MSc

Executive General Manager
– DuluxGroup Human Resources

Siobhan joined DuluxGroup in her current role in February 2016. Prior to that she has held a number of senior human resources positions including Executive General Manager Culture, Change and Executive Learning at Transfield Services, Group General Manager of Culture and Change at ANZ Bank, and Senior Executive Development Manager at Ansett Airlines. Prior to that, Siobhan held senior management consultancy roles in Australia and the UK.

Corporate Governance Statement

AS AT 8 NOVEMBER 2016

As a Board, we believe that a strong corporate governance framework and culture translates to a strong company that delivers for its shareholders.

Our corporate governance framework includes:

- **An engaged Board of directors with a diverse range of skills and experience supported by an effective Board Committee structure.**
- **Clear and transparent communication with our shareholders.**
- **Strong risk management and assurance processes and culture.**
- **Our Values and Behaviours and supporting policies that underpin the way we behave and meet our strategic objectives.**

At DuluxGroup, we help our consumers to imagine and create better places and spaces in which to live and work. We do this by manufacturing and marketing a wide range of products that enhance, protect and maintain those places and spaces. We recognise that the way we do business is critical in order for us to earn and maintain the respect and trust of all stakeholders including our employees, customers, suppliers, shareholders and the community.

DuluxGroup's directors and management are committed to conducting business in an ethical, fair and transparent manner in accordance with high standards of corporate governance. The Board, together with the management team, leads by example. We have a robust corporate governance framework in place and we are committed to fostering a culture of compliance that values personal and corporate integrity, accountability and continuous improvement.

DuluxGroup's corporate governance framework complies with the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Principles**).

1. OUR BOARD

1.1 The role and responsibilities of the Board and management

The Board

The Board's primary role is to ensure the protection and enhancement of long term shareholder value taking into account the interests of other stakeholders including employees, customers, suppliers and the wider community. The Board is accountable to shareholders for the performance of the company. It directs and monitors the business and affairs of the company on behalf of shareholders and is responsible for the company's overall corporate governance.

In particular, the Board's responsibilities include:

- approving the strategic objectives and direction of the company and overseeing management's implementation of those strategic objectives;
- monitoring the company's operational performance generally including its financial state and the effectiveness of the company's safety and sustainability strategy;
- approving major expenditures, transactions, budgets, funding plans and capital management initiatives;
- monitoring the integrity, effectiveness and consistency of the company's risk management framework, controls and systems;
- setting the overall remuneration framework for the company and overseeing executive succession planning;
- appointing, assessing the performance and setting the remuneration of the CEO, as well as approving the appointment and remuneration of senior management and overseeing their performance;
- influencing the corporate culture, ethical standards and reputation of the company; and monitoring the effectiveness of the company's governance practices including overseeing shareholder reporting and engagement as well as compliance with the company's continuous disclosure obligations.

The Board has adopted a Board Charter, which details its role and responsibilities. The Board Charter can be found in the corporate governance/charters section of our website at www.duluxgroup.com.au.

Management

The CEO, together with the DuluxGroup executive team, is responsible for the development and implementation of strategy and the overall day-to-day running of the company. Consistent with the company's primary objective to enhance long term shareholder value, this includes operational, financial and strategic delivery, risk management and compliance, leadership and organisational culture, and the provision of accurate, timely and clear information to enable the Board to perform its responsibilities. A formal delegation of authority is in place that sets out the powers that are reserved to the Board and those that are delegated to the CEO. This can be found in the corporate governance/ governance policies section of our website at www.duluxgroup.com.au. There is also a formal structure setting out the delegations from the CEO to management and other employees. DuluxGroup has employment contracts in place with senior executives, which set out the terms of their employment.

1.2 Board composition and succession

DuluxGroup is committed to ensuring that the composition of the Board continues to comprise directors who, as a whole, possess the diversity of skills and experience required to fulfil the role and responsibilities of the Board.

The Board currently comprises 8 directors, including 6 non-executive directors.

NON-EXECUTIVE DIRECTORS	APPOINTED	EXECUTIVE DIRECTORS	APPOINTED
Mr Peter Kirby, Chairman	July 2010	Mr Patrick Houlihan, CEO	July 2010
Ms Gaik Hean Chew	August 2010	Mr Stuart Boxer, CFO	July 2010
Mr Garry Hounsell	July 2010		
Mr Andrew Larke	October 2010		
Mr Graeme Liebelt	June 2016		
Ms Judith Swales	April 2011		

Details of the qualifications and experience of our directors are set out on pages 44 and 45 of DuluxGroup's 2016 Annual Report.

Skills and Diversity

In considering the composition of the Board, directors take into account the appropriate characteristics needed by the Board to maximise its effectiveness and the blend of skills, knowledge and experience necessary for the present and future needs of the company.

The Board believes that having a range of different skills, backgrounds, experience and diversity ensures a broad range of viewpoints which facilitate effective governance and decision making.

The Board's Remuneration and Nominations Committee has primary responsibility for conducting assessments of the current mix of skills and experience of directors, taking into account the business and strategic needs of the company, as well as broader succession planning issues for both the Board and management.

During the 2016 financial year, the Board's Remuneration and Nominations Committee, and the Board itself, undertook a detailed review of the general and specialist skills, knowledge and experience necessary for the Board to properly perform its role and to achieve the company's strategy and growth agenda. As a result of this process, an enhanced Board skills matrix was created as follows.

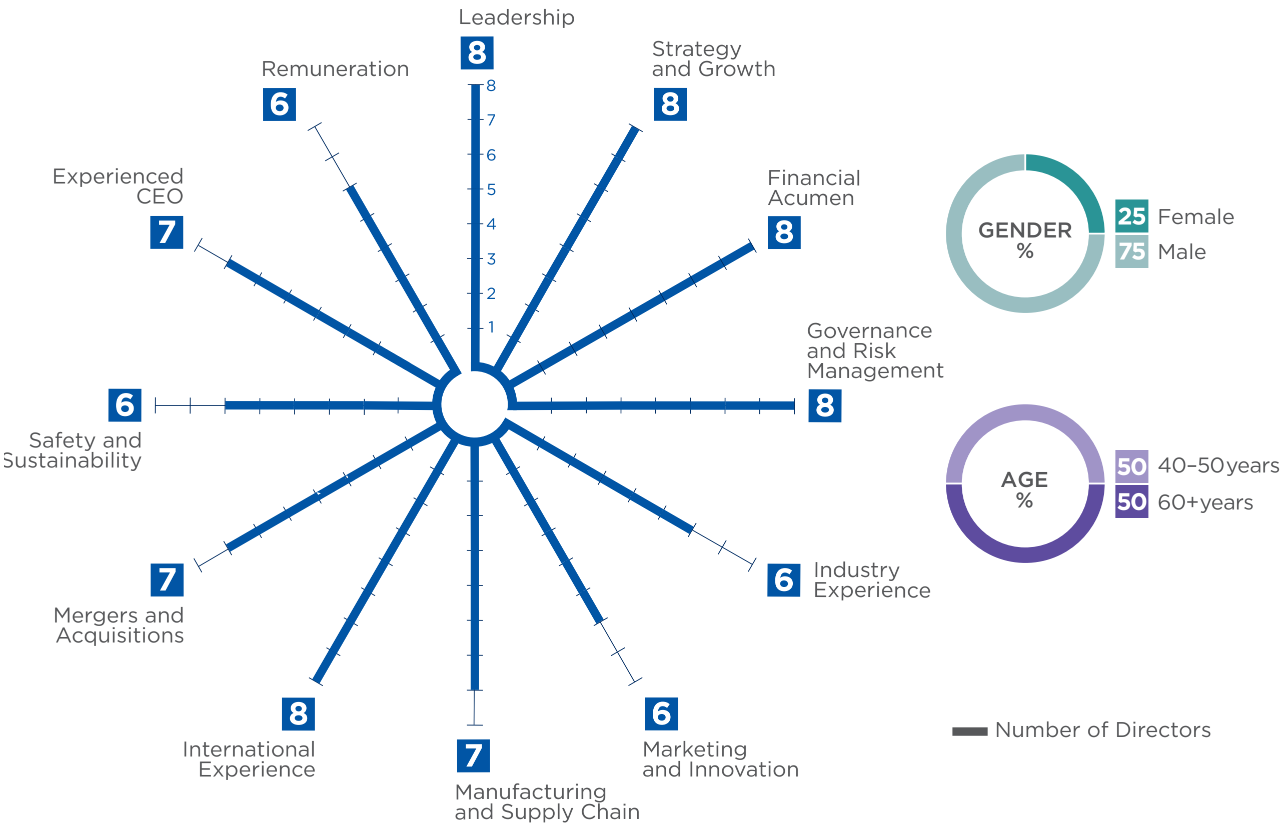
BOARD SKILLS MATRIX	BOARD REPRESENTATION
Leadership Successful leadership at a senior executive level in a large business	8
Strategy and Growth Senior executive experience in developing and delivering successful strategies and meaningful business growth outcomes in a large business	8
Financial Acumen Senior executive experience and understanding of accounting, financial reporting, corporate finance and financial controls in a large business	8
Governance and Risk Management Senior executive experience in a large business that is subject to rigorous governance and risk management standards	8
Industry Experience Senior executive experience in a large paints and coatings business	6
Marketing and Innovation Senior executive experience in consumer and customer marketing and delivering growth through commercialising innovative products and services	6
Manufacturing and Supply Chain Senior executive experience in manufacturing, supply chain or quality operations within a large business	7
International Experience Senior executive experience to a range of geographic, political, cultural, regulatory and business environments	8
Mergers and Acquisitions Successful track record of delivering strategically sound and value adding mergers and acquisitions as an enabler of corporate strategy	7
Safety and Sustainability Board safety committee membership or senior executive experience in a large business related to work safety, environmental and social responsibility	6
Experienced CEO Successful track record as a Chief Executive Office of a listed entity or an equivalent large business enterprise	7
Remuneration Board remuneration committee membership or senior executive remuneration experience in a large business enterprise	6

The Board also considers that additional skills, including science and technology, information technology and digital, legal and strategic human resources, are valuable to its decision making. To the extent that any skills are not directly represented on the Board, they are augmented through management and external advisers.

CORPORATE GOVERNANCE STATEMENT

Further information on the company's diversity policy and progress against the company's diversity objectives is provided in section 6 of this corporate governance statement.

Board Skills, Experience and Diversity



Our Chairman

Our Chairman, Mr Peter Kirby, is an independent non-executive director. He has been an independent non-executive director and Chairman of DuluxGroup since July 2010. The Chairman's overarching responsibilities include providing leadership for the Board, facilitating the effective contribution of all directors, managing the dynamics of Board discussion, setting the Board agenda and ensuring adequate time is available for discussion on all agenda items, in particular, on strategic issues. The Chairman is also responsible for fostering constructive relations between directors and between Board and management, and promoting the interests of the company with shareholders and other key external stakeholders. Importantly, the roles of Chairman and CEO of DuluxGroup are not fulfilled by the same person.

Details of the qualifications and experience of our Chairman are set out on page 44 of DuluxGroup's 2016 Annual Report.

Our Company Secretary

Our Company Secretary, Mr Simon Black, reports directly to the Board through the Chairman, and all directors have access to the Company Secretary. The Company Secretary's role in respect of matters relating to the proper functioning of the

Board includes: (a) advising the Board and its Committees on governance matters, (b) monitoring that Board and Committee policies and procedures are followed, (c) coordinating all Board business including the timely despatch of Board and Committee papers, (d) acting as a point of reference for dealings between the Board and management, (e) retaining independent professional advisors as required, (f) helping to organise and facilitate the induction and professional development of directors, and (g) ensuring proper compliance with relevant statutory requirements relating to DuluxGroup's registered office, annual returns and lodgement of other documents with ASIC and ASX.

Details of the qualifications and experience of our Company Secretary are set out on page 45 of DuluxGroup's 2016 Annual Report.

Independence

Directors are expected to bring independent views and judgement to the Board's deliberations. The Board recognises the special responsibility of non-executive directors for monitoring executive management and providing independent views.

Under the Board Charter, the Board must maintain a majority of non-executive directors and have a non-executive independent Chairman (with different persons filling the roles of Chairman and Managing Director/CEO).

The Board has determined that, in respect of the 2016 financial year, the Chairman and all non-executive directors are independent of executive management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement or compromise their ability to act in the best interests of the company.

The Board has adopted guidelines based on the factors set out in the ASX Principles in assessing the independent status of a director. The independence of each director is considered on a case by case basis from the perspective of both the company and the director. Materiality is assessed by reference to each director's individual circumstances, rather than by applying general materiality thresholds. In summary, the test of whether a relationship could, or could be perceived to, materially interfere with the independent exercise of a director's judgement is based on the nature of the relationship and the circumstances of that director. The Board may determine that a director is independent notwithstanding the existence of an interest, position, association or relationship of the type described in Box 2.3 of the ASX Principles. However, in such a case, the Board will disclose why it is of the opinion that the interest, position, association or relationship does not compromise the independence of the director.

The Board assesses the independence of its new directors upon appointment and otherwise on an annual basis. Each director is obliged to immediately inform the company of any fact or circumstance which may affect the director's independence.

Succession

As part of its annual review, the Board continues to consider the issue of Board succession driven partly by the fact that a majority of directors were all appointed on, or shortly after, DuluxGroup's demerger from Orica Limited in 2010. In addition, the Board's succession plan is focused on continually identifying suitable candidates for future appointment to the Board, having regard to the Board's current skills mix and desirable future skills, to ensure that Board remains proactive and renewal occurs in an orderly manner over time.

Where a need is identified or arises, the Remuneration and Nominations Committee considers potential candidates based on the skills required by the Board and the qualities and experience of the candidate. The Committee, with the assistance of professional consultants if necessary, will undertake a search process and shortlisted candidates will be interviewed by the Chairman and other directors before being recommended to the full Board for appointment. Nominations for appointment to the Board are considered by the Remuneration and Nominations Committee and approved by the Board as a whole.

Appropriate checks are undertaken on any potential candidates before a person is appointed by the Board or put forward to shareholders as a candidate for election as a director.

1.3 Director appointment, induction and professional development

Directors (other than the Managing Director/CEO) appointed by the Board must stand for election at the Annual General Meeting (AGM) following their appointment and are subject to shareholder re-election by rotation at least every three years. Further, re-appointment of non-executive directors to the Board at the conclusion of their three year term is not automatic. Prior to the Board endorsing a director for re-election, the individual's performance as a director is reviewed in accordance with processes agreed by the Board from time to time. The company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

New directors are provided with a formal letter of appointment that sets out the key terms and conditions of appointment including, among other things, duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement with Board Committee work. New directors also participate in a formal induction program which includes site visits, one-on-one meetings with relevant members of management and provision of relevant policies, charters and other materials.

During the 2016 financial year, the Board's professional development program included, among other things:

- **focussed sessions at each Board meeting addressing topical issues facing one or more of the business units or functions;**
- **a visit to the Melbourne School of Design at Melbourne University;**
- **visits to the Acratex manufacturing site in Beverley, South Australia, and the Selleys manufacturing site in Padstow, New South Wales;**
- **tours of the United Kingdom, China, Hong Kong and New Zealand to give the Board insight into DuluxGroup's operations, growth opportunities and the relevant markets; and**
- **presentations from subject matter experts on issues including digital, science and technology, industrial relations, capital markets, architecture and accounting developments.**

An active professional development program is also in place for directors and is incorporated as part of the annual Board cycle. This comprises internal presentations, discussions with key external subject matter experts, customers and/or suppliers as well as visits to DuluxGroup sites and other places of interest. The purpose of this program is to provide appropriate opportunities for directors to develop and maintain their skills and knowledge needed to perform their role as directors.

1.4 Board meetings

The Board typically holds at least eight meetings per year, unless the business of the company requires additional meetings. In addition, the Board sets aside a two day meeting annually to comprehensively review company strategy.

Directors receive comprehensive papers in advance of the Board meetings. Directors also receive regular updates in relation to key issues facing DuluxGroup's businesses from time to time including management reports during the months when a Board meeting is not scheduled. The Board calendar also includes site visits to DuluxGroup operations to meet with employees, customers and other stakeholders.

The Board recognises the importance of the non-executive directors meeting without the presence of management to discuss company matters and it is the Board's practice that the non-executive directors meet separately in conjunction with the scheduled Board meetings.

1.5 Conflicts of Interest

Directors are required to avoid conflicts of interest and immediately inform their fellow directors should a conflict of interest arise. Directors are also required to advise the company of any relevant interest that may result in a conflict. The Board has adopted the use of formal declarations of interests that are tabled at Board meetings where directors disclose any new material personal interests or if there is any change in the nature or extent of a previously disclosed interest. This includes a director's appointment or retirement from boards of other companies.

Where a matter in which a director has a material personal interest is being considered by the Board, that director must not be present when the matter is being considered or vote on the matter unless all of the directors have passed a resolution to enable that director to do so or the matter comes within a statutory exception.

1.6 Access to management, information and professional advice

All directors have unrestricted access to the senior executives and other employees of DuluxGroup through the Chairman, CEO or the Company Secretary. Directors may seek briefings from senior executives outside the regular presentations made by senior executives at Board meetings.

Subject to prior consultation with the Chairman, each director may seek independent professional advice at the company's expense to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee.

Pursuant to a deed executed by the company and each director, a director also has the right to have access to all documents which have been presented to meetings or made available to the Board or any Board Committee whilst in office, including materials referred to in those documents.

1.7 Board and executive performance and remuneration

The Board is committed to a performance culture and to ensuring that a range of formal processes are in place to evaluate the performance of the Board, Board Committees, each director and senior executives.

Board review

The Board has a formal Board Evaluation Policy, under which it carries out an evaluation of its performance each year. This process is overseen by the Chairman. It is the Board's general practice that this is externally facilitated every third year.

During the 2016 financial year, the Board undertook a comprehensive review of its performance and the performance of individual directors. This review was externally facilitated and included feedback from directors and senior management. This review concluded that the Board continues to operate effectively in the discharge of its duties and oversight of DuluxGroup.

The review also concluded that the Board comprises directors with an effective mix of skills and experience whilst acknowledging the importance of addressing Board succession among other matters. A number of improvement actions were identified most of which have been implemented and some of which are ongoing.

The Board evaluated the performance of Mr Andrew Larke who is standing for re-election at the Company's 2016 AGM, prior to the Board endorsing his nomination for re-election.

Board Committee review

Each Board Committee also reviews its performance against its annual objectives. As appropriate, the Board may also provide feedback from time to time as to the effectiveness with which it considers the Board Committees assist the Board in the discharge of its functions. The Board's Audit and Risk Committee and Remuneration and Nominations Committee undertook a review of its performance against its annual objectives during the 2016 financial year. The Board's Safety and Sustainability Committee reviewed its performance against its annual objectives during its meeting in October 2016.

Director review

The Board undertakes performance evaluations of individual directors prior to the Board endorsing them for re-election. The Board considers the skills, knowledge and experience of the individual director, their overall performance, their attendances and participation at Board and Committee meetings, and their contributions to matters discussed.

Management review

The non-executive directors are responsible for regularly evaluating the performance of the CEO based on specific criteria including the company's business performance, short and long term strategic objectives and the achievement of personal objectives that are approved annually.

All DuluxGroup executives are subject to an annual performance review. These reviews, which were conducted in the 2016 financial year, involve an executive being evaluated by their immediate superior by reference to their specific performance objectives for the year, including the completion of key performance indicators and contribution to specific business and company plans. This review is aligned to the company's remuneration framework and is considered for, among other things, the purposes of determining any increases to fixed remuneration and outcomes under the company's short term incentive plan.

The Remuneration Report contained in the DuluxGroup 2016 Annual Report sets out details regarding the company's remuneration policy, fees paid to directors and specific details of executive remuneration.

2. OUR BOARD COMMITTEES

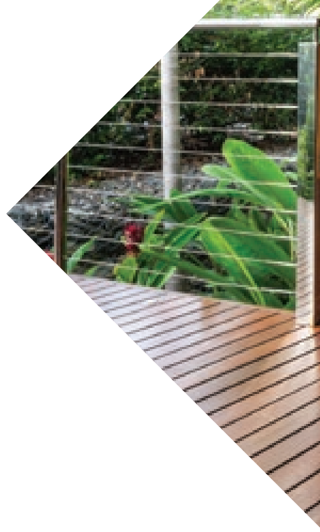
The Board has three standing Committees that play an important role in assisting the Board perform its role and discharge its responsibilities.

As at the date of this statement, and for all of the 2016 financial year, the following Committees assist the Board by focussing in more detail on specific areas of DuluxGroup's operations and governance framework:

- Audit and Risk Committee;
- Remuneration and Nominations Committee; and
- Safety and Sustainability Committee.

These Committees, generally, review matters on behalf of the Board and refer matters to the Board for decision with a recommendation from the Committee. The Committee papers, including minutes of meetings, are circulated to the Board members. Additionally, any director is welcome to attend any Committee meeting.

CORPORATE GOVERNANCE STATEMENT



An overview of the membership, composition and responsibilities of each standing Committee as at the date of this statement is as follows:

	AUDIT & RISK	REMUNERATION & NOMINATIONS	SAFETY & SUSTAINABILITY
Membership	Mr Garry Hounsell (Chair) Mr Peter Kirby Mr Andrew Larke Ms Judith Swales	Mr Peter Kirby (Chair) Ms Gaik Hean Chew Mr Garry Hounsell Mr Andrew Larke Mr Graeme Liebelt *	Ms Gaik Hean Chew (Chair) Mr Patrick Houlihan Ms Judith Swales Mr Graeme Liebelt *
Composition	The committee is to comprise of at least three non-executive directors, all of whom satisfy the criteria for independence and who, between them, have relevant financial, commercial and risk management experience. The committee is to be chaired by an independent director who is not chair of the Board.	The committee is to comprise of at least three non-executive directors, the majority of whom satisfy the criteria for independence. The committee is to be chaired by an independent director.	The committee is to comprise at least two directors including at least one non-executive director and the Chief Executive Officer.
Responsibilities	• Review the full year and half year financial reports of the group, including the accounting policies and practices of the group. • Monitor and assess the adequacy of the internal systems for financial and operating controls, risk management and legal compliance. • Oversee the scope, conduct and outcomes of internal and external audits (including audit programs, external audit independence and auditor performance). • Make recommendations to the Board on the appointment, performance and remuneration of the company's auditors. • Review and assess non-audit services provided by the external auditor.	• Review and make recommendations to the Board on the remuneration of directors and senior executives, including fixed annual remuneration, short term and long term incentive arrangements and performance targets. • Monitor and review the company's organisational strategy including employee relations, performance evaluation, talent management and senior leadership succession. • Oversee the effectiveness of the company's diversity policy including monitoring performance against agreed diversity objectives. • Review the size and composition of the Board and Board Committees including the mix of skills and experience of directors as well as succession planning.	• Review the effectiveness of the company's safety and sustainability strategies, objectives and targets. • Monitor and review safety and sustainability issues that have strategic, financial and/or reputational implications for the company, including significant safety incident reports. • Oversee compliance with legal and regulatory safety and sustainability requirements. • Monitor best practice safety standards, procedures and management approaches and assess implications for the company. • Foster appropriate safety and sustainability leadership and culture.

* Graeme Liebelt was appointed to the Remuneration and Nominations Committee and the Safety and Sustainability Committee with effect from 1 October 2016.

Details of the qualifications, experience and meeting attendances of each Committee member, as well as the number of Committee meetings held during the 2016 financial year, are set out in the Directors' Report contained in the DuluxGroup 2016 Annual Report. Full details of the role and responsibilities of each Committee are set out in the relevant Committee's Charter which can be found in the corporate governance/charters section of our website at www.duluxgroup.com.au.

In addition to the standing committees, the Board may also establish special or ad hoc committees to oversee or implement significant projects as they arise.

3. OUR SHAREHOLDERS

DuluxGroup is committed to open, clear and timely communications with its shareholders.

The company has a Shareholder Communications Policy and investor relations program in place that encompasses the company's commitment to providing transparent two-way communications with all shareholders through a number of channels. These include:

- the company's website at www.duluxgroup.com.au;
- the company's AGM;
- the company's Annual Report, which is available in hard copy or on the company's website;
- disclosures and other major announcements released to the Australian Securities Exchange (ASX); and
- communications with analysts, investors and governance bodies as well as media briefings.

The Shareholder Communications Policy can be found in the corporate governance/governance policies section of our website at www.duluxgroup.com.au.

The company values effective two-way communication with shareholders and recognises that it is important not only to provide relevant information as quickly and efficiently as possible, but to listen, understand and respond to the perspectives of those shareholders. To promote this two way dialogue, shareholders are encouraged to attend and ask questions at the AGM to ensure accountability and identification with DuluxGroup's strategy and goals. For those shareholders who are unable to attend in person, the company webcasts its AGM on its website and provides a full transcript of the Chairman's and the CEO's speeches on its website.

DuluxGroup is committed to continually improving its online and electronic communications, including improving the functionality of its website. We encourage shareholders to communicate with us and our share registry, Computershare, electronically. Further details on how to do this can be found in the investor centre section of our website at www.duluxgroup.com.au. Shareholders are also encouraged to lodge direct votes or proxies for the company's AGMs electronically.

4. OUR RISK MANAGEMENT PRACTICES

Effective assurance and risk management practices help DuluxGroup to achieve its strategic objectives, ensure compliance with its legal obligations and protect the best interests of the company and its shareholders.

4.1 Integrity of Reporting

The Board and management have established controls which are designed to safeguard the company's interests and the integrity of its reporting. These include accounting, financial reporting, safety and sustainability and other internal control policies and procedures which are directed at monitoring whether the company complies with regulatory requirements and community standards.

In accordance with the company's system of internal sign offs prior to approval of its financial statement for a relevant period, both the CEO and the CFO provide declarations to the Board that, having made appropriate enquiries, in their opinion:

- the financial records of the Group have been properly maintained; and
- the financial statements of the Group comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group; and

that the opinion has been formed on the basis of a sound system of risk management and internal control that is operating effectively.

These assurances are based on a financial letter of assurance process that cascades down through management and includes sign-off by business general managers, business finance managers and functional managers who are responsible for implementing, maintaining and reporting on the effectiveness of the systems.

In addition, comprehensive practices have been adopted to require that:

- capital expenditure, transaction and other commitments above a certain size obtain CEO and Board approval (as required under the company's formal delegation of authority);
- safety and sustainability standards and management systems achieve high standards of performance and compliance; and
- business transactions are properly authorised and executed.

The company's full year financial statements are subject to an external audit by an independent, professional auditor who also reviews the company's half-yearly financial statements. DuluxGroup currently engages KPMG as its independent external auditor. In accordance with statutory requirements, the lead partner on the company's audit is required to rotate at the completion of a five year term. The lead partner also attends the company's AGM and is available to answer questions from shareholders relevant to their audit of the company. The Audit and Risk Committee is responsible for overseeing the audit process on behalf of the Board.

4.2 Risk Identification and Management

The Board has established policies for the oversight and management of material business risks and internal controls. The Audit and Risk Committee oversees the policies, internal controls and procedures that the company uses to identify business risks and ensure compliance with relevant regulatory and legal requirements. The design and implementation of the risk management and internal control systems to manage the company's material business risks is the responsibility of management.

The Board has adopted the following key elements for the oversight and management of material business risks.

- The Audit and Risk Committee reviews DuluxGroup's risk management framework on an annual basis to ensure that it remains sound. Such a review took place in the 2016 financial year.
- Material financial and non-financial business risks are systematically and formally reviewed by the Board, Board Committees, DuluxGroup Executive and key business and functional units within the company on an annual basis. These reviews were conducted in the 2016 financial year.
- The key identified risks are then systematically reviewed by the DuluxGroup Executive during the year to ensure controls remain sound and improvement actions are progressed.

The results of these risk reviews are then reported to the relevant Board Committee tasked with oversight of the relevant risk. The outcomes of these Committee reviews are then reported to the Audit and Risk Committee and the Board.

- Formal risk reporting is provided to the Board on an ongoing basis.
- Risk assessments are performed for individual material projects, capital expenditure, products and country risks as required.

The company's internal audit function comprises a Risk Manager who is supported by an independent external firm of accountants in designing and conducting a specific internal audit program. The role that the internal audit function performs is to bring a systematic and disciplined approach to managing risk. This includes reviewing and recommending improvements to controls, processes and procedures used by the company across its corporate and business activities.

Any material exposures to economic, environmental and social sustainability risks, and how the company manages those risks, are disclosed in the Operating and Financial Review.

4.3 Safety and Sustainability

The Board and management are committed to ensuring that DuluxGroup's operations reflect sustainable business practices. The company has a strong heritage of continuous improvement in sustainability impacts and the Board acknowledges that proper management of DuluxGroup's financial, environmental and social impacts is fundamental to the success and well-being of the business and its stakeholders. The company therefore aspires to deliver on its safety and sustainability vision of 'A Future Without Harm'.

The Board has instituted a process whereby the directors receive a report on current safety and sustainability issues and performance at each Board meeting. In addition, the Safety and Sustainability Committee is responsible for reviewing and monitoring safety and sustainability issues in more detail. This is supported by the Company's remuneration framework that links at least 10% of senior executives' short term incentive award opportunities to the achievement of challenging safety and sustainability targets.

The actions being undertaken by DuluxGroup to continuously improve its safety and sustainability performance are further detailed in the Safety and Sustainability Report.

5. OUR CODE OF CONDUCT

DuluxGroup people are united by shared values which underpin the way we meet our strategic objectives and ultimately deliver our core purpose.

These values are:

- **Be consumer driven, customer focused**
- **Unleash your imagination**
- **Value people, work safely and respect the environment**
- **Run the business as your own**

The Board acknowledges that these values are supported by our Code of Conduct and policy framework. It is expected that directors, executives, employees and contractors observe the highest ethical standards of corporate and business behaviour.

DuluxGroup's Code of Conduct and policy framework includes the following policies. These policies are consistent with the recommendations set out in the ASX Principles.

- **Code of Conduct**, which sets out the standards of business conduct required of all employees (including directors and senior managers) and contractors of the company. A Speak Up line has been established to enable employees to report (on an anonymous basis) breaches of the Code of Conduct. If a report is made, it is escalated as appropriate for investigation and action. A management committee monitors and reviews the effectiveness of the Speak Up line on a periodic basis. A report is also prepared for review by the Remuneration and Nominations Committee on a quarterly basis.

BUILDING A DIVERSE AND INCLUSIVE WORKFORCE REMAINS A KEY PRIORITY FOR DULUXGROUP'S MANAGEMENT TEAM AND THE BOARD.

- **Share Trading Policy**, which reinforces the requirements of the Corporations Act 2001 in relation to the prohibition against insider trading. Outside of the trading windows set out in the Policy and as determined by the Board from time to time, directors and senior executives must obtain consent to trade in DuluxGroup shares. The policy also provides that, among other things, employees are not permitted to: (a) enter into or otherwise deal in securities via a margin loan arrangement; or (b) create a derivative or other transaction that limits the economic risk, in relation to securities which are unvested, held 'at risk' or held subject to restrictions under a DuluxGroup employee share plan.
- **Continuous Disclosure**, which establishes detailed procedures for identifying and disclosing material and price sensitive information in accordance with the Corporations Act 2001 and the ASX Listing Rules. A formal program is in place whereby senior executives are provided training to ensure appropriate awareness of how the continuous disclosure obligations apply to DuluxGroup, including consideration of materiality guidelines relevant to the company. In addition, specific and targeted training is provided on a case by case basis as the need arises and advice is also cascaded to the broader organisation on a periodic basis.

Additional information about our Code of Conduct and policy framework (including full details of these and other relevant policies) can be found in the corporate governance/governance policies section of our website at **www.duluxgroup.com.au**.

6. DIVERSITY AT DULUXGROUP

Building a diverse and inclusive workforce remains a key priority for DuluxGroup's management team and the Board.

DuluxGroup's commitment to diversity encompasses differences in gender, age and cultural background. The company's Diversity Policy can be found in the corporate governance/charters section of our website at **www.duluxgroup.com.au**. The Diversity Policy requires the Board to set diversity objectives, and for the Remuneration and Nominations Committee to monitor performance against objectives.

During 2016, responsibility for the diversity and inclusion agenda was allocated to the DuluxGroup Executive team. The DuluxGroup Executive team monitors the diversity strategy, promotes diversity initiatives and reinforces our expectations of our leaders to lead inclusively.

Gender diversity

Our gender diversity objectives

1. To increase the number of women in DuluxGroup
2. To increase the number of women in leadership positions in DuluxGroup
3. To build awareness of the business case for diversity in DuluxGroup

Our progress in 2016

- Women make up 32% of DuluxGroup's workforce
- Of the six non-executive directors of the DuluxGroup Board, two are women (33%)
- Three of the ten members of the DuluxGroup Executive team are women, including two of our six commercial leadership roles
- Women hold 20% of management team roles
- Four of our business units are now led by women, twice as many as last year
- Six state sales managers are female, three of whom operate in trade facing business units

We believe that growing the representation of women among graduates, middle management and senior management will provide a pipeline of women for future general management and executive roles. We continue to build and develop this talent pipeline of female leaders in DuluxGroup, through external appointments and internal promotions. During 2016 we have recruited highly qualified women into the following senior roles:

- Director of Marketing & Innovation, Dulux Australia and New Zealand
- Selleys Global Marketing Director
- General Manager, Automatic Technology
- Executive General Manager Human Resources

We have also promoted women from within DuluxGroup to key senior roles during 2016:

- General Manager, Cabot's
- Technology Manager, Dulux Australia and New Zealand.

DuluxGroup is a silver member of the National Association of Women in Operations (NAWO), an industry body that supports and promotes female participation in non-traditional roles. Membership provides DuluxGroup employees with opportunities to participate in forums, seminars and education.

Functional specialists were also recruited in Organisational Development and Remuneration and Benefits. Each of these women brings a new perspective to DuluxGroup as a result of not only their gender but also their varied senior management experience in large organisations.

In supply chain, which has traditionally been a male dominated area, we have appointed two female operations managers, one production manager and a distribution site manager. These appointments demonstrate the readiness of managers to hire qualified women where they appear on short lists (which in 2016 happened in 75% of roles). Females represent 31% of applicants, whereas appointments made are at 44% female.

Above: Natalie Ruuska, General Manager, Cabot's

Developing our next generation of leaders

In 2016, Natalie Ruuska was named as one of the six Young Executives of the Year by the Australian Financial Review BOSS magazine.

Natalie is an example of one of our outstanding young female leaders. Natalie joined DuluxGroup in 2007 as a graduate and worked through a number of marketing roles before moving into her first commercial role in the Cabot's business. Natalie was appointed to the role of General Manager, Cabot's in December 2015, our youngest ever General Manager.

In 2015 Natalie participated in the Williamson Community leadership program, a highly selective state-wide program that focuses on a broader approach to leadership. Natalie is the third DuluxGroup senior leader to undertake this program. Natalie is Vice Chair of the Global Women's Project, a not-for-profit that is focused on developing partnerships with grassroots organisations to deliver vocational education and livelihood programs for women in developing countries.

Communications and events

During 2016 DuluxGroup continued to present diversity and inclusion events and to communicate with employees on the subject of diversity. This includes events on International Women's Day on major sites featuring internal and external speakers, stories to celebrate cultural and age diversity and highlighting women in non-traditional roles.

Other diversity

Age and cultural diversity are important aspects of our culture in DuluxGroup. We continue to find ways to attract and retain employees with diverse cultural backgrounds to help us to meet customer and consumer needs. We celebrate the mix of cultures in our business regularly on specific sites with different events such as Harmony Day.

The recruitment of graduates is a strong source of gender and cultural diversity.

Managing Director and CEO Patrick Houlihan with DuluxGroup Graduates at the 2016 graduate dinner.

Key gender diversity statistics

NUMBER AND PERCENTAGE OF WOMEN	2016		2015	
	NUMBER	PERCENTAGE	NUMBER	PERCENTAGE
Board	2 of 8	25%	2 of 7	29%
Non-Executive Directors	2 of 6	33%	2 of 5	40%
DuluxGroup Executive	3 of 10	30%	2 of 10	20%
Senior Leadership*		23%		19%
Organisation		32%		30%
Graduates		46%		41%

*Leadership is defined as DuluxGroup senior managers (employees at CEO – 3 roles and above). These employees work in a variety of roles including business management, sales, supply chain, research and development, marketing and functional roles such as finance, IT, legal and human resources. They are responsible for delivering substantial commercial and operational outcomes and for leading people.

7. OTHER INFORMATION

This Corporate Governance Statement was approved by the Board of DuluxGroup on 8 November 2016 and the information contained in it is current as at that date, unless stated otherwise.

This statement (as part of DuluxGroup's 2016 Annual Report), together with our 2016 ASX Appendix 4G (which is a checklist that cross-references the ASX Principles to the relevant disclosures in this statement and our website) have both been lodged with the ASX and can also be found in the corporate governance/key corporate governance documents section of our website at www.duluxgroup.com.au.

More information on governance at DuluxGroup, including Board and Executive member profiles, Board and Committee charters, DuluxGroup's constitution and key governance policies, can be found in the corporate governance section of our website.

Financial Report

CONTENTS

Directors' Report

AS AT 8 NOVEMBER 2016

The Directors of DuluxGroup Limited (the Company) present the financial report for the Company and its subsidiaries (collectively 'the consolidated entity' or 'the Group' or 'DuluxGroup') for the financial year ended 30 September 2016 and the auditor's report thereon.

The information referred to below forms part of and is to be read in conjunction with this Directors' Report:

- the Remuneration Report appearing on pages 64 to 81;
- the Operating and Financial Review on pages 12 to 35;
- details of the current Directors and the Company Secretary on pages 44 to 45; and
- Note 21 (Director and executive disclosures) to the financial statements accompanying this report.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report are:

- Peter Kirby – Chairman and Non-Executive Director
- Patrick Houlihan – Managing Director and Chief Executive Officer
- Stuart Boxer – Executive Director and Chief Financial Officer
- Gaik Hean Chew – Non-Executive Director
- Garry Hounsell – Non-Executive Director
- Andrew Larke – Non-Executive Director
- Graeme Liebelt – Non-Executive Director (appointment effective from 14 June 2016)
- Judith Swales – Non-Executive Director

Particulars of the current Directors' and the Company Secretary's qualifications, experience, period of appointment and special responsibilities are detailed on pages 44 to 45 of the Annual Report.

COMPANY SECRETARY

Simon Black is the Company Secretary and General Counsel.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are listed below:

	SCHEDULED BOARD MEETINGS[1]		AUDIT AND RISK COMMITTEE		REMUNERATION AND NOMINATIONS COMMITTEE		SAFETY AND SUSTAINABILITY COMMITTEE	
DIRECTOR	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Peter Kirby	9	9	4	4	4	4	–	–
Patrick Houlihan	9	9	–	–	–	–	4	4
Stuart Boxer	9	9	–	–	–	–	–	–
Gaik Hean Chew	9	9	–	–	4	4	4	4
Garry Hounsell	9	9	4	4	4	4	–	–
Andrew Larke	9	9	4	4	4	4	–	–
Graeme Liebelt	2	2	–	–	–	–	–	–
Judith Swales	9	9	4	4	–	–	4	4

(1) Shows the number of meetings held and attended by each Director during the period the Director was a member of the Board. The Scheduled Board Meetings include the 2015 Annual General Meeting.

DIRECTORS' INTERESTS IN SHARE CAPITAL

The relevant interest of each Director in the share capital of the Company as at the date of this Directors' Report is set out below:

	NUMBER OF FULLY PAID ORDINARY SHARES(1)	NUMBER OF SHARE RIGHTS HELD PURSUANT TO THE DULUXGROUP SALARY SACRIFICE SHARE PLAN(1)	NUMBER OF SHARES HELD PURSUANT TO THE 2013 DULUXGROUP LONG TERM EQUITY INCENTIVE PLAN (LTEIP) OFFER(2)	NUMBER OF SHARES HELD PURSUANT TO THE 2014 AND 2015 DULUXGROUP LTEIP OFFERS(3)
Peter Kirby	130,000	15,829	–	–
Gaik Hean Chew	113,056	–	–	–
Garry Hounsell	148,822	–	–	–
Andrew Larke	152,156	–	–	–
Graeme Liebelt	–	5,898	–	–
Judith Swales	60,000	–	–	–
Patrick Houlihan	1,000,000	–	453,758	859,923
Stuart Boxer	362,805	–	175,280	328,717

(1) Unrestricted shares or share rights beneficially held in own name or held indirectly including in the name of a trust, superannuation fund, nominee company, close member of their family or private company.

(2) Since the end of the financial year, these shares have met the applicable DuluxGroup LTEIP performance condition and vested on 8 November 2016. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 18 November 2016 to 20 January 2017.

(3) These shares are held pursuant to the terms of the DuluxGroup LTEIP (details of which are set out in the Remuneration Report) and are subject to a restriction on trading until the relevant performance condition is met and the loans have been repaid.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity in the course of the financial year were the manufacture, marketing, sale and distribution of premium branded paint, coatings, adhesives, garden care and other building products to the residential home improvement, commercial and infrastructure markets across Australia, New Zealand and Papua New Guinea, with niche positions in China, South East Asia and the United Kingdom. There have been no significant changes in the nature of those activities during the year.

BUSINESS STRATEGIES, PROSPECTS AND LIKELY DEVELOPMENTS

The Operating and Financial Review (OFR) on pages 12 to 35 of the Annual Report sets out information on the business strategies and prospects for future financial years, and refers to likely developments in DuluxGroup's operations and the expected results of those operations in future financial years. Information in the OFR is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of DuluxGroup. Information that could give rise to likely material detriment to DuluxGroup, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage, has not been included. Other than the information set out in the OFR, information about other likely developments in DuluxGroup's operations and the expected results of these operations in future financial years has not been included.

REVIEW AND RESULTS OF OPERATIONS

A review of the operations of the consolidated entity during the financial year, the results of those operations and the financial position of the consolidated entity are contained on pages 12 to 35 of the Annual Report.

DIVIDENDS PAID IN THE YEAR ENDED 30 SEPTEMBER 2016

In respect of the 2015 financial year, a fully franked final dividend of 11.5 cents per ordinary share was paid on 15 December 2015. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2016.

In respect of the 2016 financial year, a fully franked interim dividend of 11.5 cents per ordinary share was paid on 10 June 2016. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2016.

Since the end of the financial year, the Directors have determined a final dividend to be paid at the rate of 12.5 cents per share, details of which are set out in the section below entitled 'Events subsequent to balance date'.

CHANGES IN THE STATE OF AFFAIRS

Particulars of significant changes in the state of affairs of the consolidated entity during the year ended 30 September 2016 are as follows:

- Total assets of $1,195.8 million increased by $36.7 million on the prior year.
- Year end net debt[1] of $300.6 million increased by $23.7 million on the prior year.
- Total equity attributable to the ordinary shareholders of DuluxGroup Limited of $365.3 million increased by $15.1 million on the prior year.

1 Net debt inclusive of USPP hedge value – refer to note 14 in the financial statements.

EVENTS SUBSEQUENT TO BALANCE DATE

On 8 November 2016, the Directors determined that a final dividend of 12.5 cents per ordinary share will be paid in respect of the 2016 financial year. The dividend will be fully franked and payable on 9 December 2016. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2016 and will be recognised in the 2017 financial statements.

The Directors have not become aware of any other matter or circumstance that has arisen since 30 September 2016, that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

ENVIRONMENTAL REGULATIONS

The Company recognises that a commitment to the sustainable management of our financial, environmental and social impacts is fundamental to the success and well-being of both our business and our stakeholders. More specific details about the Company's safety and sustainability initiatives and performance can be found in the Safety and Sustainability Report on pages 36 to 43 and at the Company's website: www.duluxgroup.com.au.

The activities of the Company are subject to environmental regulations in the jurisdictions in which it operates. Where applicable, manufacturing licences and consents are in place in respect of each DuluxGroup site. The Board has oversight of the Company's environmental practices and performance.

From time to time, the Company receives notices from relevant authorities pursuant to local environmental legislation and in relation to the Company's environmental licences. On receiving such notices, the Company investigates to determine the cause and ensure the risk of recurrence is minimised, and works with appropriate authorities to address any issues arising, which may include ongoing reporting obligations and/or development of an environmental management plan. At the date of this report, any costs associated with remediation or changes to comply with regulations in the jurisdictions in which Group entities operate are not considered material.

The Directors are not aware of any material breaches of Australian or international environmental regulations during the year.

INDEMNIFICATION OF OFFICERS

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, the Company Secretary and other executive officers, against liabilities incurred whilst acting as such officers to the extent permitted by law.

In accordance with the Company's Constitution, the Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the financial year.

The Company has paid a premium in respect of a contract insuring officers of the Company and its subsidiaries against all liabilities that they may incur as an officer of the Company, including liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or the policy can be disclosed.

NON-AUDIT SERVICES AND AUDITOR'S INDEPENDENCE

During the year, KPMG, the Company's auditor, has performed certain other services in addition to its audit responsibilities.

The Board, in accordance with advice received from the Board's Audit and Risk Committee, is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided did not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity of the Company, acting as an advocate of the Company or jointly sharing risks or rewards.

No officer of the Company was a partner or director of KPMG during the financial year. A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is contained on page 82 and forms part of this Directors' Report.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided during the year are disclosed in note 26 of the financial statements accompanying this report.

ROUNDING

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars, with the Company being in a class specified in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Signed on behalf of the Board in accordance with a resolution of the Directors of the Company.

Peter M. Kirby
Chairman

8 November 2016

REMUNERATION REPORT (AUDITED)

Dear shareholders,

On behalf of the Board, I am pleased to introduce DuluxGroup's 2016 Remuneration Report, for which we seek your support at our Annual General Meeting in December 2016.

DuluxGroup has maintained a largely unchanged approach to remuneration since the Company established its current framework following the demerger from Orica in 2010. The Board strongly believes that the current remuneration framework is robust, focuses executive effort on the long term strength of the Company, and provides clear and direct alignment with shareholder interests through share ownership. Executives are rewarded when shareholders are rewarded.

More information on the remuneration framework is provided in section 2.1 of this report, clearly demonstrating the strong links from the Group's strategy and performance to remuneration outcomes.

In order to remain competitive for talent, during 2016 fixed remuneration for executives was adjusted generally in line with salary increases across the Australian market. However, fixed remuneration for our executives remains modest compared with peers, reflecting our strong focus on long term outcomes and rewarding performance through 'at risk' incentives.

2016 performance

The Group's net profit after tax was $130.4 million in 2016, an increase of 4.6% on the prior year, and Group earnings before interest and tax was $201.1 million, an increase of 4.5% on the prior year. Although there were no adjustments for non-recurring items in 2016, the growth rates exclude non-recurring items in 2015. These results were driven by consistent earnings growth in our heritage businesses in Australia and New Zealand, and a solid collective improvement from the businesses which were acquired in late 2012.

Our businesses continue to generate strong cash flow and our debt ratios remain steady. This is despite the acquisition of the Craig & Rose paint business to provide a platform for growing a market position in the UK, and the continuing on-budget and on-time construction of our new paint factory in Melbourne. These projects clearly demonstrate the Group's ongoing investment in future growth. The new Dulux and Selleys distribution centre in New South Wales was completed on schedule and budget in June 2016 and is now fully operational, supporting the strong growth in these businesses.

The total fully franked dividend for the 2016 year is 24 cents per share, which is a 6.7% increase on 2015 and a payout ratio of approximately 70% on net profit after tax.

This performance is reflected in both short term and long term remuneration outcomes.

Short term incentive outcomes

Short term incentive outcomes for executives are generally lower than in 2015, reflecting lower growth in net profit after tax and variability of performance across the businesses. On average the executives have achieved 53% of Stretch, compared with 64% of Stretch in 2015.

These outcomes reflect DuluxGroup's proven approach to setting performance measures and assessing annual performance:

- No short term incentive is payable until net profit after tax (before non-recurring items) exceeds the prior year's performance.
- Financial results drive 70% of short term incentives for both of the Executive Directors and for executives with responsibility for commercial business results.
- The remaining STI measures reflect the Group's commitment to safety and sustainability (10%), and the delivery of customer-focused and sustainable growth and development objectives intended to produce shareholder return over the longer term (20%). Objective targets ensure that performance against these measures can be robustly determined.
- The Board retains overarching discretion (both up and down) in order to ensure that short term incentive outcomes appropriately reflect the performance of the Company and the individual (including to reflect any misalignment of values or behaviours).

More information on the Group's 2016 performance and resulting short term incentive outcomes is provided in sections 3.3 and 3.4.

Long term incentive outcomes

The Company's share price has increased from $2.50 on demerger in 2010 to $6.60 on 30 September 2016, exceeding the ASX200 index growth, whilst maintaining a dividend payout ratio of approximately 70% of net profit after tax. Long term incentive outcomes reflect this share price and dividend performance relative to peers in the Australian market:

- the 2012 award under the Long Term Equity Incentive Plan vested in November 2015 as reported last year. DuluxGroup's Total Shareholder Return was 104.8% over the performance period from November 2012 to November 2015, and as this was at the 85th percentile of our peer companies, the maximum loan forgiveness of 30% was applied to the 2012 award.
- the earnings gateway (requiring a compound annual growth of 4% per annum) for the 2013 award has been met and the award has vested. The relative Total Shareholder Return performance condition for this award will be tested in the week following the release of the 2016 Group results in November 2016 to determine if any loan forgiveness is to apply.

More information on long term incentive awards and outcomes is provided in section 3.5.

Further enhancing shareholder alignment

Encouraging share ownership continues to be a key aspect of the Group's culture so that executives think like shareholders and 'run the business as their own'. With a number of new executive appointments, the Board has decided to further facilitate share ownership and drive shareholder alignment through:

- implementing a new share acquisition plan that allows Australian based Non-Executive Directors, executives, and employees to purchase Company shares with their pre-tax fees, salary, or earned cash short term incentives, at no cost to shareholders (details in section 4.2);
- extending the period over which the loan under the long term incentive programme may be repaid, to encourage executives to retain more of the shares arising from the award for an extended period (details in section 3.5); and
- introducing deferral of some short term incentive in Company shares for members of the DuluxGroup Executive, to be effective from the 2017 performance year. The Board's intention is to enhance the alignment and retention already provided by the Company's long standing long term incentive programme.

Where shareholder approval is required for any awards, this approval will be sought from shareholders at the relevant time.

The DuluxGroup Remuneration Report has received strong support from shareholders in the past, and the content of the 2016 report remains largely consistent with prior years. We have, however, reduced the length and updated the format of the report in response to shareholder feedback and to more clearly communicate the link between our strategy, our performance and our executive remuneration outcomes.

In order to reduce repetition within the report, the changes have included the removal of the traditional Question and Answer section covering our short and long term incentive programmes. Shareholders who would prefer more detail, particularly on the operation of our Long Term Equity Incentive Plan, will find this in a separate document published in the Investor Centre on the Group's website.

It remains our intention to encourage open dialogue with shareholders, particularly around our remuneration practices and disclosures, and accordingly I welcome any feedback you may have.

Yours faithfully

Peter M Kirby
Chairman

8 November 2016

1. INTRODUCTION

The Directors of DuluxGroup Limited (the Company) present the Remuneration Report for the Company and its controlled entities (collectively 'the Group') for the financial year ended 30 September 2016 prepared in accordance with the requirements of the *Corporations Act 2001* and its regulations.

This report outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of the Group which comprises all Directors (executive and non-executive) and those other members of the DuluxGroup Executive who have authority and responsibility for planning, directing and controlling the activities of the Group.

The following table details the Group's KMP during the 2016 financial year. In this report, 'executives' collectively refers to those individuals shown as Executive Directors or as Other KMP in the table.

NAME	ROLE
NON-EXECUTIVE DIRECTORS	
Peter Kirby	Chairman and Non-Executive Director
Gaik Hean Chew	Non-Executive Director
Garry Hounsell	Non-Executive Director
Andrew Larke	Non-Executive Director
Graeme Liebelt[(1)]	Non-Executive Director
Judith Swales	Non-Executive Director
EXECUTIVE DIRECTORS	
Patrick Houlihan	Managing Director and Chief Executive Officer (CEO)
Stuart Boxer	Executive Director and Chief Financial Officer (CFO)
OTHER KMP	
Patrick Jones	Executive General Manager – Dulux Paints and Coatings
Brad Hordern	Executive General Manager – DuluxGroup Supply Chain
Martin Ward	Executive General Manager – Consumer and Construction Products

(1) Graeme Liebelt commenced 14 June 2016

2. REMUNERATION STRATEGY – DRIVING A PERFORMANCE CULTURE

2.1 Remuneration strategy and framework

The remuneration strategy sets the direction for the remuneration framework, and drives the design and application of remuneration programmes across the Group, including for executives.

The remuneration strategy is to:

- Encourage a strong focus on financial and operational performance and motivate executives to deliver outstanding business results and returns to the Company's shareholders over short and long term horizons;
- Attract, motivate and retain appropriately qualified and experienced individuals; and
- Align executive and stakeholder interests through share ownership.

The Board believes that remuneration of executives should include a fixed component and at-risk or performance-related components, including both short term and long term incentives. This remuneration framework is shown in the diagram following, including how performance outcomes will impact remuneration outcomes for individuals.

The Board reviewed the remuneration framework and associated programmes in 2016, and is satisfied that it continues to align with the Group's strategic objectives. As a result, no significant changes to the key elements of the remuneration framework were made this year. Some minor changes will be implemented in 2017 as outlined in the Chairman's letter.

Remuneration framework

	PERFORMANCE CONDITIONS	REMUNERATION STRATEGY/ PERFORMANCE LINK
Fixed Annual Remuneration (FAR) Salary and other benefits (including statutory superannuation)	**Considerations** • Scope of individual's role • Individual's level of knowledge, skills and expertise • Individual performance • Market benchmarking	Set to attract, retain and motivate the right talent to deliver on our strategy and contribute to the Group's financial and operational performance. For executives who are new to their roles, the aim is to set fixed remuneration at relatively modest levels compared to their peers and to progressively increase as they gain experience and prove themselves in their roles. In this way fixed remuneration is linked to individual performance and effectiveness.
Short Term Incentive (STI) Annual incentive opportunity delivered in cash	**Net Profit After Tax (NPAT) 'gateway' –** minimum NPAT threshold performance level that must be achieved before any STI is payable • Ensures a minimum acceptable level of Group profit before executives receive any STI award • Determined by the Board each year with reference to factors including prior year NPAT, economic conditions and industry trends. **Financial measures** (generally 70% of STI award, incorporating some or all of the following metrics) • Group NPAT • Group earnings before interest and tax (EBIT) • Business / Region EBIT (where appropriate) • Cash flow • Trade working capital **Safety and Sustainability measures** (generally 10% of STI award) • Lead improvement objectives for disaster and fatality prevention • Sustainability • Recordable Personal Injury Case Rate targets **Personal objectives** (generally 20% of STI award) aligned to strategic objectives.	Performance conditions are designed to support the financial and strategic direction of the Group (the achievement of which is intended to translate through to shareholder return), and are clearly defined and measureable. A large proportion of outcomes are subject to earnings targets of the Group or business unit, depending on the role of the executive to ensure line of sight. The Board maintains discretion to exclude non-recurring items (e.g. in order to provide a better comparison from period to period and to ensure a better measure of underlying performance). Other financial targets ensure strong operational discipline is maintained. Non-financial targets are aligned to core values (including safety and sustainability) and key strategic and growth objectives. Hurdle and Stretch targets for each measure are set by the Board to ensure that a challenging but meaningful incentive is provided. The Board has discretion to adjust STI outcomes up or down to ensure that individual outcomes are appropriate – e.g. to ensure that 'how' results are achieved is aligned with the Group's values.
Long Term Equity Incentive Plan (LTEIP) Three-year incentive opportunity delivered through restricted Company shares – allocated upfront, pursuant to a sole purpose, non-recourse company loan. The loan needs to be repaid (following vesting) before the participant will have access to any shares.	**Earnings Per Share (EPS) growth 'gateway'** – minimum 4% compound annual EPS growth to be achieved before any shares will vest. **TSR performance condition** – A portion of the loan may be forgiven at the end of the period • No loan forgiveness applies if the Company's 3-year Total Shareholder Return (TSR) performance (defined as the total return to shareholders over the period, taking into account share price growth and dividends paid) is below the 51st percentile relative to a comparator group of companies in the S&P/ASX 200 Index[1] • Loan forgiveness is applied for superior relative TSR performance (from 10% loan forgiveness at the 51st percentile up to a maximum of 30% at the 75th percentile, on a straight-line sliding scale)	Allocation of shares upfront encourages executives to 'behave like shareholders' from the grant date. The shares are restricted and subject to risk of forfeiture during the vesting/performance periods and while the loan remains outstanding. The performance gateway and condition are designed to encourage executives to focus on the key performance drivers which underpin sustainable growth in shareholder value. The EPS gateway provides a 'counterbalance' to the relative TSR performance condition, designed to ensure the quality of the share price growth is supported by the Group's earnings performance, and not market factors alone. Key benefits to participants under the plan are: • capital appreciation in Company shares consistent with shareholder interests; • the partial value of after tax dividends applied towards repaying the loan thereby increasing equity over the loan period; and • potential loan forgiveness (on a sliding scale to a maximum of 30%) if the Group's TSR outperforms the comparator group.

Total Remuneration The combination of these elements is designed to attract, retain and motivate appropriately qualified and experienced individuals, encourage a strong focus on performance, support the delivery of outstanding returns to shareholders and align executive and stakeholder interests through share ownership.

[1] The LTEIP comparator group comprises those companies that remain listed in the S&P/ASX 200 Index for the duration of the performance period. Companies classified as mining, financial services, listed property trusts and overseas domiciled companies have been excluded as they operate in very different markets and are not considered by the Board to be relevant competitors for capital.

2.2 Our focus on performance

The weighting of the at-risk remuneration components reflects the Board's commitment to performance-based reward.

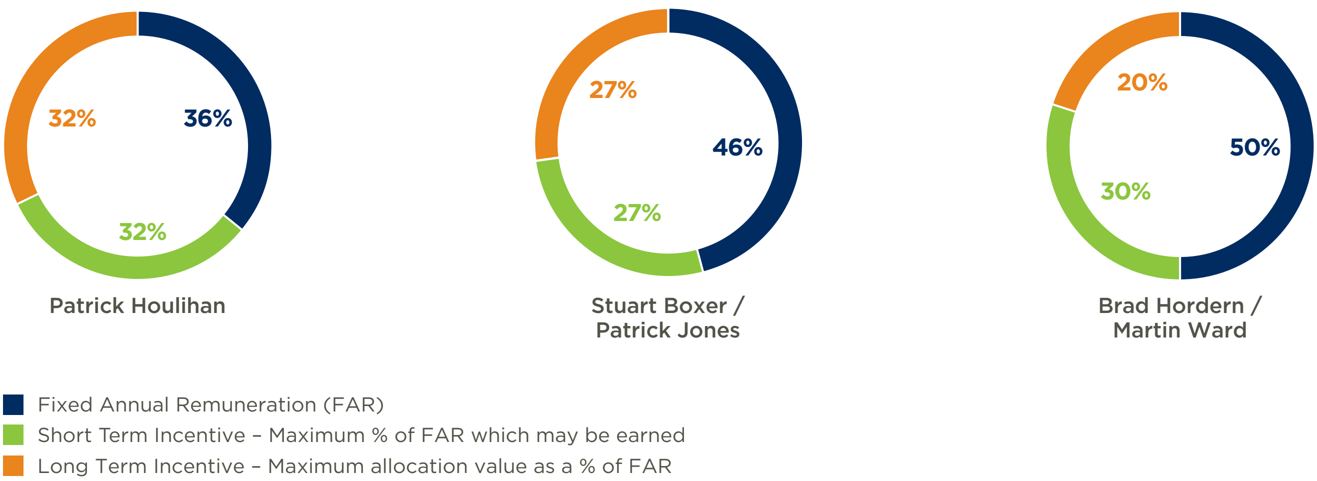
The table and graphs below illustrate the mix of remuneration components for executives, firstly as a percentage of FAR and then as a proportion of total potential remuneration.

Section 3 describes 2016 performance outcomes relative to the Hurdle and Stretch set for each performance measure, and how this has impacted remuneration outcomes for the 2016 financial year.

Variable remuneration as a percentage of FAR

		SHORT TERM INCENTIVE AS % OF FAR		
NAME	FIXED ANNUAL REMUNERATION (FAR) $	IF THE 'TARGET' LEVEL OF PERFORMANCE IS ACHIEVED	IF THE STRETCH LEVEL OF PERFORMANCE IS ACHIEVED	LONG TERM INCENTIVE ALLOCATION VALUE AS A % OF FAR
EXECUTIVE DIRECTORS				
Patrick Houlihan	1,151,000	50%	90%	90%
Stuart Boxer	660,000	30%	60%	60%
OTHER KMP				
Patrick Jones	630,000	30%	60%	60%
Brad Hordern	454,000	30%	60%	40%
Martin Ward	454,000	30%	60%	40%

Relative weighting of elements in the remuneration mix



3. PERFORMANCE AND REMUNERATION OUTCOMES FOR 2016

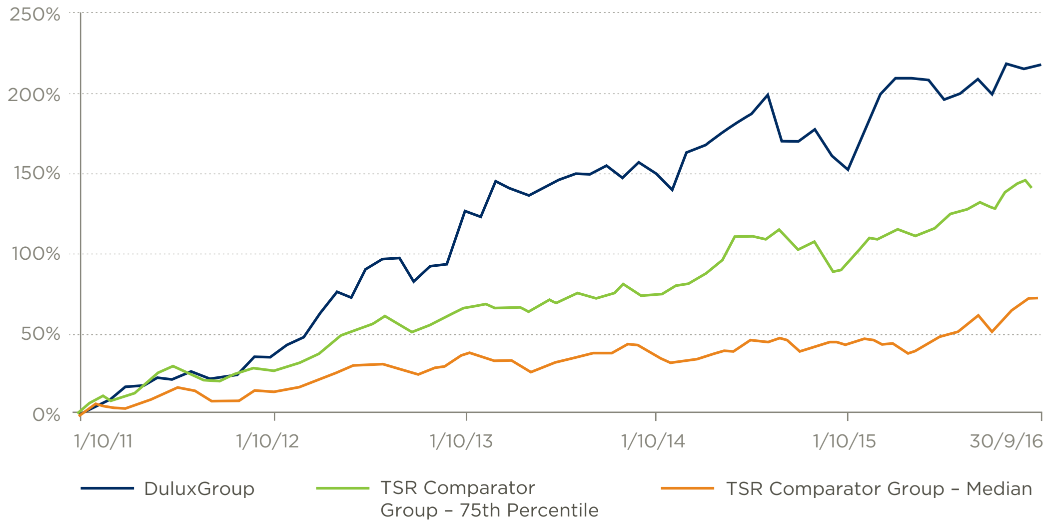
3.1 Group performance outcomes

The Company has demonstrated consistently strong performance in the last five years as shown in the following graphs and table.

Over this period, the Company's share price has increased from $2.52 (opening share price as at 1 October 2011) to $6.60 (as at 30 September 2016). In addition, the Company has maintained a dividend payout ratio of approximately 70% of NPAT excluding non-recurring items during this period.

The graph shows the Company's TSR performance since 1 October 2011, compared with TSR performance at the median and 75th percentile of those companies in the S&P/ASX 200 Index as at 1 October 2011 that remained listed to 30 September 2016.

Five year TSR performance

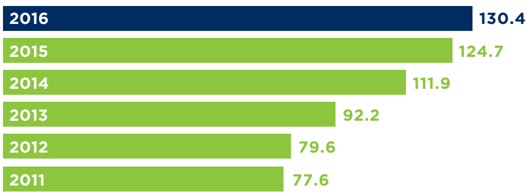


Directors' Report continued

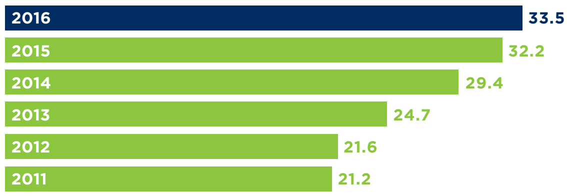
Historical Company performance

	2011	2012	2013	2014	2015	2016
NPAT attributable to ordinary shareholders of DuluxGroup Limited ($m)	93.2	89.5	75.0	104.5	112.8	130.4
NPAT before non-recurring items ($m)[1]	77.6	79.6	92.2	111.9	124.7	130.4
Diluted EPS (cents)	25.7	24.3	20.1	27.5	29.2	33.5
Diluted EPS before non-recurring items (cents)[1,2]	21.2	21.6	24.7	29.4	32.2	33.5
Recordable injury case rate (RCR)[3]	1.96	1.85	1.81	1.53	1.84	1.63
Dividends paid per share (cents)	10.5	15.0	16.0	19.5	21.5	23.0
Opening share price for the financial year ($)	2.73	2.52	3.30	5.28	5.56	5.35
Closing share price for the financial year ($)	2.52	3.30	5.28	5.56	5.35	6.60
DuluxGroup Indicative TSR %[4]	(4.7%)	37.4%	66.7%	10.4%	0.8%	26.1%
Median TSR for S&P/ASX 200 Index %[5]	(14.1%)	16.0%	22.3%	0.8%	(3.3%)	21.6%

NPAT before non-recurring items ($million)[1]



Diluted EPS before non-recurring items (cents)[1,2]



(1) Earnings excluding non-recurring income and expenses are considered by the Board to be a better basis for comparison from period to period as well as more comparable with future performance. This is also the primary measure of earnings considered by management in operating the business and by the Board in determining dividends. Non-recurring items that were excluded were positive in 2012 ($9.9 million), and negative in 2013 ($17.2 million), 2014 ($7.4 million) and 2015 ($11.9 million). There were no non-recurring items in 2016.

(2) Diluted EPS before non-recurring items is calculated based on the weighted average number of shares outstanding at balance date and includes all allocated LTEIP shares. This number of shares may differ from the statutory number of shares used for a diluted EPS calculation, in which 'out of the money' LTEIP shares are excluded.

(3) The RCR is the number of injuries and illnesses resulting in lost time, restricted duties, or medical treatment per 200,000 hours worked (US OHSA system), which is equivalent to the hours worked by 100 people in a year. It includes both the Group's employees and contractors.

(4) DuluxGroup's Indicative TSR performance has been calculated based on the change in the share price for the period and dividends paid (assuming dividends are reinvested into DuluxGroup shares).

(5) Indicative TSR performance at the median of those companies in the S&P/ASX 200 Index at the beginning of the period that remained listed for the duration of the period. Companies classified as mining, financial services, listed property trusts and overseas domiciled companies are excluded as they are not considered by the Board to be relevant competitors for capital.

3.2 FAR outcomes

A review of remuneration for executives was undertaken by the Remuneration and Nominations Committee (RNC) in the 2016 financial year. Considerations included the Group's continued growth and strong performance as well as individual performance and market benchmarks (based on independent external advice regarding remuneration paid by ASX listed companies of a comparable market capitalisation and our key industry peers). The Board resolved to increase FAR for all executives by 2.5% from 1 January 2016, with the exception of Patrick Jones, who received a larger adjustment to FAR to better align his salary with market peers.

Fixed remuneration levels for all executives are now considered to be comparable to those in peer companies.

3.3 STI performance measures and outcomes for 2016

The STI plan is designed to put a meaningful proportion of executives' remuneration at risk, to be delivered based on the achievement of performance measures linked to the Group's annual business objectives. Other members of the DuluxGroup Executive and senior management also participate in the STI plan, ensuring consistency of purpose and focus on the performance measures.

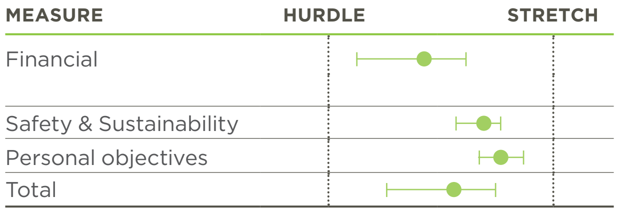
The tables below detail the structure of the STI performance measures for executives in 2016, which were determined by the Board at the beginning of the financial year, and performance against each measure as assessed at the end of the financial year. Performance for each measure is assessed on a range from Hurdle to Stretch. Stretch is set by the Board for each measure at a level that ensures maximum STI is payable only where performance has truly and substantially exceeded expectations.

2016 STI performance measures

PERFORMANCE CONDITIONS FOR STI	P HOULIHAN/ S BOXER	P JONES/ M WARD	B HORDERN[(1)]
DuluxGroup financial	70%	15%	30%
Business unit financial	–	55%	–
Safety & Sustainability	10%	10%	20%
Personal objectives	20%	20%	50%
Total	100%	100%	100%

(1) The increased weighting of 50% for B Hordern's personal objectives in 2016 is described in more detail in the Personal Measures section below.

2016 Performance outcomes



The diagram above presents the range of achievement affecting executive STI in 2016, and the average outcome (indicated by a circle).

The NPAT gateway, and NPAT and EBIT targets and performance upon which STI outcomes are based exclude non-recurring items in order to provide a better comparison from period to period and a better measure of underlying performance. There were no non-recurring items excluded from Group NPAT and EBIT in 2016. Non-recurring items excluded from 2015 Group NPAT and EBIT were detailed in section 3.2 of the 2015 Remuneration Report.

STI gateway

The STI plan has a gateway which requires a minimum level of NPAT growth to be achieved before any STI can be awarded. The gateway for 2016 was set at the prior year's NPAT, being $124.7 million in 2015, and was achieved with actual DuluxGroup NPAT for 2016 of $130.4 million. It is important to note that the gateway is a minimum threshold measure only and, once met, performance against the following measures determines actual individual STI outcomes for executives.

Financial measures

As shown in the table above, a significant proportion of the STI outcome for each executive is based on the achievement of financial results.

The primary financial measures used in the executive STI scorecards are NPAT and EBIT for the Group, and EBIT for the relevant business for each individual. The Group's NPAT and EBIT results were in the middle of the performance range between Hurdle and Stretch, with NPAT increasing 4.6% and EBIT increasing 4.5% from the 2015 equivalent results. EBIT for Dulux Paints and Coatings was particularly strong, with more variable EBIT results for the businesses within Consumer and Construction Products, and this is reflected in the STI outcomes for the relevant business executives.

Cash Conversion and Rolling Trade Working Capital are included as secondary financial measures (for the Group or businesses as relevant). These are critical metrics of the sustainable and efficient management of operating cash and working capital within the Company. Cash Conversion was strong across the Group, and the achievement of procurement savings is also reflected in the STI outcome for the Executive General Manager – DuluxGroup Supply Chain.

Safety and sustainability

The nature of the Group's business operations demands a strong focus on Safety and Sustainability performance and improvement each and every year. The role that our focus on safety plays in supporting our company culture is core to our business success, and to the way that we work with and value our customers and consumers.

We measure our performance across the four key areas of disaster prevention, fatality prevention, injury prevention, and sustainability. Central to this is identifying and managing significant risks to ensure that we prevent harm and make a positive contribution to the communities in which we operate.

The number of serious near misses involving fatality risks and the number of recordable injuries both fell 11% in 2016. Our recordable injury rate is very good by industry standards and it was pleasing to also see a 40% reduction in the most serious injuries.

It has been more than three decades since a major incident or disaster occurred in our chemical manufacturing processes. Given the likely high consequence of any such incident, constant vigilance is a priority. It is therefore disappointing that we had one process safety 'near miss' involving the handling of solvents at our Parchem site in Wyong, New South Wales. A thorough investigation into the causes has resulted in corrective action at this site and informed learning at our other sites. This has affected the STI outcome for the Executive General Manager – Consumer and Construction Products.

Product stewardship improvement remained our key sustainability priority and all businesses made good progress during the year.

Personal measures

Personal measures vary by role and from year to year for each individual, and are primarily linked to the successful achievement of strategic projects with long term impact on Company success. Individual executives have achieved different outcomes in regard to their personal objectives, but all have delivered in the top half of the performance range.

For the CEO and CFO in 2016, these measures were primarily in regard to investing for growth outcomes for the Group both domestically and internationally. The acquisition of Craig & Rose in the United Kingdom was one outcome of this focus for 2016 – providing a platform to grow a position in the United Kingdom for a modest investment in a premium local brand and operational capability.

Successful delivery of the supply chain projects to schedule and budget (and with seamless business continuity) was a substantial part of the personal measures for the Executive General Manager – DuluxGroup Supply Chain in 2016. The weighting of personal measures in his scorecard was increased from 10% to 50% for 2016 in recognition of this responsibility, and the importance of these projects at the current time. The new Dulux and Selleys distribution centre in New South Wales is now fully operational and supporting the strong growth in those businesses. Construction of the new paint factory in Melbourne is progressing well, and remains on budget and on time, with production scheduled for late 2017.

3.4 2016 STI awards

The performance against STI measures in 2016 as described above resulted in the following individual awards, which ranged from 27.9% to 75.3% of the maximum potential award under the STI plan (which is only earned for Stretch performance on all measures).

NAME	2016 STI AWARD[1] $	MAXIMUM STI[2] $	STI AWARDED IN 2016[3]%	STI AWARDED IN 2015[3]%	STI FORFEITED IN 2016[3]%	2016 AWARD AS % OF FAR[2]
EXECUTIVE DIRECTORS						
Patrick Houlihan	500,433	1,035,900	48.3%	61.5%	51.7%	43.5%
Stuart Boxer	189,738	396,000	47.9%	60.7%	52.1%	28.7%
OTHER KMP						
Patrick Jones	254,300	378,000	67.3%	86.3%	32.7%	40.4%
Brad Hordern	205,046	272,400	75.3%	59.1%	24.7%	45.2%
Martin Ward	75,891	272,400	27.9%	53.4%	72.1%	16.7%

(1) STI award earned during the 2016 financial year which is expected to be paid in December 2016.

(2) The maximum STI payable and award as a percentage of FAR have been calculated based on FAR as at 30 September 2016. As a result of the recent benchmarking exercise (as outlined in section 3.2) the Board intends in 2017 to defer 15% of all STI awards into Company shares with forfeiture applying during the two year deferral period. This is intended to enhance shareholder alignment and retention. The maximum STI opportunity for each individual will increase by 10% of FAR from 2017 as a result of this change.

(3) The STI award and STI forfeited are expressed as a percentage of the maximum STI potentially available (for Stretch performance). The comparative 2015 STI awarded figures are a percentage of the maximum STI available (for Stretch performance) in 2015, as published in the 2015 Remuneration Report.

3.5 Long term incentive performance measures and outcomes

The EPS gateway for determining vesting is calculated using NPAT excluding non-recurring items in order to provide a better measure of underlying performance of the Group. However, no non-recurring items were excluded from Group NPAT in 2016. Non-recurring items excluded from 2015 Group NPAT was detailed in section 3.2 of the 2015 Remuneration Report.

2012 LTEIP grant – vesting determined during 2016

The performance conditions for the LTEIP granted in December 2012 were tested for vesting during the 2016 financial year.

As reported in the Company's 2015 remuneration report, the EPS growth gateway condition was exceeded (measured at 30 September 2015), and this grant subsequently vested. Relative TSR performance was tested during the one week following the release of the 2015 Group results to determine the percentage of the related loans to be forgiven. The Company's TSR was 104.81% over the period from November 2012 to November 2015. This was at the 85th percentile of the comparator group, resulting in the maximum loan forgiveness of 30% being applied.

2013 LTEIP grant – performance condition measured to the end of 2016

The performance condition for the LTEIP granted in December 2013 was measured for vesting as at 30 September 2016.

For the 2013 LTEIP, the baseline EPS based on 2013 NPAT was 24.7 cents per share. The corresponding calculation as at 30 September 2016 was an EPS of 33.5 cents per share, and the Company's compound annual EPS growth over the performance period was 19.3% when calculated using diluted EPS on a statutory basis and 10.7% using EPS excluding non-recurring items. The EPS growth gateway of 4% compound annual growth over the performance period was therefore exceeded and the 2013 LTEIP awards vested on 8 November 2016.

Loans became repayable by participants to the Company following vesting. The relative TSR performance condition will be tested during the one week following the release of the Group's 2016 results in November 2016, to determine the extent (if any) of loan forgiveness to be applied. The Company's relative TSR performance against the comparator group will be determined and verified by an independent advisor. The result will be communicated at the 2016 Annual General Meeting and full details set out in the Company's 2017 remuneration report.

Changes to LTEIP awards from 2017

As mentioned in the Chairman's letter, the Board has approved an alteration to LTEIP awards which will be effective from the 2016 LTEIP grant (to be allocated in December 2016).

Currently, participants are required to repay their loan under the LTEIP during the share trading window (of approximately two months) which follows vesting and the full-year results announcement by the Group. Many participants sell a portion of their LTEIP shares to fund the loan repayment.

In respect of the 2016 LTEIP grant and subsequent awards, the timeframe for repayment will be extended by a further 24 months. Participants will be able to consider selling shares to fund the repayment of their loan during any of the subsequent four biannual share trading windows (following the Group's half and full year results announcements each year). They could also choose to employ subsequent dividend payments, their own funds, sell some shares or use a combination of funding for the loan repayment.

The 2016 award will be tested for vesting and loan forgiveness after the end of the 2019 performance year, and the non-recourse loan will be due for repayment in January 2022 if it is not repaid earlier.

This is not a fundamental change to the nature or purpose of the programme. The cost to shareholders will be a small incremental expense related to the increased benefit to the employee (and cost to the Company) of the longer loan period.

Section 5.3 provides more information on LTEIP governance and the nature of the loans.

4. RUN THE BUSINESS AS YOUR OWN

4.1 Alignment of interests through shareholding

A core value of the Group is to run the business as your own. The Board believes that the interests of KMP should be closely aligned to those of shareholders through significant exposure to the Company's share price and dividends.

Accordingly, the following minimum shareholding guidelines are in place:

- the value of one times pre-tax Board and Committee fees for each Non-Executive Director,
- the value of one times FAR for the CEO, CFO and Executive General Manager – Dulux Paints and Coatings,
- 40% of FAR for other executives (and other members of the DuluxGroup Executive).

Non-Executive Directors have three years from their appointment in which to establish this shareholding level. Executives are expected to grow their shareholding on a progressive basis to the minimum unrestricted shareholding over a period of five years from the later of 14 August 2013 (the date of adoption of the minimum shareholding guidelines) and their appointment. Voluntary application of remuneration to Company shares as described in section 4.2 may assist Non-Executive Directors in achieving this target.

For executives, the LTEIP is an important mechanism to drive the Group's employee ownership culture as executives acquire shares through the vesting of successive LTEIP awards. A progressive balance of unrestricted shareholdings may also be built by executives through investment in shares on market, through voluntary application of remuneration to Company shares (as described in section 4.2) and, from 2017, through the mandatory deferral of a portion of any STI awarded into shares that will be subject to forfeiture on leaving employment with the Group for two years.

4.2 Sacrifice Share Acquisition Plan (SSAP)

In August 2016 the Board approved implementation of the SSAP. This new contribution-based share plan allows Australian-based Non-Executive Directors, executives, and other employees to voluntarily sacrifice their pre-tax fees, salary or earned cash short term incentives toward the purchase of Company shares.

The purpose of this tax deferral plan is to encourage greater levels of share ownership across the Company at no cost to shareholders, and to specifically support the achievement of the minimum shareholding guidelines for Non-Executive Directors and executives.

Two of the Non-Executive Directors, including the Chairman, are currently contributing fees on a monthly basis toward share purchases under the plan, and have received rights under the plan (as shown in section 4.3). These will be exchanged for shares in November and May of each year in the trading window following the full-year and half-year release of Group results.

Approval will be sought at the 2016 AGM to allow for future shares for Non-Executive Directors under this plan to be either purchased on market or newly issued.

4.3 Current shareholdings

A summary of current KMP shareholdings in DuluxGroup Limited as at 30 September 2016 is shown in the table below.

	NUMBER OF SHARES (OR RIGHTS TO SHARES)							
NAME	OPENING BALANCE(1)	SSAP RIGHTS/ LTEIP GRANT(2)	SHARE DEALINGS IN RELATION TO THE LTEIP(3)	NET OTHER MOVEMENT(4)	CLOSING BALANCE(1)	TOTAL UNRESTRICTED SHARES(5)	UN-RESTRICTED SHARE-HOLDING %(5)	TARGET UN-RESTRICTED SHARE-HOLDING %(5)
NON-EXECUTIVE DIRECTORS								
Peter Kirby	130,000	15,829		–	145,829	130,000	206%	100%
Gaik Hean Chew	111,030	–		2,026	113,056	113,056	376%	100%
Garry Hounsell	143,580	–		5,242	148,822	148,822	478%	100%
Andrew Larke	152,156	–		–	152,156	152,156	536%	100%
Graeme Liebelt(6)	–	5,898		–	5,898	–	–	100%
Judith Swales	60,000	–		–	60,000	60,000	211%	100%
EXECUTIVE DIRECTORS								
Patrick Houlihan	2,309,361	416,341	(412,021)	–	2,313,681	1,000,000	573%	100%
Stuart Boxer	807,650	159,152	(100,000)	–	866,802	362,805	363%	100%
OTHER KMP								
Patrick Jones	613,602	133,687	(58,101)	–	689,188	267,000	280%	100%
Brad Hordern	431,855	72,997	(49,040)	–	455,812	225,191	327%	40%
Martin Ward(7)	136,679	72,997	–	–	209,676	9,000	13%	40%

(1) The opening and closing balances include: (a) shares allocated and restricted pursuant to the LTEIP (in the case of executives); (b) rights to shares allocated under the SSAP (in the case of Non-Executive Directors); and (c) unrestricted shares held directly, indirectly or beneficially by each individual or close members of their family or an entity over which the person or the family member has either direct or indirect control, joint control or significant influence, as at 1 October 2015 and 30 September 2016 respectively.

(2) Total unrestricted shareholdings exclude (unconverted) rights held under the SSAP, and awards held under the LTEIP. Further information on the SSAP is located in section 4.2 and SSAP rights are currently held only by Non-Executive Directors. Once ordinary shares are received in relation to the rights (in November and May each year following the Group's full and half year results announcements) those ordinary shares will count toward the holder's achievement of their Target unrestricted shareholding. Further information on the LTEIP is located in sections 2.1, 3.5 and 5.3 and LTEIP awards are not provided to Non-Executive Directors.

(3) Reports the sale of shares to repay loans in accordance with the LTEIP rules.

(4) Reports the impact of acquisition and disposal transactions other than those covered in the previous column of the table.

(5) The current and target unrestricted shareholding for each individual excludes holdings under the SSAP and the LTEIP and is calculated as a percentage of FAR for executives or as a percentage of annual base board and committee fees for Non-Executive Directors as at 30 September 2016. The calculation assumes a share price of $6.60, being the closing share price on 30 September 2016.

(6) Mr Liebelt commenced in his role on 14 June 2016 and is currently acquiring rights to shares through the SSAP. Mr Liebelt has three years from his appointment date to establish the required minimum shareholding.

(7) Mr Ward commenced in his role on 1 April 2014, and unlike other executives has not yet accrued any shares as a result of LTEIP vesting. He has purchased an unrestricted ordinary shareholding in DuluxGroup Limited from his personal funds in order to start a share holding accumulation.

5. REMUNERATION GOVERNANCE

5.1 Role of the Remuneration and Nominations Committee (RNC)

The RNC is responsible for ensuring that the Group's remuneration strategy for executives aligns with both short and longer term business objectives. It reviews and makes recommendations to the Board on the remuneration arrangements for the Non-Executive Directors, the executives and the other members of the DuluxGroup Executive.

The RNC also ensures the Group's management team adopts appropriate people programmes that improve overall bench strength, identify and accelerate high potential talent, enhance our diversity and develop the core capabilities of our employees.

Details of the composition and accountabilities of the RNC are set out on page 54.

To assist in performing its duties and making recommendations to the Board, the RNC seeks independent advice from external consultants on various remuneration related matters. During the financial year ended 30 September 2016, the Group engaged independent remuneration consultants to provide insights on remuneration trends, regulatory updates, and market data in relation to the remuneration of Non-Executive Directors and the DuluxGroup Executive. No remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were obtained during the financial year ended 30 September 2016.

5.2 Board discretion

The RNC and the Board consider it vital that they exercise appropriate discretion in order to ensure that remuneration outcomes for executives are not formulaic, appropriately reflect the performance of the Group and individuals, and meet the expectations of shareholders. Some ways in which this discretion is exercised are set out below.

STI outcomes

The Board has discretion to adjust STI outcomes up or down to ensure that they accurately reflect the achievement of results that are consistent with the Group's strategic priorities, are in line with Group values, and enhance shareholder value.

The Board retains complete discretion to adjust any STI award (e.g. such discretion may be exercised in the event of a fatality).

EPS performance gateway for LTEIP vesting

The EPS performance gateway for the LTEIP vesting measures the growth in earnings on a per share basis, calculated by dividing NPAT by the weighted average number of ordinary shares on issue during the relevant period. The Board retains discretion to adjust EPS for individually material non-recurring items on a case by case basis when determining whether the EPS performance gateway condition has been met. In this way, the Board is able to ensure that the EPS measurement correctly reflects the underlying performance of the Group.

Comparator group for the LTEIP TSR performance condition

The Board has considered the reasonableness of the comparator group given the Group's growth over recent years, and believes that it remains appropriate for assessing relative TSR performance. The Board will continue to monitor this, as for all aspects of the LTEIP awards. The performance condition is only tested once at the end of the performance period.

Cessation of employment

Participants are not eligible for any STI payment if they are terminated due to misconduct or poor performance, nor in general, if they resign. In certain appropriate circumstances (such as redundancy), the Board may consider eligibility for a pro-rata payment in respect of the current performance year.

In general, all LTEIP shares are forfeited and surrendered in full settlement of the loan if a participant ceases employment prior to the end of the performance period. The Board, however, has absolute discretion in appropriate circumstances to determine that some or all of a participant's LTEIP shares may vest and that some or the entire loan forgiveness amount may be granted.

Clawback of STI and LTEIP awards

The Group has a formal Clawback Policy that provides the Board with broad discretion to ensure that no unfair benefit or detriment is derived by any participant in the case of a material misstatement in Group financial results or serious misconduct by a participant, including where the Group suffers material reputational damage. This includes discretion to reduce, forfeit or reinstate unvested awards, or reset or alter the performance conditions applying to any award.

Change of Control

The Board has absolute discretion in relation to STI and LTEIP awards in the event of a change of control, which it would exercise in the best interests of the Group.

Unless the Board determines otherwise, the STI awards will be considered to have been met at the midway point between Hurdle and Stretch for the full performance year, notwithstanding the date of change of control.

If the Board does not exercise its discretion, the LTEIP rules provide that all shares vest and all loans become immediately repayable, with the outstanding loan balances reduced by the default level of debt forgiveness (which is currently set at 20%).

Directors' Report continued

5.3 LTEIP governance

Loan arrangements

The loan amount provided to each participant is based on their long term incentive target amount (LTI percentage of FAR) multiplied by an externally determined 'loan value' (calculated using an adjusted Black-Scholes option pricing valuation model).

The loan is 'interest free' in that there is no annual interest charge to the participant on the loan. However, the notional value of this interest is taken into account in the overall structure of the programme.

The participant is obliged to pay a portion of the post-tax value of any dividends received during the loan term toward repayment of the loan amount.

To access the shares, participants must repay their loan in full. Following the end of the vesting period, assuming the earnings 'gateway' is achieved, the participant can either repay the loan directly or sell some or all of their shares and apply the proceeds to repay the loan. Shares remain restricted until the loan is repaid.

Why is a non-recourse loan provided?

If the value of the shares is less than the outstanding loan balance at the end of the performance period, or if the 'earnings gateway' is not achieved, the participant surrenders and forfeits the shares to the Company in full settlement of the loan balance and no benefit accrues to the participant. This is known as a 'non-recourse loan'.

The Board has structured the remuneration policy to include a significant proportion of 'at risk' pay under the LTEIP. Accordingly, where the outstanding loan at the end of the performance period exceeds the value of the shares, or if the 'earnings gateway' is not achieved, the Board believes the loss of any remuneration value from the LTEIP in these circumstances is a sufficient penalty to the participant.

Restrictions on LTEIP shares prior to vesting

The Group has a policy that prohibits participants from entering into any arrangement to limit the risk attached to (i.e. hedging) LTEIP shares prior to vesting (i.e. prior to the relevant performance conditions being met) or while they continue to be subject to restrictions under the LTEIP.

The Company treats compliance with this policy as a serious issue and takes appropriate measures to ensure policy adherence.

5.4 Illustrative example of how LTEIP operates

The table below is designed to illustrate a range of Company performance outcomes, and how the LTEIP remuneration outcomes for the participant are aligned to that performance in each case.

Assumptions:

- The participant is resident in Australia throughout the performance period.
- The initial share price at grant date is $5 and 15,000 shares are allocated (i.e. initial loan of $75,000).
- Total dividends paid are $2,400 less 46.5% to cover the participants' individual tax obligations (note that as dividends are fully franked, participants receive the difference between the 46.5% to cover the tax and the actual tax payable).

- Case A – EPS gateway achieved and relative TSR ranks at the 60th percentile (i.e. 17.5% loan forgiveness), share price at the vesting date is $8.
- Case B – EPS gateway achieved but relative TSR ranks below the 51st percentile (i.e. no loan forgiveness), share price at vesting date is $6.
- Case C – EPS gateway not achieved and relative TSR ranks above the 75th percentile, share price at the vesting date is $8.

	CASE A $	CASE B $	CASE C $
Initial Loan	75,000	75,000	75,000
Less net dividends applied to loan balance	(1,284)	(1,284)	(1,284)
Less loan forgiveness[1,2]	(13,125)	–	–
Outstanding Loan Balance	60,591	73,716	73,716
Value of shares awarded at vesting	120,000	90,000	NIL
Less outstanding loan balance	(60,591)	(73,716)	NIL
Value of LTEIP to the executive as at valuation date	59,409	16,284	NIL

(1) This amount is determined net of interest charges.
(2) The Group incurs fringe benefits tax on the loan forgiveness.

5.5 Executive service agreements

Remuneration and other terms of employment for executives are formalised in service agreements. Specific information relating to the terms of the service agreements of the current executives are set out in the table below.

Each of the executives has agreed to restraints which will apply upon cessation of their employment to protect the legitimate business interests of the Group. No separate amount is payable, over and above the contractual entitlements outlined below, in relation to these restraints.

NAME	TERM OF AGREEMENT	NOTICE PERIOD BY EXECUTIVE	GROUP NOTICE PERIOD AND TERMINATION BENEFITS[1]
EXECUTIVE DIRECTORS			
Patrick Houlihan[2]	Open	6 months	12 months FAR
Stuart Boxer[2]	Open	6 months	12 months FAR
OTHER KMP			
Patrick Jones	Open	6 months	12 months FAR
Brad Hordern	Open	6 months	12 months FAR
Martin Ward	Open	6 months	12 months FAR

(1) Maximum termination payment (inclusive of any payment in lieu of notice) if the Group terminates the executive's employment other than for cause.
(2) Mr Houlihan and Mr Boxer may also terminate their agreement in the event of a 'fundamental change', which includes circumstances where there has been a substantial diminution of role and responsibility of the executive, in which event they will be entitled to a payment equivalent to 12 months FAR.

6. DETAILS OF EXECUTIVE REMUNERATION

6.1 Remuneration for 2016

Details of executive remuneration for the financial year ended 30 September 2016 are set out in the table below.

		SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS						
NAME	FINANCIAL YEAR	FAR[1,2] $	STI AWARD[3] $	OTHER BENEFITS[4] $	SUPER-ANNUATION BENEFITS[5] $	OTHER LONG TERM BENEFITS[6] $	TOTAL EXCLUDING SHARE-BASED PAYMENT (SBP) EXPENSE $	SHARE-BASED PAYMENT (SBP) EXPENSE[7] $	TOTAL $	PERFOR-MANCE RELATED REMUNERA-TION[8,9] %	OPTION RELATED REMUNERA-TION[9] %
EXECUTIVE DIRECTORS											
Patrick Houlihan	2016	1,124,540	500,433	663,014	19,385	31,293	2,338,665	771,823	3,110,488	41%	25%
	2015	1,095,742	621,465	533,109	18,783	25,109	2,294,208	710,497	3,004,705	44%	24%
Stuart Boxer	2016	636,553	189,738	182,813	19,385	12,525	1,041,014	292,746	1,333,760	36%	22%
	2015	620,279	234,427	133,565	18,783	10,581	1,017,635	242,415	1,260,050	38%	19%
OTHER KMP											
Patrick Jones	2016	588,303	254,300	147,462	19,385	40,333	1,049,783	245,351	1,295,134	39%	19%
	2015	518,029	280,008	116,884	18,783	8,282	941,986	204,182	1,146,168	42%	18%
Brad Hordern	2016	431,840	205,046	109,200	19,385	8,846	774,317	135,650	909,967	37%	15%
	2015	420,892	157,035	88,931	18,783	6,519	692,160	124,288	816,448	34%	15%
Martin Ward[4]	2016	431,840	75,891	(582)	19,385	7,606	534,140	113,695	647,835	29%	18%
	2015	420,892	141,777	42,389	18,783	6,990	630,831	66,585	697,416	30%	10%

(1) FAR includes any salary sacrifice arrangements implemented by the executives, including additional superannuation contributions.
(2) Details in relation to FAR increases during the year are set out in section 3.2.
(3) STI award is payments relating to 2016 performance.
(4) These benefits may include relocation costs, medical costs, movement in annual leave accrual, spousal travel, insurances and costs associated with services related to employment (inclusive of any applicable fringe benefits tax) in addition to the fringe benefits tax paid on debt forgiveness for the 2012 LTEIP grant. The 2016 amount for M Ward largely reflects a change in the balance of the provision for his annual leave during the year.
(5) Executives receive a statutory superannuation contribution up to a threshold limit in line with the Australian Taxation Office published maximum superannuation contribution base.
(6) This benefit includes the movement in long service leave accrual.
(7) This amount includes the value calculated under AASB 2 Share-based Payment. The SBP expense represents the charge incurred during the year in respect of all equity allocations to executives, and includes the value of the 2012, 2013, 2014 and 2015 LTEIP grants calculated under AASB 2. It is not the amount actually received by executives during the year. Whether executives receive any value from these LTEIP grants in the future will depend on Company performance. The gateway and the TSR performance condition which determine whether or not the LTEIP will vest in the future and the value to be derived by participants are described in sections 2.1 and 5.4.
(8) The percentages shown include both the value of STI earned in 2016 and the value of the SBP expense for 2016 as shown in the table. As described in footnote (7) the SBP expense is not the amount of LTEIP actually received by executives during the year.
(9) As explained in section 6.2, shares acquired under the LTEIP are treated as options for accounting purposes under AASB 2. The percentages shown relate to the value of the LTEIP awards as included in the SBP expense as described in footnote (7) and not the amounts actually received by executives during the year.

6.2 Equity instruments granted to executives under LTEIP

Under the LTEIP, executives acquire shares in DuluxGroup Limited funded by a non-recourse loan from the Group. These loans are provided for the sole purpose of executives acquiring shares in the Company.

Australian Accounting Standards require the shares be treated as options for accounting purposes due to the structure of the plan. The shares are not subject to an exercise price and the amounts receivable from participants in relation to these loans are not recognised in the consolidated financial statements. The number and value of notional options held by executives under the LTEIP during the financial year ended 30 September 2016 is set out in the table below.

	NUMBER OF LTEIP AWARDS							
NAME	OPENING BALANCE (1)	GRANTED DURING THE YEAR (2)	EXERCISED DURING THE YEAR	LAPSED DURING THE YEAR	CLOSING BALANCE	VESTED AND EXERCISABLE AT 30 SEPTEMBER 2016 (3)	VALUE OF OPTIONS AT GRANT DATE ISSUED DURING THE YEAR $ (4)	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $ (5)
EXECUTIVE DIRECTORS								
Patrick Houlihan	1,509,361	416,341	(612,021)	–	1,313,681	453,758	799,375	771,823
Stuart Boxer	499,440	159,152	(154,595)	–	503,997	175,280	305,572	292,746
OTHER KMP								
Patrick Jones	421,171	133,687	(132,670)	–	422,188	146,067	256,679	245,351
Brad Hordern	268,651	72,997	(111,027)	–	230,621	79,850	140,154	135,650
Martin Ward	127,679	72,997	–	–	200,676	49,906	140,154	113,695

(1) The combination of shares and the non-recourse loan provided to fund those shares constitutes an option under Australian Accounting Standards. These options vest over a period of approximately three years. Under the terms of the LTEIP, the loan must be repaid before the executives can sell or transfer the shares. Accordingly, the exercise period of these options is the loan repayment period, which commences following the testing of the performance condition typically in November after the full-year results announcement and continues through to the end of the trading window in January of the following year. The options expire if the loan is not repaid within the repayment window.

(2) 2015 LTEIP awards were granted on 27 November 2015. The share price on that grant date was $6.30 and the fair value of each award for accounting purposes was $1.92. This fair value takes into account the performance conditions, along with other factors as set out Note 20 of the financial statements.

(3) Since the end of the reporting period, the 2013 LTEIP awards granted on 29 November 2013 have met the applicable EPS vesting condition and vested on 8 November 2016. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 18 November 2016 to 20 January 2017. The number of options that have vested and are not exercisable is NIL.

(4) The option valuation is determined with regard to valuation advice from PwC. The valuation methodology utilises an adjusted form of the Black-Scholes option pricing model which reflects the value (as at grant date) of options held. The minimum potential future value of grants under LTEIP is $NIL.

(5) The amortised value for accounting purposes, as the grant date fair value is spread evenly over the vesting period.

6.3 Loans to executives under LTEIP

The details of non-recourse loans provided to executives under the LTEIP during the financial year ended 30 September 2016 are set out in the table below.

NAME	OPENING BALANCE $	ADVANCES DURING THE YEAR $	LOAN FORGIVENESS GRANTED DURING THE YEAR $ (1)	REPAYMENTS DURING THE YEAR $ (2)	CLOSING BALANCE $	INTEREST FREE VALUE $	HIGHEST INDEBTEDNESS $
EXECUTIVE DIRECTORS							
Patrick Houlihan	6,975,126	2,627,112	(679,343)	(1,560,726)	7,362,169	576,690	8,830,032
Stuart Boxer	2,402,950	1,004,249	(171,600)	(412,099)	2,823,500	216,778	3,204,871
OTHER KMP							
Patrick Jones	2,022,095	843,565	(147,264)	(352,561)	2,365,835	153,615	2,391,810
Brad Hordern	1,237,260	460,611	(123,240)	(282,341)	1,292,290	101,816	1,558,102
Martin Ward	700,705	460,611	-	(20,202)	1,141,114	83,199	1,153,461

(1) Loan forgiveness amounts under LTEIP in relation to the 2012 LTEIP grant.

(2) Repayments by the participants, including after tax dividends paid on the shares applied against the loan and repayment of the loan on vesting of LTEIP.

7. NON-EXECUTIVE DIRECTORS' REMUNERATION

7.1 Policy and approach to setting fees

Non-Executive Directors receive a base fee in relation to their service as a director of the Board, and an additional fee for membership of, or for chairing, a committee. The Chairman, taking into account the greater time commitment required, receives a higher fee but does not receive any additional payment for service on the committees.

Based on external professional advice, the Board's policy is to pay fees that are competitive with comparable companies (those with a similar market capitalisation), at a level to attract and retain directors of the appropriate calibre and recognising the anticipated time commitments and responsibilities of directors.

In order to maintain independence and impartiality, Non-Executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Company performance.

Alignment with shareholders

The Board has adopted a minimum shareholding policy that applies to Non-Executive Directors, details of which are set out in section 4.1. All Non-Executive Directors' holdings were in excess of the minimum shareholding policy on 30 September 2016 as shown in section 4.3, other than Graeme Liebelt, who commenced on 14 June 2016 and has since chosen to salary sacrifice a portion of his fees into DuluxGroup Limited shares under the new SSAP plan which is described in section 4.2.

Annual review of fees within the maximum approved by shareholders

The Non-Executive Directors' fees (comprising base and committee fees inclusive of superannuation) have been set by the Board within the maximum aggregate amount of $1,650,000 per annum as approved by shareholders at the 2014 AGM.

Non-Executive Director fees are reviewed annually and set and approved by the Board based on independent advice received from external remuneration consultants from time to time.

A review of Non-Executive Director fees was undertaken during 2016, based on comparative market data provided by external experts. Within the shareholder approved maximum aggregate fee amount, the Board approved an increase of 3% to the base fees for Non-Executive Directors to ensure fees remain competitive with comparable companies (utilising benchmark data provided by EY), and to reflect the calibre, increased time commitment and responsibilities of the Non-Executive Directors as the Group continues to grow.

Base and committee fees

Following the review as described above, the Board approved the following base and committee fees effective 1 January 2016 (inclusive of statutory superannuation):

	BASE FEES	AUDIT AND RISK COMMITTEE	REMUNERATION AND NOMINATIONS COMMITTEE	SAFETY AND SUSTAINABILITY COMMITTEE
Non-Executive Chairman[(1)]	$416,000			
Non-Executive Director	$155,000			
Committee Chair		$36,000	n/a[(1)]	$29,000
Committee Member		$18,000	$14,500	$14,500

(1) The Non-Executive Chairman chairs the Remuneration and Nominations Committee and is a member of the Audit and Risk Committee. He receives a base fee only. No separate committee fees are paid.

Allowances

Non-Executive Directors are paid a travel allowance of $2,500 per return trip for international travel where the journey includes a one way international trip between six and 12 hours; and $5,000 where the journey includes a one-way international trip over 12 hours.

The Non-Executive Directors do not receive any retirement allowances.

7.2 Remuneration for 2016

Details of Non-Executive Director remuneration for the financial year ended 30 September 2016 are set out in the table below.

NAME	FINANCIAL YEAR	DIRECTORS BASE FEES $	AUDIT AND RISK COMMITTEE $	SAFETY AND SUSTAINABILITY COMMITTEE $	REMUNERATION AND NOMINATIONS COMMITTEE $	SUPERANNUATION[1] $	OTHER BENEFITS[2] $	TOTAL $
Peter Kirby	2016	397,285	–	–	–	16,115	7,500	420,900
	2015	385,933	–	–	–	16,567	2,500	405,000
Gaik Hean Chew[3]	2016	140,525	–	26,256	13,128	17,091	134,495	331,495
	2015	136,416	–	23,459	12,260	16,353	116,124	304,612
Garry Hounsell	2016	140,525	32,648	–	13,128	17,699	7,500	211,500
	2015	136,416	30,628	–	12,260	17,034	2,500	198,838
Andrew Larke	2016	144,287	17,875	–	14,375	9,588	7,500	193,625
	2015	139,918	16,638	–	13,425	9,457	2,500	181,938
Graeme Liebelt[4]	2016	43,899	–	–	–	1,896	–	45,795
	2015	–	–	–	–	–	–	–
Judith Swales	2016	140,525	17,875	11,577	–	16,148	7,500	193,625
	2015	136,416	16,638	10,816	–	15,568	2,500	181,938

(1) Directors' base and committee fees are inclusive of superannuation contributions. The superannuation entitlements for each Director are dependent on their individual arrangements and the timing of payment of their fees.

(2) Includes international travel allowances.

(3) Ms Chew's other benefits include: allowance for international travel totalling $30,000 (2015 $17,500), her fees of $43,750 (2015 $43,750) as a Director of DGL Camel International Limited (a subsidiary of the Group), remuneration of $43,750 (2015 $43,750) in respect of an ongoing consulting services agreement to assist the Group in seeking strategic growth opportunities in Asia and support totalling $16,995 for the preparation of her annual tax returns in both Australia and Hong Kong (2015 $11,124).

(4) Mr Liebelt became a Non-Executive Director of DuluxGroup Limited on 14 June 2016. The table includes his remuneration from this date.

Auditor's Independence Declaration

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of DuluxGroup Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Gordon Sangster
Partner

Melbourne

8 November 2016

Consolidated Income Statement

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER:

	NOTES	2016 $'000	2015 $'000
Revenue		**1,716,259**	1,687,834
Other income	3	**2,726**	3,581
Expenses			
Changes in inventories of finished goods and work in progress		**(3,608)**	(8,628)
Raw materials and consumables used and finished goods purchased for resale		**700,532**	703,216
Employee benefits[1]		**385,785**	391,360
Depreciation and amortisation	4	**32,267**	34,898
Repairs and maintenance		**13,901**	12,233
Operating leases		**47,306**	49,116
Outgoing freight		**68,172**	66,828
Other expenses[1,2]		**274,197**	267,968
Share of net profit of equity accounted investment	18	**(676)**	(919)
		1,517,876	1,516,072
Earnings before interest and income tax expense (EBIT)		**201,109**	175,343
Finance income		**224**	355
Finance expenses	4	**(20,122)**	(21,610)
Net finance costs		**(19,898)**	(21,255)
Profit before income tax expense		**181,211**	154,088
Income tax expense	12	**(52,150)**	(42,784)
Profit for the year		**129,061**	111,304
Attributable to:			
Ordinary shareholders of DuluxGroup Limited		**130,417**	112,773
Non-controlling interest in controlled entities		**(1,356)**	(1,469)
Profit for the year		**129,061**	111,304

		CENTS	CENTS
Earnings per share			
Attributable to the ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	5	**34.1**	29.6
Diluted earnings per share	5	**33.5**	29.2

The above consolidated income statement should be read in conjunction with the accompanying notes.

(1) Prior year comparative includes restructuring costs relating to the two supply chain projects, which are reported as part of employee benefits expense ($15,918,000) and other expenses ($1,112,000).

(2) Largely comprises of advertising and marketing expenditure, commissions, royalties and other fixed and variable costs.

Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER:

	2016 $'000	2015 $'000
Profit for the year	**129,061**	111,304
Other comprehensive (loss)/income		
Items that may be reclassified to the income statement		
Cash flow hedge reserve		
Effective portion of changes in fair value of cash flow hedges	**(2,945)**	344
Income tax benefit/(expense)	**883**	(103)
Foreign currency translation reserve		
Foreign currency translation (loss)/gain on foreign operations	**(697)**	6,201
Total items that may be reclassified to the income statement, net of tax	**(2,759)**	6,442
Items that will not be reclassified to the income statement		
Retained earnings		
Actuarial losses on defined benefit plan	**(32,551)**	(6,599)
Income tax benefit	**9,765**	1,980
Total items that will not be reclassified to the income statement, net of tax	**(22,786)**	(4,619)
Other comprehensive (loss)/income for the year, net of tax	**(25,545)**	1,823
Total comprehensive income for the year	**103,516**	113,127
Attributable to:		
Ordinary shareholders of DuluxGroup Limited	**104,584**	114,045
Non-controlling interest in controlled entities	**(1,068)**	(918)
Total comprehensive income for the year	**103,516**	113,127

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

AS AT 30 SEPTEMBER:

	NOTES	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents		**39,068**	46,270
Trade and other receivables	7	**256,315**	257,854
Inventories	7	**218,873**	216,036
Derivative financial assets	14	**3,269**	5,207
Other assets		**5,180**	7,085
Total current assets		**522,705**	532,452
Non-current assets			
Other receivables	7	**65**	85
Derivative financial assets	14	**57,040**	70,026
Equity accounted investment	18	**6,518**	6,342
Property, plant and equipment	8	**312,041**	261,865
Intangible assets	9	**234,047**	232,129
Deferred tax assets	12	**59,231**	53,286
Other assets		**4,155**	2,924
Total non-current assets		**673,097**	626,657
Total assets		**1,195,802**	1,159,109
Current liabilities			
Trade and other payables	7	**250,766**	252,781
Interest-bearing liabilities	13	**12,904**	14,650
Derivative financial liabilities	14	**3,229**	1,271
Current tax liabilities		**14,386**	19,492
Provisions	11	**41,432**	48,069
Total current liabilities		**322,717**	336,263
Non-current liabilities			
Other payables	7	**270**	276
Interest-bearing liabilities	13	**388,679**	381,558
Derivative financial liabilities	14	**-**	1,382
Deferred tax liabilities	12	**15,827**	16,035
Provisions	11	**46,605**	50,243
Defined benefit liability	19	**56,466**	22,107
Total non-current liabilities		**507,847**	471,601
Total liabilities		**830,564**	807,864
Net assets		**365,238**	351,245
Equity			
Share capital	15	**264,886**	256,483
Treasury shares	15	**(10,658)**	(159)
Reserves		**(86,344)**	(84,616)
Retained earnings[1]		**197,409**	178,524
Total equity attributable to ordinary shareholders of DuluxGroup Limited		**365,293**	350,232
Non-controlling interest in controlled entities		**(55)**	1,013
Total equity		**365,238**	351,245

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

[1] The retained earnings of the Group includes the profits reserve of the parent entity, DuluxGroup Limited. For details of the parent entity's stand alone profits reserve, refer to note 25.

Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER:

	TOTAL EQUITY ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF DULUXGROUP LIMITED									
	SHARE CAPITAL $'000	TREASURY SHARES $'000	SHARE-BASED PAYMENTS RESERVE $'000	CASH FLOW HEDGE RESERVE[2] $'000	FOREIGN CURRENCY TRANSLA-TION RESERVE $'000	COMMON CONTROL RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON-CON-TROLLING INTEREST $'000	TOTAL EQUITY $'000
Balance at 1 October 2015	**256,483**	**(159)**	**7,444**	**(824)**	**6,466**	**(97,702)**	**178,524**	**350,232**	**1,013**	**351,245**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**130,417**	**130,417**	**(1,356)**	**129,061**
Other comprehensive loss, net of tax	**–**	**–**	**–**	**(2,062)**	**(985)**	**–**	**(22,786)**	**(25,833)**	**288**	**(25,545)**
Total comprehensive income for the year	**–**	**–**	**–**	**(2,062)**	**(985)**	**–**	**107,631**	**104,584**	**(1,068)**	**103,516**
Transactions with owners, recorded directly in equity										
Purchase of treasury shares	**–**	**(18,313)**	**–**	**–**	**–**	**–**	**–**	**(18,313)**	**–**	**(18,313)**
Shares allocated under the dividend reinvestment plan (DRP)	**–**	**7,623**	**–**	**–**	**–**	**–**	**–**	**7,623**	**–**	**7,623**
Sale of treasury shares	**–**	**32**	**–**	**–**	**–**	**–**	**–**	**32**	**–**	**32**
Share-based payments	**–**	**–**	**3,727**	**–**	**–**	**–**	**–**	**3,727**	**–**	**3,727**
Shares vested under the LTEIP and ESIP[1]	**8,403**	**159**	**(2,408)**	**–**	**–**	**–**	**–**	**6,154**	**–**	**6,154**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(88,746)**	**(88,746)**	**–**	**(88,746)**
Balance at 30 September 2016	**264,886**	**(10,658)**	**8,763**	**(2,886)**	**5,481**	**(97,702)**	**197,409**	**365,293**	**(55)**	**365,238**
Balance at 1 October 2014	236,114	(7,625)	6,554	(1,065)	816	(97,702)	152,638	289,730	1,931	291,661
Profit for the year	–	–	–	–	–	–	112,773	112,773	(1,469)	111,304
Other comprehensive income, net of tax	–	–	–	241	5,650	–	(4,619)	1,272	551	1,823
Total comprehensive income for the year	–	–	–	241	5,650	–	108,154	114,045	(918)	113,127
Transactions with owners, recorded directly in equity										
Shares issued under the DRP	20,434	–	–	–	–	–	–	20,434	–	20,434
Share-based payments	–	–	3,628	–	–	–	–	3,628	–	3,628
Shares vested under the LTEIP and ESIP[1]	(65)	7,466	(2,738)	–	–	–	–	4,663	–	4,663
Dividends paid	–	–	–	–	–	–	(82,268)	(82,268)	–	(82,268)
Balance at 30 September 2015	256,483	(159)	7,444	(824)	6,466	(97,702)	178,524	350,232	1,013	351,245

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

[1] The total amount of $6,154,000 (2015: $4,663,000) comprises of the following:

- Proceeds of $4,795,000 (2015: $3,910,000) (being the net loan repayable after taking account of debt repaid via dividends and any loan forgiveness) were received as repayment for shares vested under the 2012 Long Term Equity Incentive Plan (LTEIP) (2015: 2011 LTEIP).
- Amounts totalling $1,359,000 (2015: $753,000) were applied as settlement for shares vested under the Employee Share Investment Plan (ESIP). Under the ESIP, proceeds collected from employees by way of a salary sacrifice are recognised by the Group as a liability until such time as an employee has the right to sell the shares, at which time the amount is recognised in contributed equity.

[2] The closing balance of the cash flow hedge reserve includes the foreign currency basis reserve which represents changes in the fair value of the Cross Currency Interest Rate Swaps (CCIRS) attributable to movement in the foreign currency basis spread.

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER:

	2016 $'000	2015 $'000
Cash flows from operating activities		
Profit for the year	**129,061**	111,304
Depreciation and amortisation	**32,267**	34,898
Amortisation of prepaid supply agreements	**1,081**	1,060
Share-based payments expense	**3,727**	3,628
Defined benefit service cost	**4,965**	4,455
Defined benefit interest cost	**828**	469
Unwind of discounting	**2,667**	2,049
Share of net profit of equity accounted investment	**(676)**	(919)
Impairment/(reversal) of impairment of inventories	**1,373**	(447)
Impairment of trade and other receivables	**836**	3,922
Net loss on disposal of property, plant and equipment	**1,043**	250
Net foreign exchange losses/(gains) on operating items	**2,732**	(233)
Amortisation of prepaid loan establishment fees	**806**	1,399
Operating cash flows before changes in working capital and provisions	**180,710**	161,835
Increase in trade and other receivables	**(1,625)**	(28,896)
Increase in inventories	**(2,523)**	(10,172)
Increase in other assets	**(2,295)**	(428)
Increase/(decrease) in deferred taxes payable	**4,768**	(5,132)
(Decrease)/increase in trade and other payables and provisions	**(28,961)**	30,862
(Decrease)/increase in current tax liabilities	**(5,160)**	8,443
Net cash inflow from operating activities	**144,914**	156,512
Cash flows from investing activities		
Payments for property, plant and equipment	**(57,072)**	(26,438)
Payments for intangible assets	**(3,732)**	(2,998)
Payments for purchase of businesses	**(13,276)**	(11,518)
Proceeds from joint venture distribution	**500**	–
Proceeds from disposal of property, plant and equipment	**537**	317
Net cash outflow from investing activities	**(73,043)**	(40,637)
Cash flows from financing activities		
Proceeds from short term borrowings	**8,489**	17,195
Repayments of short term borrowings	**(8,592)**	(19,707)
Proceeds from long term borrowings	**2,576,000**	1,333,000
Repayments of long term borrowings	**(2,558,582)**	(1,378,398)
Payments for purchase of treasury shares	**(18,313)**	–
Proceeds from sale of treasury shares	**32**	–
Proceeds from employee share plan repayments	**5,773**	4,856
Dividends paid (net of shares allocated/issued as part of the DRP)	**(81,123)**	(61,834)
Net cash outflow from financing activities	**(76,316)**	(104,888)
Net (decrease)/increase in cash held	**(4,445)**	10,987
Cash at the beginning of the year	**46,270**	35,118
Effects of exchange rate changes on cash	**(2,757)**	165
Cash at the end of the year	**39,068**	46,270
Supplementary information		
Interest received	**224**	355
Interest paid	**(15,740)**	(17,224)
Income taxes paid	**(52,542)**	(39,491)

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2016

1. ABOUT THIS REPORT

DuluxGroup Limited (the Company) is a company domiciled in Australia which has shares that are publicly traded on the Australian Securities Exchange.

The significant accounting policies adopted in preparing the consolidated financial statements of the Company and its subsidiaries (collectively 'the Group' or 'DuluxGroup') have been consistently applied to all the years presented, unless otherwise stated.

Accounting policies specific to one note are described in the note in which they relate. The impact of new and upcoming accounting standards and interpretations are set out in note 27. Accounting policies that are relevant to understanding the financial statements as a whole are set out below.

a) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investments in financial assets (other than subsidiaries and joint ventures) and defined benefit obligations which have been measured at fair value.

The consolidated financial statements were approved by the Board of Directors on 8 November 2016 and are presented in Australian dollars, which is the Company's functional and presentation currency.

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the requirements of applicable Australian Accounting Standards including Australian Interpretations and the *Corporations Act 2001* and comply with International Financial Reporting Standards (IFRS) and interpretations as issued by the International Accounting Standards Board. DuluxGroup is a for-profit entity for the purpose of preparing the consolidated financial statements.

b) Comparatives

Where not significant, reclassifications of comparatives are made to disclose them on the same basis as current financial period figures.

c) Consolidation

The Group's consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its subsidiaries as defined in AASB 10 *Consolidated Financial Statements*. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances, transactions and unrealised profits arising within the Group are eliminated in full.

d) Foreign currency

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction.

Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates ruling at that date. Exchange gains and losses on retranslation of outstanding unhedged receivables and payables are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance date.

The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in other comprehensive income.

e) Rounding

The amounts shown in this financial report have been rounded off, except where otherwise stated, to the nearest thousand dollars with the Company being in a class specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

f) Key accounting estimates and judgements

Management determines the development, selection, disclosure and application of the Group's key accounting policies, estimates and judgements. Management necessarily makes estimates and judgements that have a significant effect on the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Changes in the assumptions underlying the estimates may result in a significant impact on the financial statements. Management believes the estimates used in preparing the financial statements are reasonable and in accordance with accounting standards.

The key assumptions and judgements pertaining to this report are set out in the following notes:

- Note 7 Working capital
- Note 8 Property, plant and equipment
- Note 9 Intangible assets
- Note 10 Impairment testing
- Note 11 Provisions
- Note 12 Income tax
- Note 17 Businesses acquired
- Note 19 Superannuation

Notes to the Consolidated Financial Statements

Financial Performance

For the financial year ended 30 September 2016

2. SEGMENT REPORT

The operating segments are reported in a manner which is consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been identified as the Managing Director and Chief Executive Officer.

The major products and services from which DuluxGroup's segments derive revenue are:

DEFINED REPORTABLE SEGMENTS	PRODUCTS/SERVICES
Paints and Coatings Australia and New Zealand (ANZ)	Dulux decorative paints, woodcare, texture, protective, powder and industrial coatings in Australia and New Zealand for both consumer and professional trade markets.
Consumer and Construction Products ANZ	Selleys adhesives, sealants and other household repair and maintenance products for the consumer and professional trade markets; and Parchem construction chemicals, decorative concrete solutions and related equipment in Australia and New Zealand.
Garage Doors and Openers	B&D garage doors and electronic openers for residential, commercial and industrial use in Australia and New Zealand.
Cabinet and Architectural Hardware	Lincoln Sentry, a specialist trade distributor of premium branded cabinet hardware and architectural hardware to the cabinet making industry, and the window, door and glazing industries in Australia.
Other businesses	Yates garden care and home improvement products in Australia and New Zealand, South East Asia specialty coatings and adhesives businesses, Papua New Guinea coatings business and Craig & Rose paints business in the United Kingdom. Also includes the 51%-owned DGL Camel business in China and Hong Kong.

2. SEGMENT REPORT (CONTINUED)

	PAINTS AND COATINGS ANZ		CONSUMER AND CONSTRUCTION PRODUCTS ANZ		GARAGE DOORS AND OPENERS		CABINET AND ARCHITECTURAL HARDWARE		OTHER BUSINESSES		UNALLOCATED[1]		CONSOLIDATED	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**
Revenue														
External revenue	**887,823**	867,593	**246,707**	257,182	**177,950**	169,479	**187,619**	172,736	**216,160**	220,844	**–**	–	**1,716,259**	1,687,834
Inter-segment revenue	**2,810**	3,237	**7,185**	9,056	**–**	–	**74**	78	**884**	732	**(10,953)**	(13,103)	**–**	–
Total revenue	**890,633**	870,830	**253,892**	266,238	**177,950**	169,479	**187,693**	172,814	**217,044**	221,576	**(10,953)**	(13,103)	**1,716,259**	1,687,834
Other income	**714**	2,060	**231**	278	**90**	59	**–**	–	**505**	2,806	**1,186**	(1,622)	**2,726**	3,581
Total revenue and other income	**891,347**	872,890	**254,123**	266,516	**178,040**	169,538	**187,693**	172,814	**217,549**	224,382	**(9,767)**	(14,725)	**1,718,985**	1,691,415
Results														
EBITDA excluding non-recurring items[2]	**172,794**	165,081	**32,602**	32,629	**22,602**	23,354	**14,757**	11,380	**17,299**	19,051	**(26,678)**	(24,224)	**233,376**	227,271
Depreciation and amortisation	**(16,272)**	(18,272)	**(3,084)**	(3,468)	**(6,495)**	(6,292)	**(2,241)**	(2,398)	**(2,819)**	(3,132)	**(1,356)**	(1,336)	**(32,267)**	(34,898)
EBIT excluding non-recurring items	**156,522**	146,809	**29,518**	29,161	**16,107**	17,062	**12,516**	8,982	**14,480**	15,919	**(28,034)**	(25,560)	**201,109**	192,373
Non-recurring items[3]	**–**	(13,813)	**–**	(3,217)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(17,030)
EBIT													**201,109**	175,343
Finance income													**224**	355
Finance expenses													**(20,122)**	(21,610)
Profit before income tax expense													**181,211**	154,088
Income tax expense													**(52,150)**	(42,784)
Profit for the year													**129,061**	111,304
Attributable to:														
Ordinary shareholders of DuluxGroup Limited													**130,417**	112,773
Non-controlling interest in controlled entities													**(1,356)**	(1,469)
Profit for the year													**129,061**	111,304
Acquisitions of property, plant and equipment and intangible assets	**66,659**	19,329	**1,810**	2,926	**2,771**	3,248	**943**	748	**3,049**	2,737	**–**	–	**75,232**	28,988

(1) Comprises of centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and the Group's defined benefit pension plan.
(2) Earnings before interest, income tax expense, depreciation and amortisation. Comparative excludes the items explained in footnote 3 below.
(3) The prior year comparative comprises of restructuring costs relating to supply chain projects totalling $17,030,000. These projects are:
- the construction of a new paint factory in Melbourne which is due for completion in 2017 and will result in reduced activity at the Rocklea manufacturing site; and
- establishment of a new distribution centre in Sydney which was first operational in July 2016 and resulted in the closure of two centres previously operated by the Group.

Revenue from one of the Group's customers was approximately 25% (2015: 25%) of the total Group revenue during the year ended 30 September 2016. This customer operated primarily within the Paints and Coatings and the Consumer and Construction Products segments in Australia and New Zealand.

2. SEGMENT REPORT (CONTINUED)

a) Geographical information

Revenue from external customers is attributed to geographic location based on the location of customers. The revenue from external customers by geographical location for the year ended 30 September is set out below. The location of non-current assets other than financial assets, investments accounted for using the equity method, and deferred tax assets as at 30 September is set out below.

	REVENUE		NON-CURRENT ASSETS	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Australia	**1,408,410**	1,382,304	**485,852**	440,607
New Zealand	**190,358**	183,186	**47,370**	44,252
Other countries	**117,491**	122,344	**17,021**	12,059
	1,716,259	1,687,834	**550,243**	496,918

b) Accounting policies

Revenue recognition

Revenue from sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and customer rebates. External sales are recognised when the significant risks and rewards of ownership are transferred to the purchaser, recovery of the consideration is probable, the possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. For the purpose of segment reporting, the Group's policy is to transfer products internally at negotiated commercial prices.

Customer loyalty programme

The Group operates a number of loyalty programmes under which customers accumulate points for purchases made which they are entitled to redeem for items from a catalogue. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale, such that the award points are recognised at their fair value. Revenue from the award points is deferred and recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points generally expire three to four years after the initial sale.

Other income

Other income includes profit on disposal of property, plant and equipment and businesses, rental income, royalty income, grant income and net foreign exchange gains.

Profit and loss from disposal of businesses, subsidiaries and other non-current assets are recognised when there is a signed unconditional contract of sale. Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Royalty income is recognised on sale of licensed product to the final customer. A grant is initially recognised as deferred income at fair value when there is a reasonable assurance that the Group will comply with the conditions of the grant and the amount will be received. The grant is then either recognised in the income statement over the useful life of the associated asset, or where the grant compensates the Group for incurred expenses, the income is recognised in the income statement in the period in which the associated expenses are recognised.

Finance income and expenses

Finance income

Finance income comprises of interest income earned on funds invested. Finance income is recognised in the income statement using the effective interest method.

Finance expenses

Finance expenses include interest, unwind of the effect of discounting on provisions, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings. Finance expenses are recognised in the income statement as incurred unless they relate to qualifying assets.

Where funds are borrowed specifically for the production of a qualifying asset, the interest on those funds is capitalised, net of any interest earned on those borrowings. Where funds are borrowed generally, finance expenses are capitalised using a weighted average interest rate.

3. OTHER INCOME

	2016 $'000	2015 $'000
Royalty income	**300**	416
Rental income	**477**	467
Grant income	**1,599**	2,497
Other	**350**	201
	2,726	3,581

4. EXPENSES

Profit before income tax expense includes the following expense items not otherwise detailed in this financial report:

	2016 $'000	2015 $'000
Depreciation	**25,111**	27,971
Amortisation	**7,156**	6,927
Depreciation and amortisation	**32,267**	34,898
Interest and finance charges paid/payable for financial liabilities not at fair value through profit and loss	**17,455**	19,561
Provisions: unwinding of discounting	**2,667**	2,049
Finance expenses	**20,122**	21,610
Net loss on disposal of property, plant and equipment	**1,043**	250
Net foreign exchange losses	**757**	393
Cost of goods sold	**958,755**	956,686
Research and development expense	**20,827**	19,818

5. EARNINGS PER SHARE (EPS)

	2016 CENTS PER SHARE	2015 CENTS PER SHARE
Attributable to the ordinary shareholders of DuluxGroup Limited		
Basic earnings per share	**34.1**	29.6
Diluted earnings per share	**33.5**	29.2

	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year attributable to ordinary shareholders of DuluxGroup Limited	**130,417**	112,773

	NUMBER	NUMBER
Weighted average number of ordinary shares outstanding used as the denominator:		
Number for basic earnings per share	**382,582,772**	380,362,446
Effect of the potential vesting of shares under the LTEIP and ESIP(1)	**6,379,665**	5,273,875
Number for diluted earnings per share	**388,962,437**	385,636,321

(1) The calculation of the weighted average number of shares has been adjusted for the effect of these potential shares from the date of issue or the beginning of the financial year.

6. DIVIDENDS

	2016 $'000	2015 $'000
Dividends paid		
Final dividend for 2015 of 11.5 cents per share fully franked (2014: Final dividend of 10.5 cents per share fully franked)	**44,340**	39,918
Interim dividend for 2016 of 11.5 cents per share fully franked (2015: Interim dividend of 11.0 cents per share fully franked)	**44,406**	42,350
	88,746	82,268
Dividend franking account		
Franking credits available to shareholders for subsequent financial years based on a tax rate of 30% (2015: 30%)	**23,391**	23,950

a) Dividends declared after balance date

On 8 November 2016, the Directors determined that a final dividend of 12.5 cents per ordinary share will be paid in respect of the 2016 financial year. The dividend will be fully franked and payable on 9 December 2016. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2016 and will be recognised in the 2017 financial statements. The Company's DRP will operate with respect to the final dividend. The DRP pricing period will be the five trading days from 21 November 2016 to 25 November 2016 inclusive. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

7. WORKING CAPITAL

	2016 $'000	2015 $'000
Current		
Trade and other receivables(1)	**256,315**	257,854
Trade and other payables	**(250,766)**	(252,781)
Inventories:		
Raw materials	**33,558**	35,287
Work in progress	**5,398**	5,412
Finished goods	**179,917**	175,337
	218,873	216,036
Total current	**224,422**	221,109
Non-current		
Other receivables	**65**	85
Other payables	**(270)**	(276)
Total non-current	**(205)**	(191)
Total working capital	**224,217**	220,918

(1) Current receivables is net of $17,612,000 (2015: $22,087,000) rebates payable. The Group has the legal right to offset such balances as they are with the same customers and it is the Group's intention to net settle any outstanding balances.

a) Trade and other receivables and allowance for impairment

The ageing of current and non-current trade and other receivables according to their due date is as follows:

	2016 GROSS $'000	2015 GROSS $'000	2016 ALLOWANCE $'000	2015 ALLOWANCE $'000	2016 NET $'000	2015 NET $'000
Not past due	**230,120**	228,850	**32**	198	**230,088**	228,652
Past due 0 – 30 days	**15,826**	17,027	**–**	25	**15,826**	17,002
Past due 31 – 60 days	**3,082**	3,762	**16**	38	**3,066**	3,724
Past due 61 – 90 days	**2,347**	2,968	**60**	104	**2,287**	2,864
Past due 91 – 120 days	**3,090**	6,083	**570**	2,614	**2,520**	3,469
Past 120 days	**4,829**	5,395	**2,236**	3,167	**2,593**	2,228
	259,294	264,085	**2,914**	6,146	**256,380**	257,939

There are no individually significant receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. No material security is held over trade receivables.

The movement in allowance for impairment of trade and other receivables is as follows:

	2016 $'000	2015 $'000
Opening balance	**6,146**	4,149
Allowances made (net of amounts written back)	**836**	3,922
Allowances utilised	**(3,623)**	(2,213)
Foreign currency exchange differences	**(445)**	288
Balance at 30 September	**2,914**	6,146

Notes to the Consolidated Financial Statements

Operating Assets and Liabilities (Continued)

For the financial year ended 30 September 2016

7. WORKING CAPITAL (CONTINUED)

b) Accounting policies

Trade and other receivables

Trade and other receivables are carried at amounts due. Receivables that are not past due and not impaired are considered recoverable. Payment terms are generally 30 days from the end of the month in which the invoice is issued. A risk assessment process is used for all accounts, with a stop credit process in place for most long overdue accounts.

The collectability of trade and other receivables is assessed continuously and at balance date specific allowances are made for any doubtful trade and other receivables based on a review of all outstanding amounts. Bad debts are written off during the year in which they are identified.

The following basis has been used to assess the allowance for doubtful trade and other receivables:

- a statistical approach to determine the historical allowance rate for various tranches of receivables;
- an individual account by account assessment based on past credit history; and/or
- prior knowledge of debtor insolvency or other credit risk.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the period, which remain unpaid at balance date. Trade payables are normally settled within 60 days from invoice date or within the agreed payment terms with the supplier.

Inventories

Inventories are valued at the lower of cost or net realisable value, where cost is based on the first-in, first-out or weighted average method according to the type of inventory. For manufactured goods, cost includes direct labour, direct material and fixed overheads based on normal operating capacity. For finished goods purchased from external suppliers, cost is net cost into store.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

c) Key accounting estimates and judgements

Net realisable value of inventory

Management uses its judgement in establishing the net realisable value of inventories. Provisions are established for obsolete or slow moving inventories, taking into consideration the ageing and seasonal profile of inventories, discontinued lines, sell through history and forecast sales.

Customer rebates

Management uses its judgement in determining the amount accrued for customer rebates where the timing of the rebate period does not align with the Group's financial year end. In calculating the accrual management in particular takes account of forecast purchases pertaining to the rebate period.

8. PROPERTY, PLANT AND EQUIPMENT

	LAND $'000	BUILDINGS AND LEASEHOLD IMPROVE-MENTS $'000	MACHINERY, PLANT AND EQUIPMENT $'000	TOTAL $'000
2016				
Cost	**51,685**	**118,295**	**398,562**	**568,542**
Less accumulated depreciation and impairment	**–**	**(39,578)**	**(216,923)**	**(256,501)**
Net book value	**51,685**	**78,717**	**181,639**	**312,041**
Balance at 1 October 2015	**38,557**	**56,994**	**166,314**	**261,865**
Additions	**12,825**	**21,903**	**36,772**	**71,500**
Additions – business acquisitions	**245**	**2,258**	**2,471**	**4,974**
Disposals	**–**	**(203)**[1]	**(1,445)**	**(1,648)**
Depreciation expense	**–**	**(2,874)**	**(22,237)**	**(25,111)**
Foreign currency exchange differences	**58**	**639**	**(236)**	**461**
Balance at 30 September 2016	**51,685**	**78,717**	**181,639**	**312,041**
2015				
Cost	38,557	94,144	370,948	503,649
Less accumulated depreciation and impairment	–	(37,150)	(204,634)	(241,784)
Net book value	38,557	56,994	166,314	261,865
Balance at 1 October 2014	37,148	58,638	166,208	261,994
Additions	1,343	1,405	23,242	25,990
Additions – business acquisitions	–	–	294	294
Disposals	–	(128)[1]	(567)	(695)
Depreciation expense	–	(3,242)	(24,729)	(27,971)
Foreign currency exchange differences	66	321	1,866	2,253
Balance at 30 September 2015	38,557	56,994	166,314	261,865

[1] Includes an amount of $68,000 (2015: $128,000) relating to the reassessment of the leased properties restoration provision.

a) Assets under construction

Included in the closing balances above are assets under construction at 30 September 2016 of $70,350,000 (2015: $19,509,000), with the majority of the assets under construction relating to the new paint factory.

b) Accounting policies

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer to note 10). Cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and that the cost of the item can be reliably measured.

Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis over the useful life of each asset to the Group. Estimated useful lives of each class of asset are as follows:

Buildings and improvements	10 to 40 years
Machinery, plant and equipment	3 to 20 years

Assets under construction are not depreciated until ready for use.

Profits and losses on disposal of property, plant and equipment are recognised in the income statement.

Where the occupation of a leased property gives rise to an obligation for site closure or restoration, the Group recognises a provision for the costs associated with restoration.

c) Key accounting estimates and judgements

Management reviews, and adjusts as appropriate, the useful lives of property, plant and equipment at least annually. Any changes to useful lives affect prospective depreciation rates and asset carrying values.

9. INTANGIBLE ASSETS

	GOODWILL $'000	PATENTS, TRADEMARKS AND RIGHTS $'000	BRAND NAMES $'000	SOFTWARE $'000	CUSTOMER CONTRACTS $'000	TOTAL $'000
2016						
Cost	**143,665**	**8,324**	**65,973**	**37,503**	**29,300**	**284,765**
Less accumulated amortisation	**–**	**(5,970)**	**(1,214)**	**(30,127)**	**(13,407)**	**(50,718)**
Net book value	**143,665**	**2,354**	**64,759**	**7,376**	**15,893**	**234,047**
Balance at 1 October 2015	**138,160**	**2,378**	**65,140**	**6,818**	**19,633**	**232,129**
Additions	**–**	**–**	**–**	**3,732**	**–**	**3,732**
Additions – business acquisitions	**5,460**	**–**	**–**	**–**	**–**	**5,460**
Amortisation expense	**–**	**(277)**	**(217)**	**(2,915)**	**(3,747)**	**(7,156)**
Transfers between classes	**–**	**242**	**–**	**(249)**	**7**	**–**
Foreign currency exchange differences	**45**	**11**	**(164)**	**(10)**	**–**	**(118)**
Balance at 30 September 2016	**143,665**	**2,354**	**64,759**	**7,376**	**15,893**	**234,047**
2015						
Cost	138,160	8,145	66,176	33,754	29,300	275,535
Less accumulated amortisation	–	(5,767)	(1,036)	(26,936)	(9,667)	(43,406)
Net book value	138,160	2,378	65,140	6,818	19,633	232,129
Balance at 1 October 2014	130,838	2,801	61,495	6,712	23,070	224,916
Additions	–	100	–	2,898	–	2,998
Additions – business acquisitions	7,301	–	3,400	–	–	10,701
Disposals	–	–	–	(26)	–	(26)
Amortisation expense	–	(530)	(179)	(2,781)	(3,437)	(6,927)
Foreign currency exchange differences	21	7	424	15	–	467
Balance at 30 September 2015	138,160	2,378	65,140	6,818	19,633	232,129

a) Intangibles under development

Included in the closing balance above are software assets under development at 30 September 2016 of $3,596,000 (2015: $2,428,000).

b) Accounting policies

Identifiable intangibles

Amounts paid for the acquisition of software are capitalised at the fair value of consideration paid. Amounts paid for the acquisition of other identifiable intangible assets (except for software) are capitalised at the fair value of consideration paid determined by reference to independent valuations. Subsequent expenditure on capitalised identifiable intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets, other than intangible assets with indefinite lives, are amortised on a straight-line basis over their useful lives. Estimated useful lives of each class of asset are as follows:

Patents, trademarks and rights	10 to 20 years
Brand names	10 to 20 years
Software	3 to 5 years
Customer contracts	5 to 10 years

Identifiable assets with an indefinite life (selected brand names) are not amortised but the recoverable amount of these assets is tested for impairment at least annually (refer to note 10).

Unidentifiable intangibles

Where the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is treated as goodwill. Goodwill is not amortised but the recoverable amount is tested for impairment at least annually (refer to note 10).

c) Key accounting estimates and judgements

Management use judgement in determining whether an individual brand name will have a finite life or an indefinite life. Management make this determination on the basis of brand strength, expectations of continuing profitability and future business commitments to these brands. If a brand is assessed to have a finite life, management will use judgement in determining the useful life.

Management reviews, and adjusts as appropriate, the useful lives of intangible assets at least annually. Any changes to useful lives affect prospective amortisation rates and asset carrying values.

d) Allocation of goodwill and intangible assets with indefinite useful lives

The allocation of goodwill and brand names with indefinite useful lives to cash-generating units is as follows:

	GOODWILL		BRAND NAMES	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Paints Australia	**29,078**	29,078	**26,900**	26,900
Consumer and Construction Products ANZ	**43,299**	43,280	**3,400**	3,400
Yates ANZ	**10,058**	8,143	**14,858**	14,858
Garage Doors and Openers	**39,537**	39,466	**15,000**	15,000
Cabinet and Architectural Hardware	**18,193**	18,193	**2,400**	2,400
DGL International UK	**3,500**	–	**–**	–
	143,665	138,160	**62,558**	62,558

10. IMPAIRMENT TESTING

The review for impairment at 30 September 2016 did not result in impairment charges being recognised by the Group (2015: $NIL). For all CGUs apart from Parchem Australia (part of Consumer and Construction Products ANZ segment), a reasonable possible change to impairment model inputs would not cause the recoverable amount to be below their respective carrying amount.

For the Parchem Australia CGU the market outlook remains challenging, observable market data around transaction multiples for similar businesses has reduced, and trading conditions for the business continues to be weaker than expected. The recoverable amount has been determined using a discounted cash flow model prepared under a value-in-use based approach and a sensitivity analysis has been undertaken to examine the effect of any changes in the key variables, which would result in a change in the assessed value in use. If there was a negative variation in a key variable, it could, in the absence of other factors, lead to an impairment of the Parchem Australia CGU.

a) Accounting policies

Goodwill and indefinite life intangible assets are tested for impairment at least annually. The carrying amount of the Group's other non-current assets, excluding any deferred tax assets and financial assets is reviewed at each reporting date to determine whether there are any indicators of impairment. If such indicators exist, the asset is tested for impairment by comparing its recoverable amount to its carrying amount.

The recoverable amount of an asset is determined as the higher of fair value less costs of disposal and value in use. The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the Cash-Generating Unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, with each CGU being no larger than a reportable segment. When determining fair value less costs of disposal, information from recent market transactions of a similar nature is taken into account. If no such transactions can be identified, an appropriate valuation model is used. These are corroborated by other available market based information.

In calculating recoverable amount using a valuation model, estimated future cash flows based on Board approved budgets, four year business plans and related strategic reviews are discounted to their present values using a pre-tax discount rate. Cash flow projections beyond the four year period are extrapolated using estimated growth rates, which are not expected to exceed the long term average growth rates in the applicable markets. Cash flows used for value in use calculations are estimated for the asset in its present condition and therefore do not include cash inflows or outflows that improve or enhance the asset's performance or that may arise from future restructuring.

The pre-tax discount rate used for a:

- value in use calculation is derived based on an independent external assessment of the Group's post-tax weighted average cost of capital in conjunction with risk specific factors to the countries in which the CGU operates.
- fair value less costs of disposal calculation is based on an independent external assessment of the cost of capital of a willing buyer taking into account risk specific factors to the countries in which the CGU operates.

10. IMPAIRMENT TESTING (CONTINUED)

a) Accounting policies (continued)

The pre-tax discount rates applied in the discounted cash flow models range between 10% and 15% (2015: 10% and 15%). The sales revenue compound annual growth rates applied in the discounted cash flow models range between 0% and 7% (2015: 0% and 8%).

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement as part of 'other expenses'. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill or other indefinite life intangible assets is not reversed. An impairment loss in other circumstances is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

b) Key accounting estimates and judgements

In making the assessment for impairment, management applies its judgement in allocating assets that do not generate independent cash inflows to appropriate CGUs. Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may impact the carrying value of the respective assets.

The determination of recoverable amount on a value in use basis requires the estimation and discounting of future cash flows. The estimation of cash flows considers all information available at balance date which may deviate from actual developments. This includes, amongst other things, changes in discount rates, terminal value growth rates applied in perpetuity, expected sales revenue growth rates in the forecast period, and earnings varying from the assumptions and forecast data used. Management also applies judgement when determining the recoverable amount using fair value less costs of disposal. This judgement is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market based information less incremental costs for disposing of the assets.

11. PROVISIONS

	EMPLOYEE ENTITLE-MENTS $'000	RESTRUC-TURING[1] $'000	LEASED PROPERTIES $'000	OTHER $'000	TOTAL $'000
2016					
Current	**36,142**	**750**	**817**	**3,723**	**41,432**
Non-current	**29,204**	**7,508**	**8,749**	**1,144**	**46,605**
Total provisions	**65,346**	**8,258**	**9,566**	**4,867**	**88,037**
Balance at 1 October 2015		**18,078**	**9,149**	**4,585**	
Provisions made (net of amounts written back)		**(778)**	**563**	**5,946**	
Provisions utilised		**(10,587)**	**(1,908)**	**(5,912)**	
Unwind of discounting		**1,545**	**896**	**180**	
Additions – business acquisition		**–**	**897**	**54**	
Foreign currency exchange differences		**–**	**(31)**	**14**	
Balance at 30 September 2016		**8,258**	**9,566**	**4,867**	
2015					
Current	36,426	7,828	680	3,135	48,069
Non-current	30,074	10,250	8,469	1,450	50,243
Total provisions	66,500	18,078	9,149	4,585	98,312
Balance at 1 October 2014		349	10,597	6,574	
Provisions made (net of amounts written back)		17,030	(1,798)	2,874	
Provisions utilised		(416)	(600)	(5,187)	
Unwind of discounting		1,048	827	174	
Foreign currency exchange differences		67	123	150	
Balance at 30 September 2015		18,078	9,149	4,585	

(1) At 30 September 2016 and 30 September 2015 the balance largely comprises the redundancy costs recognised in association with the Group's supply chain projects. Refer to note 2 for further details.

a) Accounting policies

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwind of the effect of discounting on provisions is recognised as a finance expense.

Employee entitlements

Liabilities for annual leave are accrued based on statutory and contractual requirements, including related on-costs. They are measured using the rates expected to be paid when the obligations are settled.

Liabilities for long service leave are accrued at the present value of expected future payments to be made resulting from services provided by employees. Liabilities for long service leave entitlements, which are not expected to be paid or settled within 12 months, are accrued at the present value of future amounts expected to be paid.

Liabilities for bonuses are recognised on the achievement of predetermined bonus targets and the benefit calculations are formally documented and determined before signing the financial statements.

Restructuring

Provisions for restructuring and employee termination benefits are only recognised when a detailed plan has been approved and the restructuring and/or termination has either commenced or been publicly announced or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

Leased properties

The Group is required to restore certain leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the estimated expenditure required to restore these premises to an acceptable condition. These costs have been capitalised as part of the cost of buildings and leasehold improvements. Where this provision is reassessed in subsequent reporting periods, to the extent possible, an equal and offsetting adjustment is made to the corresponding asset balance. Where the reassessment results in a decrease to the provision which exceeds the carrying value of the corresponding asset, any excess is recognised in the income statement.

Payments to be made under leases with fixed rent escalation clauses are recognised in the income statement on a straight-line basis over the term of the lease contract.

The Group has also identified certain leased sites that were surplus to its requirements. Where these sites have non-cancellable leasing arrangements and the Group is unable to sub-lease the sites at a rate that would allow it to recover its rental costs, a provision is recognised for the shortfall in rental income.

Other

Other provisions largely comprises of amounts for customer loyalty programmes, warranties and sales returns.

b) Key accounting estimates and judgements

Management uses its judgement in determining its future obligations for employee entitlements, restructuring and leased properties.

Employee entitlements

Provision for long service leave is based on the following key assumptions: future salary and wages increases; future on cost rates; and future probability of employee departures and period of service.

Restructuring

The provision for restructuring is based on expected future payments for existing employees under the current employment agreements. Changes to employee numbers, their employment conditions or timing of the projects' completion dates could impact estimated future payments.

Leased properties

The provision for leased premises restoration is based on estimates of the future costs, and the timing of those costs, required to restore those sites to original condition.

12. INCOME TAX

a) Income tax expense

	2016 $'000	2015 $'000
Current tax expense	**48,406**	49,973
Deferred tax expense/(benefit)	**4,837**	(5,143)
Over provision in prior years	**(1,093)**	(2,046)
Income tax expense	**52,150**	42,784
Deferred tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**4,976**	(3,070)
Decrease in deferred tax liabilities	**(139)**	(2,073)
	4,837	(5,143)
Reconciliation of prima facie tax expense to income tax expense		
Profit before income tax expense	**181,211**	154,088
Prima facie income tax expense calculated at 30% of profit before income tax expense	**54,363**	46,226
Tax effect of items which (decrease)/increase tax expense:		
Foreign tax rate differential	**(829)**	(790)
Non-taxable income and profits, net of non-deductible expenditure	**(2,174)**	(3,396)
Share of net profit of equity accounted investment	**(203)**	(276)
Tax losses not recognised	**886**	1,147
Sundry items	**107**	(127)
Income tax expense	**52,150**	42,784

b) Deferred tax assets and liabilities

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:				
Trade and other receivables	**552**	779	**–**	–
Inventories	**3,704**	3,513	**–**	–
Property, plant and equipment	**5,035**	5,855	**2,998**	2,412
Intangible assets	**4,196**	4,352	**12,339**	13,456
Trade and other payables	**1,256**	2,443	**61**	60
Provisions	**6,479**	9,494	**–**	–
Employee entitlements	**36,100**	26,160	**–**	–
Tax losses	**222**	174	**–**	–
Other	**1,687**	516	**429**	107
Total	**59,231**	53,286	**15,827**	16,035
Expected to be recovered/settled:				
Within 12 months	**18,633**	20,229	**490**	168
After more than 12 months	**40,598**	33,057	**15,337**	15,867
	59,231	53,286	**15,827**	16,035
Movements:				
Opening balance	**53,286**	48,046	**16,035**	16,972
Additions – business acquisitions	**441**	84	**–**	1,020
Credited to profit or loss	**–**	3,070	**(139)**	(2,073)
Charged to profit or loss	**(4,976)**	–	**–**	–
Credited to other comprehensive income	**10,648**	1,877	**–**	–
Foreign currency exchange differences	**(168)**	209	**(69)**	116
Balance at 30 September	**59,231**	53,286	**15,827**	16,035

c) Unrecognised deferred tax assets and liabilities

	2016 $'000	2015 $'000
Tax losses and other deferred tax assets not recognised in:		
China[1]	**9,229**	9,435
Hong Kong	**539**	545
Malaysia	**327**	–
	10,095	9,980

[1] Expiration dates between 2016 and 2021 (2015: between 2015 and 2020).

A deferred tax liability of $2,303,000 (2015: $2,512,000) has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Company's subsidiaries. The deferred tax liability will only be realised in the event of disposal of the Company's subsidiaries and no such disposal is expected in the foreseeable future.

d) Accounting policies

Income tax

Income tax on the profit or loss for the financial year comprises of current and deferred tax and is recognised in the income statement.

Current tax is the expected tax payable or receivable on taxable income for the financial year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable or receivable in respect of previous years.

Deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheet and their associated tax bases. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the associated tax is also recognised in other comprehensive income or directly in equity.

Tax consolidation

DuluxGroup Limited is the head entity of the Australian tax consolidated group. The head entity and the members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members in respect of tax amounts. The head entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the subsidiary entities. Members of the tax consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

e) Key accounting estimates and judgements

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred income tax provision in the period in which such determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheet and the amount of tax losses and timing differences not yet recognised. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, resulting in an impact on the earnings of the Group.

13. INTEREST-BEARING LIABILITIES

	2016 $'000	2015 $'000
Current		
Unsecured		
Bank loan – RMB denominated[(1)]	**10,873**	10,039
Bank loan – HKD denominated[(2)]	**2,031**	4,611
	12,904	14,650
Non-current		
Unsecured		
Bank loan – AUD denominated[(3)]	**126,686**	108,540
United States Private Placement (USPP)[(4)]	**261,993**	273,018
	388,679	381,558

(1) The current Chinese Renminbi (RMB) unsecured bank loan amount comprises of RMB 55,325,000 (AUD 10,873,000) (2015: RMB 44,624,000 (AUD 10,039,000)) drawn under an overseas bank loan facility.
(2) The current Hong Kong Dollar (HKD) unsecured bank loan amount comprises of HKD 12,000,000 (AUD 2,031,000) (2015: HKD 25,000,000 (AUD 4,611,000)) drawn under an overseas bank loan facility.
(3) The non-current AUD denominated unsecured bank loan amount comprises of AUD 128,000,000 (2015: AUD 110,000,000) drawn under the Group's syndicated bank loan facilities, net of unamortised prepaid loan establishment fees of AUD 1,314,000 (2015: AUD 1,460,000).
(4) The carrying value of the USPP is net of unamortised prepaid loan establishment fees of AUD 960,000 (2015: AUD 1,038,000).

a) United States Private Placement (USPP)

The USPP comprises of notes with a face value of USD 149,500,000 and AUD 40,000,000. The Group has entered into Cross Currency Interest Rate Swaps (CCIRS) and Interest Rate Swaps (IRS) to manage its exposure to the USD exchange rate (on both the principal and interest payments) and to convert the interest rate basis for the total borrowing from a fixed basis to floating. A summary of the USPP debt, net of associated hedging is as follows:

	2016 $'000	2015 $'000
USPP – carrying amount	**261,993**	273,018
add back USPP prepaid loan establishment fees	**960**	1,038
CCIRS	**(56,018)**	(69,016)
IRS	**(5,870)**	(3,975)
Net USPP debt	**201,065**	201,065

b) Assets pledged as security

While there were no assets pledged as security by DuluxGroup Limited and its subsidiaries, some of the Group's entities have provided a guarantee in relation to the Group's syndicated bank loan facilities and other overseas bank facilities as detailed in note 16.

c) Defaults and breaches

During the current and prior year, there were no defaults or breaches of covenants on any loans.

d) Accounting policies

Interest-bearing liabilities are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the liabilities on an effective interest method basis.

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in the income statement in the event that the liabilities are derecognised.

14. FINANCIAL AND CAPITAL MANAGEMENT

a) Capital management

The Group's objectives when managing capital (net debt and total equity) are to safeguard the Group's ability to continue as a going concern whilst optimising its debt and equity structure.

The Group manages its capital through various means including:

Raising or returning capital	+	**Raising or repaying a mix of long and short term borrowings**	+	**Adjusting the amount of dividends paid to shareholders**	+	**Operating a DRP**	+	**Issuing new or buying existing capital to satisfy the DRP and employee share plans**

The Group monitors capital using various credit metrics and accounting gearing ratios. The key metrics and ratios are set out below:

	CALCULATION	2016 $'000	2015 $'000	METRIC/RATIO
Net debt to EBITDA	Gross interest-bearing liabilities	**403,857**	398,706	**1.3 times** (2015: 1.2 times)
	Less:			
	Prepaid loan establishment fees	**(2,274)**	(2,498)	
	USPP derivatives[1]	**(61,888)**	(72,991)	
	Cash and cash equivalents	**(39,068)**	(46,270)	
	Net debt	**300,627**	276,947	
	EBITDA excluding non-recurring items[2]	**233,376**	227,271	
Interest cover ratio	EBITDA excluding non-recurring items[2]	**233,376**	227,271	**14.1 times** (2015: 13.1 times)
	Net finance costs	**19,898**	21,255	
	Less:			
	Amortisation of prepaid loan establishment fees	**(806)**	(1,399)	
	Unwind of discounting	**(2,667)**	(2,049)	
	Defined benefit fund interest	**(828)**	(469)	
	Addback:			
	Capitalised interest	**904**	–	
	Adjusted net finance costs	**16,501**	17,338	
Accounting gearing ratio	Net debt[3]	**300,627**	276,947	**45%** (2015: 44%)
	Net debt plus total equity	**665,865**	628,192	

(1) Foreign currency and interest rate hedges relating to the USPP notes.
(2) Prior year comparative is after excluding restructuring costs relating to supply chain projects. Refer to note 2 for further details.
(3) Refer calculation of net debt presented above for the Net Debt to EBITDA metric.

b) Financial risk management

The Group has exposure to the following principle financial risks:

- Market risk (interest rate, foreign exchange and commodity price risks);
- Liquidity risk; and
- Credit risk.

The Group's overall risk management program seeks to mitigate these risks and reduce the volatility of the Group's financial performance. All financial risk management is carried out or monitored centrally by the Treasury department and is undertaken in accordance with various treasury risk management policies (the Treasury Policy) approved by the Board.

The Group enters into derivative transactions for risk management purposes only. Derivative transactions are entered into to hedge financial risk relating to underlying physical exposures arising from business activities. Types of derivative financial instruments used to hedge financial risks (such as changes to interest rates and foreign currencies) include interest rate options, interest rate swaps, foreign exchange options, forward exchange contracts and CCIRS contracts.

The Group's approach to managing its principle financial risks is set out in sections 14(c) to 14(e) below.

14. FINANCIAL AND CAPITAL MANAGEMENT (CONTINUED)

c) Market risk

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or the associated cash flows will fluctuate due to changes in market interest rates.

The Group is primarily exposed to interest rate risk on outstanding long term interest-bearing liabilities. Interest rate risk on long term interest-bearing liabilities is managed by adjusting the ratio of fixed interest debt to variable interest debt. Under the Treasury Policy, a maximum of 90% of debt with a maturity of less than five years can be fixed and a maximum 50% of debt with a maturity of five years or greater can be fixed. The Group operated within this range during the financial year ended 30 September 2016. As at 30 September 2016, the Group has fixed the base interest rate applicable on AUD 150,000,000 of debt to August 2017, using interest rate swap transactions.

The Group's exposure to interest rate risk and the weighted average effective interest rates on financial assets and liabilities at 30 September are set out below:

	2016 $'000	2015 $'000	**2016 % P.A**	2015 %P.A
Cash at bank and on hand	**39,068**	46,270	**0.7**	0.7
Net interest bearing liabilities[(1)]	**341,969**	325,715	**4.3**	4.5

(1) Excludes the impact of the prepaid loan establishment fees, and is net of hedges relating to the USPP notes.

The table below shows the effect on profit after income tax expense and total equity had interest rates (based on the relevant interest rate yield curve applicable to the underlying currency in which the Group's financial assets and liabilities are denominated) been 10% higher or lower than the year end rate. Whilst directors cannot predict movements in interest rates, a sensitivity of 10% on the Group's effective interest rate is considered reasonable taking into account the current level of both short term and long term interest rates.

	INCREASE/(DECREASE) IN PROFIT AFTER INCOME TAX EXPENSE[(1)]		INCREASE/(DECREASE) IN TOTAL EQUITY[(1)]	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Interest rates were -10%	**470**	473	**463**	219
Interest rates were +10%	**(470)**	(473)	**(463)**	(219)

(1) All other variables held constant, taking into account all underlying exposures and related hedges and does not take account of the impact of any management action that might take place if these events occurred.

Foreign exchange risk

Foreign exchange risk – transactional

Transactional foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability or cash flow will fluctuate due to changes in foreign currency rates. The primary foreign currency exposures are USD, NZD, RMB, HKD, EUR and PGK.

The Group's policy allows hedging to be undertaken to protect against unfavourable foreign currency movements on purchases, however there is flexibility as to when hedging is initiated and the instrument used to hedge the risk (typically forward exchange options or forward exchange contracts). In determining which instrument to use, consideration is given to the ability of the Group to participate in favourable movements in exchange rates.

The Group is exposed to foreign exchange risk primarily due to purchases and sales being denominated, either directly or indirectly in currencies other than the functional currencies of the Group's subsidiaries. Approximately 30% to 40% of the Group's purchases are denominated in, or are directly linked to the USD, RMB and EUR.

The Group's net exposure, after taking account of relevant hedges, from a balance sheet perspective including external and internal balances (eliminated on consolidation) for the major currency exposures at 30 September are set out below (Australian dollar equivalents):

	AUD/USD		AUD/NZD		AUD/RMB		AUD/HKD		AUD/EUR		AUD/PGK	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Reported exchange rate	**0.76**	0.70	**1.05**	1.10	**5.09**	4.45	**5.91**	5.42	**0.68**	0.62	**2.50**	2.06
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Cash and cash equivalents	**1,307**	3,073	**3**	1,543	**–**	–	**–**	187	**20**	257	**–**	–
Trade and other receivables	**1,398**	2,507	**161**	73	**–**	–	**–**	–	**62**	99	**522**	–
Trade and other payables	**(4,506)**	(5,370)	**(1,787)**	(1,225)	**(1,903)**	(236)	**(265)**	(316)	**(1,632)**	(1,987)	**(5,937)**	(2,996)
Interest-bearing liabilities	**(740)**	(601)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Net exposure	**(2,541)**	(391)	**(1,623)**	391	**(1,903)**	(236)	**(265)**	(129)	**(1,550)**	(1,631)	**(5,415)**	(2,996)

The table below shows the effect on profit after income tax expense and total equity from the major currency exposures, had the rates been 10% higher or lower than the year end rate. Whilst directors cannot predict movements in foreign exchange rates, a sensitivity of 10% is considered reasonable taking into account the current level of exchange rates and the volatility observed on a historical basis.

	AUD/USD		AUD/NZD		AUD/RMB		AUD/HKD		AUD/EUR		AUD/PGK	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Increase/(decrease) in profit after income tax expense[1]												
Foreign exchange rates -10%	**(198)**	(30)	**(126)**	30	**(148)**	(18)	**(21)**	(10)	**(140)**	(127)	**482**	208
Foreign exchange rates +10%	**162**	25	**103**	(25)	**121**	15	**17**	8	**115**	104	**(394)**	(170)
Increase/(decrease) in total equity[1]												
Foreign exchange rates -10%	**(198)**	(30)	**(126)**	30	**(148)**	(18)	**(21)**	(10)	**(140)**	(127)	**482**	208
Foreign exchange rates +10%	**162**	25	**103**	(25)	**121**	15	**17**	8	**115**	104	**(394)**	(170)

(1) All other variables held constant, and taking into account all underlying exposures and related hedges.

In addition, the Group has a number of pricing arrangements with suppliers for purchases in EUR and USD that allow the Group to be invoiced in the AUD equivalent value of these purchases. Although the Group's balance sheet at 30 September 2016 is not exposed to these arrangements, the fluctuations of the AUD/EUR and AUD/USD exchange rate will impact on the AUD amount ultimately invoiced to the Group.

Foreign exchange risk – translational

Translational foreign exchange risk refers to the risk that the value of foreign earnings (primarily NZD, PGK and RMB) translated to AUD will fluctuate due to foreign currency rates. The Group's policy allows for economic hedging to be undertaken to reduce the volatility of full year earnings. At 30 September 2016, the Group did not have any outstanding derivative instruments pertaining to foreign currency earnings (2015: NIL).

Commodity price risk

The Group is exposed to commodity price risk from a number of commodities, including titanium dioxide, tin plate, hot rolled coil steel and some petroleum based inputs, for example latex and resin. The cost of these inputs is impacted by changes in commodity prices, foreign currency movements and industry specific factors. To the extent that any increases in these costs cannot be passed through to customers in a timely manner, the Group's profit after income tax expense and shareholder's equity could be adversely impacted. For major suppliers, this impact is managed through a range of contractual mechanisms which reduce the impact, or provide sufficient visibility over when these impacts will affect the Group's profit.

14. FINANCIAL AND CAPITAL MANAGEMENT (CONTINUED)

d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group manages liquidity risk by:

Maintaining adequate levels of undrawn committed facilities in various currencies that can be drawn upon at short notice	+	**Retaining appropriate levels of cash and cash equivalents**	+	**Spreading the maturity dates of long term debt facilities (to the extent practicable)**	+	**Monitoring liquidity requirements taking account of forecast business performance and critical assumptions (e.g. input costs, sales price and volumes, exchange rates)**

Facilities available and the amounts drawn and undrawn as at 30 September are as follows:

	UNSECURED BANK OVERDRAFT FACILITIES[1]		COMMITTED STANDBY AND LOAN FACILITIES[2,3]	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Amount of committed facilities	**22,695**	22,455	**619,923**	619,913
Amount of committed facilities undrawn	**22,695**	22,455	**277,954**	294,198

(1) The bank overdrafts are payable on demand and are subject to an annual review.

(2) As at the 30 September 2016, the maturity dates of the committed loan facilities range from 8 November 2017 to 19 September 2026 (2015: 8 November 2016 to 19 September 2026).

(3) Includes AUD 400,000,000 (2015: AUD 400,000,000) unsecured multi-currency syndicated bank loan facility, and notes issued under the USPP of AUD 201,065,000 (2015: AUD 201,065,000). Includes the RMB 60,000,000 (AUD 11,793,000) (2015: RMB 60,000,000 (AUD 13,498,000)) unsecured bank loan facility established in China and the unsecured bank loan facility established in Hong Kong for HKD 41,750,000 (AUD 7,065,000) (2015: HKD 19,000,000 (AUD 3,505,000), HKD 10,000,000 (AUD 1,845,000)).

The contractual maturity of the Group's fixed and floating rate financial liabilities and derivatives, based on the drawn financing arrangements in place at 30 September are shown in the table below. The amounts shown represent the future undiscounted principal and interest cash flows:

	TRADE AND OTHER PAYABLES		BANK LOANS AND DERIVATIVE FINANCIAL LIABILITIES[1]		TOTAL	
FINANCIAL LIABILITIES	**2016 $'000**	2015 $'000	**2016 $'000**	**2015 $'000**	**2016 $'000**	2015 $'000
Carrying amount	**251,036**	253,057	**407,086**	401,359	**658,122**	654,416
Less than 1 year	**250,766**	252,781	**28,416**	28,232	**279,182**	281,013
1 to 2 years	**65**	63	**135,996**	118,631	**136,061**	118,694
2 to 5 years	**205**	200	**62,261**	24,405	**62,466**	24,605
Over 5 years	**207**	276	**183,987**	235,542	**184,194**	235,818
Total	**251,243**	253,320	**410,660**	406,810	**661,903**	660,130

(1) Excludes the impact of the prepaid loan establishment fees.

e) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations. Credit risk arises principally from the Group's cash and receivables from customer sales and derivative financial instruments. The maximum exposure to credit risk is the carrying value of receivables. No material collateral is held as security over any of the receivables.

The Group has policies in place to ensure customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. The Group has some major customers who represent a significant proportion of its revenue (refer note 2). In these instances the customer's size, credit rating and long term history of full debt recovery are indicators of lower credit risk.

Credit risk from derivative financial instruments and cash arises from balances held with counterparty financial institutions. To manage this risk, the Group restricts dealings to highly rated counterparties approved within its credit limit policy. The allowable exposure to the counterparty is directly proportional to their credit rating. The Group does not hold any credit derivatives or collateral to offset its credit exposures. Given the high credit ratings of the Group's counterparties at 30 September 2016, it is not expected that any counterparty will fail to meet its obligations.

f) Fair value estimation

The carrying amounts and estimated fair values of the Group's financial instruments recognised in the financial statements are materially the same.

The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

	INSTRUMENTS	VALUATION TECHNIQUE
Carrying amount approximates fair value	Cash	Carrying amount is fair value due to the liquid nature of these assets
	Receivables/payables	Carrying amount approximates fair value due to the short term nature of these financial instruments
Measured at fair value[1]	Interest rate swaps and interest rate options	Fair value is determined using present value of estimated future cash flows based on observable yield curves and market implied volatility
	Forward foreign exchange contracts	Fair value is determined using prevailing forward exchange rates
	Other financial instruments (including Interest bearing liabilities)	Fair value is determined using discounted cash flow

[1] The Group uses the measurement hierarchy as set out in the accounting standards to value and recognise financial instruments measured at fair value. The Group only holds Level 2 financial instruments which are valued using observable market data.

14 FINANCIAL AND CAPITAL MANAGEMENT (CONTINUED)

g) Financial instruments

The Group held the following financial instruments as at 30 September:

	CASH AND CASH EQUIVALENTS		FINANCIAL ASSETS AT AMORTISED COST		FINANCIAL LIABILITIES AT AMORTISED COST		DERIVATIVE INSTRUMENTS DESIGNATED AS HEDGES		TOTAL CARRYING AMOUNT	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Financial assets										
Cash at bank and on hand	**39,068**	46,270	**–**	–	**–**	–	**–**	–	**39,068**	46,270
Trade and other receivables	**–**	–	**256,380**	257,939	**–**	–	**–**	–	**256,380**	257,939
Derivative financial assets	**–**	–	**–**	–	**–**	–	**60,309**	75,233	**60,309**	75,233
	39,068	46,270	**256,380**	257,939	**–**	–	**60,309**	75,233	**355,757**	379,442
Financial liabilities										
Trade and other payables	**–**	–	**–**	–	**251,036**	253,057	**–**	–	**251,036**	253,057
Interest-bearing liabilities	**–**	–	**–**	–	**401,583**[1]	396,208[1]	**–**	–	**401,583**	396,208
Derivative financial liabilities	**–**	–	**–**	–	**–**	–	**3,229**	2,653	**3,229**	2,653
	–	–	**–**	–	**652,619**	649,265	**3,229**	2,653	**655,848**	651,918

(1) The fair value of the USPP is $262,679,000 (2015: $272,247,000).

h) Accounting policies

Financial instruments

The Group classifies its financial instruments into three measurement categories, being:

- financial assets and liabilities at amortised cost;
- financial assets and liabilities at fair value through profit and loss; and
- financial assets at fair value through other comprehensive income.

The classification depends on the purpose for which the instruments were acquired.

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment.

Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss or held for trading, in which case the gains and losses are recognised directly in the income statement.

For financial assets carried at amortised cost, the amount of any impairment loss is measured as the extent to which the asset's carrying amount exceeds the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

All financial liabilities other than derivatives are initially recognised at the fair value of consideration received net of transaction costs as appropriate (initial cost). All financial liabilities are subsequently carried at amortised cost, with the exception of financial liabilities which have been designated in fair value hedging relationships, in which case these gains and losses are recognised directly in the income statement.

Financial instruments – hedging

The Group uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices.

Interest rate options, interest rate swaps, cross currency interest rate swaps, foreign exchange options and forward exchange contracts held for hedging purposes are accounted for as either cash flow and/or fair value hedges.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, plant and equipment or inventory purchases) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial carrying amount of the asset or liability. When a hedging instrument expires or is sold or terminated, or when a hedge ceases to meet the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a hedged forecast transaction is no longer expected to occur, the cumulative hedge gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Derivatives that do not qualify for hedge accounting

The Group does not hold or issue financial instruments for trading purposes. Certain derivative instruments, however, do not qualify for hedge accounting, despite being commercially valid economic hedges of the relevant risks. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

15. CONTRIBUTED EQUITY

Movements in contributed equity since 1 October 2015 were as follows:

	ORDINARY SHARES		TREASURY SHARES		TOTAL CONTRIBUTED EQUITY	
	NUMBER OF SHARES	2016 $'000	NUMBER OF SHARES	2016 $'000	NUMBER OF SHARES	2016 $'000
Balance at 1 October 2015	389,250,252	256,483	(54,646)	(159)	389,195,606	256,324
Purchase of treasury shares	–	–	(2,890,381)	(18,313)	(2,890,381)	(18,313)
Shares allocated under the DRP[1]	–	–	1,199,318	7,623	1,199,318	7,623
Sale of treasury shares	–	–	5,103	32	5,103	32
Shares vested under the LTEIP and ESIP	–	8,403	54,646	159	54,646	8,562
Balance at 30 September 2016	**389,250,252**	**264,886**	**(1,685,960)**	**(10,658)**	**387,564,292**	**254,228**

[1] The Company has established a DRP under which holders of ordinary shares may be able to elect to have all or part of their dividend entitlements satisfied by the issue of new fully paid ordinary shares or shares purchased on-market.

a) Shares issued to subsidiaries

The Group has formed a trust to administer the Group's employee share schemes. Movements in shares held by the trust since 1 October 2015 are as follows:

	NUMBER OF SHARES		
	ISSUED ORDINARY CAPITAL	TREASURY	TOTAL
Balance at 1 October 2015	7,267,723	54,646	7,322,369
Shares purchased under the 2015 LTEIP	–	1,685,960	1,685,960
Shares vested under the LTEIP and ESIP	(2,409,549)	(54,646)	(2,464,195)
Balance at 30 September 2016	**4,858,174**	**1,685,960**	**6,544,134**

In the event that all shares held by the trust vest in full with no debt forgiveness, the maximum outstanding proceeds expected to be received from employee share plan repayments is $30,893,471.

b) Accounting policies

Ordinary shares in DuluxGroup Limited are classified as contributed equity for the Group, except to the extent that the new capital is issued and continues to be held at balance date by a subsidiary.

When share capital recognised as contributed equity is repurchased by the Company or its subsidiaries, the amount of the consideration paid, including directly attributable costs is recognised as a deduction from total equity and held as treasury shares.

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

The Group has formed a trust to administer the Group's employee share schemes. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Company. Shares held by the trust for the purpose of the employee share schemes are either recognised as treasury shares if they were originally purchased on-market, or where new ordinary share capital is issued to the trust and continues to be held at balance date, this ordinary share capital is not recognised in contributed equity on consolidation.

16. SUBSIDIARIES

The consolidated financial statements at 30 September incorporate the assets, liabilities and results of DuluxGroup Limited and the following subsidiaries in accordance with the accounting policies. The Group has a 100% ownership interest in the following entities in the current and prior year, except where noted.

NAME OF ENTITY	COUNTRY OF INCORPORATION
DuluxGroup (Investments) Pty Ltd[1,2]	Australia
DuluxGroup (Finance) Pty Ltd[1,2]	Australia
DuluxGroup (New Zealand) Pty Ltd[1,2]	Australia
DuluxGroup (Australia) Pty Ltd[1,2]	Australia
Dulux Holdings Pty Ltd[1,2]	Australia
DuluxGroup (Employee Share Plans) Pty Ltd[1]	Australia
DuluxGroup Employee Share Plan Trust	Australia
DuluxGroup (Nominees) Pty Ltd[1,2]	Australia
Alesco Corporation Limited[1,2]	Australia
Alesco Finance Pty Ltd[1,2]	Australia
Alesco Holdings Pty Ltd[4]	Australia
Alesco No. 1 Pty Ltd[4]	Australia
Alesco No. 2 Pty Ltd[4]	Australia
B&D Australia Pty Ltd[1,2]	Australia
Automatic Technology (Australia) Pty Ltd[1,2]	Australia
Parchem Construction Supplies Pty Ltd[1,2]	Australia
Robinhood Australia Pty Ltd[1]	Australia
Lincoln Sentry Group Pty Ltd[1,2]	Australia
Concrete Technologies Pty Ltd	Australia
Pargone Pty Ltd[1]	Australia
ACN 009 130 858 Pty Ltd[4]	Australia
ACN 000 639 252 Pty Ltd[4]	Australia
Alesco Management Share Plan Trust[4]	Australia
ATA Innovations Pty Ltd[4]	Australia
Joinery Products Hardware Supplies Pty Ltd[4]	Australia

NAME OF ENTITY	COUNTRY OF INCORPORATION
DGL Camel Coatings (Shanghai) Limited[3]	China
DGL Camel Powder Coatings (Dongguan) Limited[3]	China
DGL Camel Coatings (Dongguan) Limited[3]	China
Countermast Technology (Dalian) Company Limited	China
DGL International (Hong Kong) Limited[4]	Hong Kong
DGL Camel International Limited[3]	Hong Kong
DGL Camel Powder Coatings Limited[3]	Hong Kong
DGL Camel (Hong Kong) Limited[3]	Hong Kong
DGL Camel (China) Limited[3]	Hong Kong
Countermast Limited	Hong Kong
DGL International (Malaysia) Sdn Bhd	Malaysia
Alesco New Zealand Limited	New Zealand
Alesco NZ Trustee Limited[4]	New Zealand
B&D Doors (NZ) Limited[2]	New Zealand
Concrete Plus Limited[2]	New Zealand
Easy Iron Limited[4]	New Zealand
Lincoln Sentry Limited	New Zealand
Robinhood Limited	New Zealand
Supertub Limited[4]	New Zealand
Dulux Holdings (PNG) Ltd	Papua New Guinea
DGL Camel (Singapore) Pte Ltd[3]	Singapore
DuluxGroup (PNG) Pte Ltd[2]	Singapore
DGL International (Singapore) Pte Ltd	Singapore
Craig & Rose Limited[5]	United Kingdom
DGL International (Vietnam) Limited Company	Vietnam

(1) These subsidiaries have each entered into a Deed of Cross Guarantee with DuluxGroup Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with the ASIC Class Order 98/1418.
(2) In addition to DuluxGroup Limited, these subsidiaries have provided a guarantee in relation to the Group's syndicated bank loan facilities and other overseas bank facilities.
(3) These entities form part of the DGL Camel International Group, in which the Group has a 51% equity holding.
(4) These entities were deregistered during the year ended 30 September 2016.
(5) This entity was incorporated during the year ended 30 September 2016.

17. BUSINESSES ACQUIRED

2016

On 16 November 2015, the Group acquired the Gliderol business in Western Australia. The business manufactures a range of garage doors, solely for the Western Australian market.

On 1 June 2016, the Group acquired the Munns business in Australia. The business manufacturers a range of premium and specialty lawn care products.

On 10 August 2016, the Group acquired the Craig & Rose business in the United Kingdom. The business manufacturers and markets a range of niche premium paint products.

The acquisition accounting for these transactions is considered provisional due to ongoing work to be carried out on the valuation of the assets acquired. Therefore, the amounts recognised may be subject to change before the 12 month anniversary date of these acquisitions. The assets and liabilities recognised as a result of these acquisitions are as follows:

	FAIR VALUE $'000
Cash consideration	**13,215**
Deferred consideration	**250**
Total consideration	**13,465**
Net assets of business acquired	
Trade and other receivables	**630**
Inventories	**3,006**
Other assets	**59**
Property, plant and equipment	**4,974**
Deferred tax assets	**441**
Trade and other payables	**(69)**
Provision for employee entitlements	**(85)**
Provision for leased properties	**(897)**
Other provisions	**(54)**
Net identifiable assets acquired	**8,005**
Goodwill on acquisition[1]	**5,460**

[1] None of the goodwill recognised is expected to be deductible for tax purposes.

2015

On 9 June 2015 the Group acquired Porter's Paints, a manufacturer and marketer of a range of high quality architectural and decorative paints, wallpaper and finished timber floor and wall coverings, predominately targeted at architects and designers. The assets and liabilities recognised as a result of this acquisition are as follows:

	FAIR VALUE $'000
Total cash consideration	11,458
Net assets of business acquired	
Inventories	1,678
Property, plant and equipment	294
Intangible assets – brand name	3,400
Deferred tax assets	84
Trade and other payables	(110)
Provision for employee entitlements	(169)
Deferred tax liabilities	(1,020)
Net identifiable assets acquired	4,157
Goodwill on acquisition[1]	7,301

[1] None of the goodwill recognised is expected to be deductible for tax purposes.

a) Accounting policies

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises of the fair values of the assets transferred (including cash), the liabilities incurred and the equity interests issued by the Group (if any). Acquisition related transaction costs are expensed as incurred.

Other than acquisitions under common control, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

For acquisitions occurring while under common control and for consolidation purposes, the assets and liabilities acquired continue to reflect the carrying values in the accounting records of the consolidated group prior to the business combination occurring.

Where a subsidiary elects to apply purchase accounting in its own books and records, on consolidation the effect of this policy difference will result in recognition of a common control reserve to the extent that the fair values of the business assets and liabilities exceed their carrying value at acquisition date.

Key accounting estimates and judgements

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity. The determination as to the existence of control or significant influence over an entity necessarily requires management judgement to assess the Group's ability to govern the financial and operating activities of an investee. In making such an assessment, a range of factors are considered including voting rights in an investee and Board and management representation.

A business acquisition also requires judgement with respect to the determination of the fair value of purchase consideration given and the fair value of net identifiable assets and liabilities acquired. Many of these assets and liabilities either given up or acquired are not normally traded in active markets, and thus management judgement is required in determining their fair values. Management judgement is also required in ascertaining the assets and liabilities which should be recognised, in particular with respect to intangible assets such as brand names, customer relationships, patents and trademarks and contingent liabilities.

18. EQUITY ACCOUNTED INVESTMENT

The Yates garden care business (reported as part of the 'other businesses' segment) has an interest in the following joint venture arrangement:

	2016	2015
Pinegro Products Pty Ltd		
Percentage of ownership interest held(1)	**50%**	50%
	$'000	$'000
Opening balance	**6,342**	5,423
Share of net profit	**676**	919
Proceeds from joint venture distribution	**(500)**	–
Balance at 30 September	**6,518**	6,342

(1) Acquired on 1 December 2009 and incorporated on 10 April 1979.

a) Transactions and balances with joint venture

Transactions during the financial year and outstanding balances at reporting date with Pinegro Products Pty Ltd are:

	2016 $	2015 $
Sales of goods	**375,851**	363,682
Purchases of goods	**3,851,840**	3,108,527
Distributions received	**500,000**	–
Current receivables	**80,146**	123,805
Current payables	**1,500,405**	720,728

All transactions with Pinegro Products Pty Ltd are made on normal commercial terms and conditions and in the ordinary course of business. No provisions for doubtful debts have been raised against amounts receivable from Pinegro Products Pty Ltd. There were no commitments and contingent liabilities in Pinegro Products Pty Ltd as at 30 September 2016 (2015: $NIL).

19. SUPERANNUATION

a) Superannuation plans

The Group contributes to a number of superannuation plans that exist to provide benefits for employees and their dependants on retirement, disability or death. The Group is required to contribute (to the extent required under Superannuation Guarantee legislation) to any choice fund nominated by employees, including self-managed superannuation funds.

Company sponsored plans

The principal benefits are pensions or lump sum payments for members on resignation, retirement, disability or death. The benefits are provided on either a defined benefit basis or a defined contribution basis. Employee contribution rates are either fixed by the rules of the plans or selected by members from time to time from a specified range of rates. The employing entities contribute the balance of the cost required to fund the defined benefits or, in the case of defined contribution plans, the amounts required by the rules of the plan. The contributions made by the employing entities to defined contribution plans are in accordance with the requirements of the governing rules of such plans or as required under law.

Government plans

Some subsidiaries participate in government plans on behalf of certain employees. These plans provide pension benefits. There exists a legally enforceable obligation on employer entities to contribute as required by legislation.

Industry plans

Some subsidiaries participate in industry plans on behalf of certain employees. These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement, disability or death. The employer entities have a legally enforceable obligation to contribute a regular amount for each employee member of these plans. The employer entities have no other legal liability to contribute to the plans.

b) Defined contribution pension plans

The Group contributes to several defined contribution pension plans on behalf of its employees. Contributions are taken to the income statement in the year in which the expense is incurred. The amount recognised as an expense for the financial year ended 30 September 2016 was $21,050,000 (2015: $20,467,000).

c) Defined benefit pension plans

DuluxGroup (Australia) Pty Ltd is the sponsoring employer of the defined benefit post-employment section of The DuluxGroup Super Fund (the Fund) in Australia. Funding for post-employment benefits is carried out in accordance with the requirements of the Trust Deed for the Fund and the advice of the Fund's actuarial adviser. The fund is closed to new members.

The plan exposes the Group to a number of risks, asset volatility, changes in bond yields and inflation risks. Derivatives are not used to manage risk, instead investments are well diversified, such that failure of any single investment would not reasonably be expected to have a material impact on the overall level of assets. The process used to manage risk has not changed from previous periods. The principal actuarial assumptions used to calculate the net defined benefit liability are a discount rate (corporate bond rate) of 3.3% (2015: 4.1%), pension take up rate of 40% (2015: 20%), future salary increases of 3.8% (2015: 3.8%) and future inflation of 2.5% (2015: 2.5%).

The amounts recognised in the balance sheet and a reconciliation of the movement in the net defined liability are as follows:

	2016 $'000	2015 $'000
Present value of the defined benefit obligations	**200,841**	167,558
Fair value of defined benefit plan assets	**(144,375)**	(145,451)
Net defined benefit liability at 30 September	**56,466**	22,107
Opening balance	**22,107**	14,468
Actuarial losses(1)	**32,551**	6,599
Current service cost(2)	**4,965**	4,455
Interest cost(2)	**828**	469
Employer contributions(3)	**(3,985)**	(3,884)
Balance at 30 September	**56,466**	22,107

(1) Actuarial losses are recognised in other comprehensive income.
(2) Current service cost and interest cost are recognised in the consolidated income statement as part of employee benefits and finance expenses respectively.
(3) Employer contributions are cash payments which are recognised as part of movement in trade and other payables and provisions in the cash flow statement.

The Group's external actuaries have forecasted total employer contributions to the Fund of $3,656,000 for the financial year ending 30 September 2017.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2016	2015
Cash and other assets	**31%**	28%
Equity instruments	**40%**	41%
Fixed interest securities	**15%**	17%
Property	**14%**	14%

d) Key accounting estimates and judgements

Defined benefit pension plans

In calculating the net defined benefit liability, management judgement is required in determining the following key assumptions: future salary and wages increases; pension take up rates; and rates of exits. Management uses external actuaries to assist in determining these assumptions and in valuing the net defined benefit liability, and any movements in these assumptions will impact the valuation of this liability.

20. SHARE-BASED PAYMENTS

Total expenses arising from share-based payment (SBP) transactions recognised during the financial year as part of employee benefit expense were as follows:

	2016 $	2015 $
DuluxGroup LTEIP[1]	**2,754,934**	2,672,737
DuluxGroup ESIP	**972,453**	955,063
	3,727,387	3,627,800

[1] In accordance with AASB 2 *Share-based Payment*, represents the expense incurred during the year in respect of current incentive allocations to executives. These amounts are therefore not amounts actually received by executives during the year. Whether an executive receives any value from the allocation of long term incentives in the future will depend on the performance of the Company's shares. The minimum potential future value of grants under LTEIP is $NIL (2015: $NIL).

a) DuluxGroup LTEIP

The LTEIP has been established to incentivise executives to generate shareholder wealth. Detailed remuneration disclosures, including the link between the LTEIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

Under the LTEIP, eligible executives are provided with an interest free, non-recourse loan from the Group for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attaching to their DuluxGroup ordinary shares from the date of allocation of those shares. If the executive leaves the Group within the vesting period the shares allocated are returned to the Group, subject to discretion retained by the Directors.

The Board has implemented a gateway level of minimum performance for the DuluxGroup LTEIP below which no benefit accrues, being a Board determined compound annual EPS growth over the three year period calculated from the 30 September preceding the grant date. The gateway for the unvested plans is 4%. This gateway is a minimum level of acceptable performance for any of the LTEIP shares to vest.

Where the gateway EPS level of performance is met, the relative Total Shareholder Return (TSR) performance hurdle is used to determine the level of loan forgiveness which may apply (the forgiveness amount). There is no loan forgiveness amount if the Group's relative TSR is below the 51st percentile against a comparator group. If the Group's relative TSR is greater than or equal to the 51st percentile, a proportion of the initial loan balance (on a 'sliding scale' from 10% at the 51st percentile up to a maximum of 30% at or above the 75th percentile) is forgiven.

20. SHARE-BASED PAYMENTS (CONTINUED)

a) DuluxGroup LTEIP (continued)

Details of shares issued under these plans are as follows:

							NUMBER OF SHARES				
GRANT DATE	LIFE OF SHARE OPTIONS (YEARS)	EXPIRY DATE	GRANT DATE SHARE PRICE	FAIR VALUE AT GRANT DATE	RISK FREE INTEREST RATE	SHARE PRICE VOLA-TILITY	BALANCE AT START OF YEAR	GRANTED DURING YEAR	LAPSED DURING YEAR	EXER-CISED DURING YEAR	BALANCE AT END OF YEAR
30 Nov 12	3.1	Jan 16	$3.50	$0.99	2.6%	22.5%	1,922,559	–	(22,926)	(1,899,633)	–
28 Jun 13	2.6	Jan 16	$ 4.21	$1.26	2.8%	22.5%	178,480	–	–	(178,480)	–
29 Nov 13	3.1	Jan 17	$5.45	$ 1.71	3.0%	22.5%	1,906,525	–	(158,545)	–	1,747,980[1]
28 Nov 14	3.1	Jan 18	$ 5.71	$1.72	2.5%	22.5%	1,998,351	–	(173,704)	–	1,824,647
27 Nov 15	3.1	Jan 19	$6.30	$1.92	2.1%	22.5%	–	1,936,022	(65,122)	–	1,870,900

[1] Since the end of the financial year, these shares have met the applicable DuluxGroup LTEIP performance condition and vested on 8 November 2016. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 18 November 2016 to 20 January 2017.

b) DuluxGroup ESIP

In December 2015, eligible Australian employees of the Group were invited to acquire DuluxGroup ordinary shares to the value of $500 (through salary sacrifice) with the Group matching this participation up to a further $500 (December 2014: $500 with $500 matching). Eligible employees in New Zealand were invited to acquire ordinary shares to the value of NZD 390 (through salary sacrifice) with the Group matching this participation up to a further NZD 390 (December 2014: NZD 390 with NZD 390 matching).

A share allocated to a participating employee under the ESIP has trade restrictions attached until the earlier of the end of three years after the date of allocation and the time when the participant ceases to be employed by DuluxGroup Limited or any of its subsidiaries. At the end of the restriction period, the employee will be able to sell or otherwise deal with their DuluxGroup shares.

Details of restricted shares issued under these plans is as follows:

ALLOCATION DATE	NUMBER OF SHARES UNVESTED AT 30 SEPTEMBER 2016
20 Dec 13	256,726
19 Dec 14	274,312
17 Dec 15	281,754

c) Accounting policies

DuluxGroup LTEIP

Shares issued/allocated under the LTEIP in conjunction with non-recourse loans are accounted for as options and as such the amounts receivable from employees in relation to these loans are not recognised in the financial statements. Settlement of share loans upon vesting are recognised as contributed equity.

The options are externally measured at fair value at the date of grant using an option valuation model being an adjusted form of the Black-scholes option pricing model. This valuation model generates possible future share prices based on similar assumptions that underpin relevant option pricing models to calculate the fair value (as at grant date) of options granted.

The assumptions underlying the options valuations are:

- exercise price of the option;
- life of the option;
- current price of the underlying securities;
- expected volatility of the share price;
- dividends expected on the shares ($Nil is adopted where participants will fully benefit from dividend receipts during the life of the investments);
- risk-free interest rate for the life of the option;
- specific factors relating to the likely achievement of performance hurdles;
- employment tenure; and
- vesting and performance conditions (including the potential to be awarded loan forgiveness).

The fair value determined at the grant date of the award is recognised as a SBP expense in the income statement on a straight-line basis over the relevant vesting period. The expense recognised is reduced to take account of the costs attributable to participating employees who do not remain in the employment of the Group throughout the vesting period.

DuluxGroup ESIP

Where shares are issued under the ESIP at a discount, a SBP expense for the fair value of the discount on the granted shares is recognised.

21. DIRECTOR AND EXECUTIVE DISCLOSURES

a) Key Management Personnel (KMP) compensation summary

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the KMP include Non-Executive Directors and members of the Group Executive Team who have authority and responsibility for planning, directing and controlling the activities of DuluxGroup. A summary of KMP compensation is set out in the table below.

	2016 $	2015 $
Short term employee benefits	**6,858,794**	6,622,771
Other long term benefits	**100,603**	57,481
Post employment benefits	**175,462**	168,894
Share-based payments	**1,559,265**	1,347,967
Total	**8,694,124**	8,197,113

Information regarding the compensation of individual KMP and some equity instruments disclosure as required by Corporation Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

b) KMP transactions in shares and options

The total relevant interests of KMPs, including their related parties, in the share capital and options of the Company at 30 September are set out in the table below:

	2016 NUMBER	2015 NUMBER
Number of options and rights for fully paid ordinary shares	**2,692,890**	2,826,302
Number of fully paid ordinary shares	**2,468,030**	2,069,611

c) Other transactions and balances with KMP

All transactions with KMPs are made on normal commercial terms and conditions and in the ordinary course of business. At 30 September 2016, travel expense claims, consulting and subsidiary board fees of $43,750 (2015: $48,750) remain unpaid to Ms Chew. There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2016.

In the normal course of business, the Group occasionally enters into transactions with various entities that have Directors in common with the Group. Transactions with these entities are made on commercial arm's-length terms and conditions. The relevant Directors do not participate in any decisions regarding these transactions.

22. COMMITMENTS

a) Capital expenditure commitments

	2016 $'000	2015 $'000
Capital expenditure on property and plant and equipment contracted but not provided for and payable:		
New paint factory	**41,516**	13,287
Other	**480**	1,553
	41,996	14,840

Notes to the Consolidated Financial Statements

Other Disclosures (Continued)

For the financial year ended 30 September 2016

22. COMMITMENTS (CONTINUED)

b) Lease commitments – non-cancellable operating leases

The Group leases offices, warehouses, retail bulky goods and manufacturing sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. There are no restrictions placed upon the lessee by entering into these leases. Excess space is sub-let to third parties also under non-cancellable operating leases. Not included in the commitments below are contingent rental payments which may arise as part of rental increases indexed to the Consumer Price Index (CPI), or the higher of a fixed rate or CPI.

	2016 $'000	2015 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
No later than one year	**47,339**	39,321
Later than one, no later than five years	**105,530**	115,023
Later than five years	**58,908**	72,337
	211,777	226,681
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**6,285**	7,226

23. CONTINGENT LIABILITIES

The nature of the Group's consumer products business and its geographic diversity means that the Company or Group receives a range of claims from various parties and is from time to time required to make its own assessment of obligations arising from legislation across the jurisdictions in which it operates. These claims, and actual or potential obligations, are evaluated on a case-by-case basis considering the information and evidence available as well as specialist advice as required to assess the appropriate outcome.

The outcome of any pending or future litigation cannot be predicted with certainty. Accordingly, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could materially affect the financial position, results of operations or cash flows of the Company or Group. Litigation and other judicial proceedings raise difficult legal issues and are subject to many complexities. Upon resolution of a legal matter, the Company or Group may incur charges in excess of the presently established provisions and related insurance coverage. Where it is considered probable that a future obligation will result in a material outflow of resources, then this is accounted for accordingly by the Company or Group.

24. DEED OF CROSS GUARANTEE

Entities which are party to a Deed of Cross Guarantee (Closed Group), entered into in accordance with ASIC Class Order 98/1418 are disclosed in note 16. A consolidated income statement, consolidated statement of comprehensive income and consolidated balance sheet for the Closed Group are disclosed below.

a) Consolidated income statement and retained earnings

	2016 $'000	2015 $'000
Profit before income tax expense	**172,573**	144,922
Income tax expense	**(48,301)**	(38,072)
Profit for the year	**124,272**	106,850
Retained earnings		
Opening balance	**145,974**	126,065
Profit for the year	**124,272**	106,850
Actuarial losses on defined benefit plan recognised directly in retained earnings (net of tax)	**(22,786)**	(4,619)
Dividends paid – ordinary shares	**(88,818)**	(82,322)
Balance at 30 September	**158,642**	145,974

b) Consolidated statement of comprehensive income

	2016 $'000	2015 $'000
Profit for the year	**124,272**	106,850
Other comprehensive loss		
Items that may be reclassified to the income statement		
Cash flow hedge reserve		
Effective portion of changes in fair value of cash flow hedges	**(2,945)**	344
Income tax benefit/(expense)	**883**	(103)
Foreign currency translation reserve		
Foreign currency translation gain on foreign operations	**3,885**	1,258
Total items that may be reclassified to the income statement, net of tax	**1,823**	1,499
Items that will not be reclassified to the income statement		
Retained earnings		
Actuarial losses on defined benefit plan	**(32,551)**	(6,599)
Income tax benefit	**9,765**	1,980
Total items that will not be reclassified to the income statement, net of tax	**(22,786)**	(4,619)
Other comprehensive loss for the year, net of tax	**(20,963)**	(3,120)
Total comprehensive income for the year	**103,309**	103,730

24. DEED OF CROSS GUARANTEE (CONTINUED)

c) Consolidated balance sheet

	2016 $'000	2015 $'000
Current assets		
Cash and cash equivalents	**18,678**	23,482
Trade and other receivables	**271,894**	279,064
Inventories	**196,956**	193,875
Derivative financial assets	**3,269**	5,207
Other assets	**4,496**	6,094
Total current assets	**495,293**	507,722
Non-current assets		
Other receivables	**8**	8
Derivative financial assets	**57,040**	70,026
Investment in controlled entities	**62,485**	52,286
Equity accounted investment	**6,518**	6,342
Property, plant and equipment	**295,925**	248,915
Intangible assets	**229,882**	229,822
Deferred tax assets	**56,632**	50,384
Other assets	**4,155**	2,924
Total non-current assets	**712,645**	660,707
Total assets	**1,207,938**	1,168,429
Current liabilities		
Trade and other payables	**232,089**	239,317
Interest-bearing liabilities	**8,354**	5,465
Derivative financial liabilities	**3,229**	1,271
Current tax liabilities	**14,359**	17,665
Provisions	**39,190**	45,961
Total current liabilities	**297,221**	309,679
Non-current liabilities		
Other payables	**259**	276
Interest-bearing liabilities	**388,679**	381,558
Derivative financial liabilities	**–**	1,382
Deferred tax liabilities	**15,161**	15,343
Provisions	**45,373**	48,851
Defined benefit liability	**56,466**	22,107
Total non-current liabilities	**505,938**	469,517
Total liabilities	**803,159**	779,196
Net assets	**404,779**	389,233
Equity		
Share capital	**292,481**	292,745
Reserves	**(46,344)**	(49,486)
Retained earnings	**158,642**	145,974
Total equity	**404,779**	389,233

25. PARENT ENTITY DISCLOSURES

a) Summary financial information

The financial statements for the parent entity, DuluxGroup Limited, show the following aggregate amounts:

	2016 $'000	2015 $'000
Current assets	**125,381**	141,510
Non-current assets	**229,263**	229,268
Total assets	**354,644**	370,778
Current liabilities	**9,661**	14,816
Total liabilities	**9,661**	14,816
Net assets	**334,983**	355,962
Equity		
Contributed equity	**292,481**	292,745
Profits reserve[(1)]	**40,358**	55,000
Other reserves	**7,751**	6,432
Retained earnings	**4,393**	1,785
	344,983	355,962
Profit before income tax expense[(2)]	**75,834**	87,112
Income tax benefit	**950**	881
Profit for the year	**76,784**	87,993
Total comprehensive income of the parent entity	**76,784**	87,993

(1) Represents an appropriation of amounts from retained earnings for the payment of future dividends. On consolidation, this reserve is included as part of the consolidated retained earnings.

(2) Profit before income tax expense includes dividend income of $79,000,000 declared by DuluxGroup (New Zealand) Pty Ltd during the financial year ended 30 September 2016 (2015: $90,000,000).

b) Guarantees

Details of guarantees entered into by the parent entity in relation to external banking facilities as at 30 September 2016 are set out in note 16. In addition, the parent entity is a party to the deed of cross guarantee.

c) Capital commitments

There were no capital commitments entered into by the parent entity as at 30 September 2016 (2015: $NIL).

d) Contingent liabilities

Refer to note 23 for information relating to contingent liabilities of the parent entity.

26. AUDITORS' REMUNERATION

	2016 $	2015 $
Audit services – audit and review of financial reports		
KPMG Australia	**676,500**	725,500
Overseas KPMG firms[(1,2)]	**469,742**	546,363
	1,146,242	1,271,863
Other services[(3)]		
Other assurance services – KPMG Australia	**68,608**	106,275
Other assurance services – Overseas KPMG firms[(2)]	**14,690**	11,856
	83,298	118,131

(1) Includes fees paid or payable for overseas subsidiaries' local statutory lodgement purposes and other regulatory compliance requirements.

(2) Fees for overseas services are determined locally, and as such when reported in Australian dollars are subject to fluctuation due to the effect of foreign exchange rates.

(3) Other services (primarily assurance based engagements undertaken for compliance and governance) are subject to the Group's internal corporate governance procedures and are approved by the Audit and Risk Committee.

27. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Except as described below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its financial statements for the financial year ended 30 September 2015.

New and amended accounting standards

The Group has adopted the following new and amended accounting standards.

REFERENCE	TITLE	APPLICATION
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	1 Oct 2015
AASB 2015-10	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 Oct 2015
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 Oct 2015
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 Oct 2015

The adoption of these standards did not have a significant impact on the consolidated financial statements and has impacted disclosures only.

Issued but not yet effective

The following Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been adopted for this annual reporting period. Other than the implications of AASB 16 *Leases* outlined below, these standards are not expected to have a material impact on the Group's financial position and performance. However, increased disclosures will be required in the Group's financial statements.

REFERENCE	TITLE	APPLICATION
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15	1 Oct 2018
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 Oct 2017
AASB 15	Revenue from Contracts with Customers	1 Oct 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 Oct 2018
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 Oct 2018
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 Oct 2016
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 Oct 2016
AASB 16	Leases	1 Oct 2019

AASB16 Leases

AASB 16 *Leases* was released in February 2016 by the Australian Accounting Standards Board. AASB 16 requires companies to bring on-balance sheet most leases, in particular those leases that were previously classified as operating leases under the previous standard, by recognising a right-of-use asset and a lease liability. As a result there is likely to be changes to the timing, amounts and nature of items recognised in the consolidated income statement. The new standard is mandatory for annual reporting periods beginning on or after 1 January 2019, but may in some circumstances be early adopted. The Group is yet to assess the impact of the standard on its financial statements and would expect to make a more detailed assessment of the effect over the next 12 months.

28. SUBSEQUENT EVENTS

Details of the final dividend declared since balance date is set out in note 6.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2016, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

Directors' Declaration

For the financial year ended 30 September 2016

The directors of DuluxGroup Limited declare that:

(a) in the directors' opinion the financial statements and notes of DuluxGroup for the year ended 30 September 2016 set out on pages 83 to 124, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 September 2016 and of their performance for the financial year ended on that date; and

   (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 16 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note 24; and

(d) a statement of compliance with the International Financial Reporting Standards as issued by the International Accounting Standards Board has been included in note 1 to the financial statements.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* for the financial year ended 30 September 2016.

This declaration is made in accordance with a resolution of the directors.

Peter M. Kirby
Chairman

Melbourne
8 November 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DULUXGROUP LIMITED

REPORT ON THE FINANCIAL REPORT

Opinion

We have audited the accompanying Financial Report of DuluxGroup Limited (the Company), which comprises the consolidated balance sheet as at 30 September 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes 1 to 28, comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Group, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion:

(a) the accompanying Financial Report of DuluxGroup Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the Group's financial position as at 30 September 2016 and of its financial performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the Financial Report also complies with International Financial Reporting Standards as disclosed in note 1 (a).

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Financial Report is free from material misstatement.

Our responsibilities under those Standards are further described in the *Auditor's Responsibility* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

The key audit matter	How the matter was addressed in our audit
Carrying value of property, plant and equipment, and intangible assets ($546.1m). Refer to notes 8 & 9 in the Financial Report	

The Group's Cash Generating Units (CGUs) are subject to the cyclical nature of expenditure in the sectors in which those CGUs operate which include infrastructure, construction, and mining. These sectors have experienced the impacts of reductions in capital expenditure, constrained government spending, cost reduction mandates and project cancellations and deferrals, along with volatile commodity prices. The level of activity in those sectors impacts the current performance and the forecast cash flows used in the value in use models of the Group's CGUs that operate in those sectors. Given the reduced level of activity, the value of goodwill and intangible assets is a key audit matter. Other conditions giving rise to our focus on this area included the significant level of judgement in respect of inputs such as: • The determination of CGUs; • Budgeted future revenue and cost cash flows; • Discount rates; and • Terminal growth rate. Management have identified the Parchem CGU as having sensitivity to impairment due to the fact that a reasonably possible negative change in projected cash flows may result in the carrying value of the CGU exceeding its recoverable amount. We paid particular attention to these conditions.	Our procedures included, amongst others: • We assessed the goodwill and intangible assets impairment assessment process and tested controls such as the review of forecasts by management. • We assessed management's determination of the Group's CGUs based on our understanding of the nature of the Group's business units. We also analysed the internal reporting of the Group to assess how the CGUs are monitored and reported, and the implications to CGU identification in accordance with the accounting standards. • We compared the cash flows in the value in use models to the FY17 budget and the FY18- FY19 business plan. • For the Parchem CGU, we performed a range of sensitivity analyses including the discount rate and growth inputs to inform the focus of our further testing. • We assessed key inputs to the value in use models including forecast revenue, costs, discount rates and terminal growth rates. We challenged these key inputs by corroborating market growth rates to external analyst and industry reports, and compared the discount rate to comparable companies. For non-market based inputs, such as revenue and costs, we compared forecasts to actual performance currently being achieved. • We assessed the historical accuracy of the Group's forecasts, by comparing the forecasts used in the prior year models to the actual performance of the business in the current year. These procedures enabled us to determine the accuracy of the forecasting process. We applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater or volatility is expected. • We evaluated the competence of the external expert management engaged to assist them in determining the discount rates. • We assessed the allocation of corporate overheads to CGUs by comparing the allocation methodology to our understanding of the business. • We assessed the Group's disclosures for the valuation of goodwill and intangible assets, by comparing these disclosures to our business understanding and accounting standards requirements.

KPMG

Other Information

Other Information is financial and non-financial information in the annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Operating and Financial Review, Safety and Sustainability Report, Corporate Governance Report and Directors' Report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1 (a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the Financial Report complies with International Financial Reporting Standards.

In preparing the Financial Report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error. This is because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors, as well as evaluating the overall presentation of the Financial Report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current period and are therefore the Key Audit Matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter; or when, in extremely rare circumstances, we determine that a matter should not be communicated because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the Director's Report for the year ended 30 September 2016. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of DuluxGroup Limited for the year ended 30 September 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Gordon Sangster
Partner

James Dent
Partner

Melbourne

8 November 2016

Shareholder Statistics

AS AT 21 OCTOBER 2016

DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 – 1,000	17,956	8,973,033	2.31
1,001 – 5,000	15,642	35,297,032	9.07
5,001 – 10,000	2,606	18,534,435	4.76
10,001 – 100,000	1,466	30,441,140	7.82
100,001 or more	91	296,004,612	76.04
Rounding			**0.0**
Total	**37,761**	**389,250,252**	**100.00**

Included in the above total are 738 shareholders holding less than a marketable parcel of 77 shares.

The holdings of the 20 largest holders of fully paid ordinary shares represent 71.00% of that class of shares.

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS

RANK	NAME	UNITS	% OF UNITS
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	87,268,603	22.42
2.	J P MORGAN NOMINEES AUSTRALIA LIMITED	70,274,253	18.05
3.	CITICORP NOMINEES PTY LIMITED	39,220,910	10.08
4.	NATIONAL NOMINEES LIMITED	23,050,366	5.92
5.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	14,818,918	3.81
6.	BNP PARIBAS NOMS PTY LTD <DRP>	8,613,669	2.21
7.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	6,073,824	1.56
8.	ARGO INVESTMENTS LIMITED	3,881,512	1.00
9.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,801,768	0.98
10.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,617,942	0.67
11.	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	2,556,058	0.66
12.	MR PATRICK HOULIHAN	2,313,681	0.59
13.	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	2,305,658	0.59
14.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	1,734,000	0.45
15.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/C>	1,664,465	0.43
16.	MILTON CORPORATION LIMITED	1,655,184	0.43
17.	CS FOURTH NOMINEES PTY LTD <HSBC CUST NOM AU LTD 11 A/C>	1,250,879	0.32
18.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <BKCUST A/C>	1,235,930	0.32
19.	IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	1,095,086	0.28
20.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <BKMINI A/C>	999,332	0.26
TOTAL		**276,432,038**	**71.02**

REGISTER OF SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Company, and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholder notices to the Company on the respective dates are as follows:

DATE	NAME	SHARES	% OF TOTAL
7 July 2016	PERPETUAL LIMITED AND SUBSIDIARIES	27,940,706	7.18
17 December 2015	WESTPAC BANKING CORPORATION AND SUBSIDIARIES	23,718,350	6.09
4 May 2016	COMMONWEALTH BANK OF AUSTRALIA	20,930,760	5.37
12 August 2016	SCHRODER INVESTMENT MANAGEMENT AUSTRALIA LIMITED	20,408,193	5.24
31 May 2016	BT INVESTMENT MANAGEMENT LIMITED	19,477,009	5.00

Five Year Financial Statistics

A$M	NOTES	2016	2015	2014	2013	2012
INCOME STATEMENT						
Sales revenue (reported)	**1**	**1,716.3**	**1,687.8**	**1,611.5**	**1,484.6**	**1,067.8**
EBITDA (reported)	1	233.4	210.2	210.3	157.2	155.5
EBITDA (excluding non-recurring items)	2	233.4	227.3	219.0	186.2	148.6
EBIT (reported)	**1**	**201.1**	**175.3**	**175.1**	**124.9**	**132.2**
EBIT (excluding non-recurring items)	2	201.1	192.4	183.8	153.9	125.3
NPAT (reported)	**1**	**130.4**	**112.8**	**104.5**	**75.0**	**89.5**
NPAT (excluding non-recurring items)	2	130.4	124.7	111.9	92.2	79.6
Non-recurring items (post-tax)		–	(11.9)	(7.3)	(17.2)	9.9
EBIT margin (excluding non-recurring items)		11.7%	11.4%	11.4%	10.4%	11.7%
Diluted EPS (reported) (cents)		33.5	29.2	27.5	20.1	24.3
Diluted EPS (excluding non-recurring items) (cents)		33.5	32.3	29.4	24.7	21.6
Dividends per share – fully franked (cents)		24.0	22.5	20.5	17.5	15.5
Dividend payout ratio (%)		71.6%	70.2%	70.2%	71.6%	71.9%
Interest cover (times)		10.1	9.0	7.0	5.5	5.8
Effective interest rate	7	4.3%	4.5%	4.9%	5.3%	6.4%
Effective tax rate (excluding non-recurring items)		28.8%	28.0%	30.1%	29.2%	28.2%
BALANCE SHEET						
Trade working capital	8	262.9	256.6	234.2	224.4	132.5
Non trade working capital	3	(173.8)	(146.1)	(121.8)	(125.4)	(83.9)
Property, plant & equipment		312.0	261.9	262.0	263.8	199.1
Intangible assets		234.0	232.1	224.9	235.8	96.8
Net other assets/ (liabilities)		92.6	96.7	38.1	21.2	68.7
Capital employed		**727.8**	**701.2**	**637.4**	**619.7**	**413.2**
Net debt		(362.5)	(349.9)	(345.7)	(388.7)	(230.3)
Net Assets/Total Shareholders' Equity		**365.2**	**351.2**	**291.7**	**231.0**	**182.9**
Shareholders' Equity attributable to DLX shareholders		**365.3**	**350.2**	**289.7**	**226.2**	**169.9**
Rolling trade working capital %		16.0%	15.2%	15.1%	15.0%	13.3%
Net debt/equity %		1.0	1.0	1.2	1.7	1.3
Net debt/EBITDA	6	1.3	1.2	1.5	2.0	1.6
Return on capital employed (%)		27.6%	27.4%	28.8%	24.8%	30.3%
Return on equity, attributable to DLX shareholders (excluding non-recurring items) %		35.7%	35.6%	38.6%	40.8%	46.9%
CASH FLOW						
Reported net operating cash flow		**144.9**	**156.5**	**120.2**	**118.2**	**116.5**
Net operating cash flow (excluding non-recurring items)		155.0	156.5	143.5	133.8	101.7
Minor capital expenditure	4	(19.5)	(24.7)	(30.6)	(28.8)	(23.7)
Major capital expenditure	5	(41.4)	(4.8)	–	(0.2)	(3.8)
Acquisitions/ divestments		(12.7)	(11.2)	11.0	(132.9)	(39.7)
Cash conversion (excluding non-recurring items) %		87%	83%	83%	85%	86%

Notes:
1. Items shown as 'reported' are equivalent to statutory amounts disclosed in Annual Reports.
2. Items shown as 'excluding non-recurring items' are equivalent to statutory amounts disclosed in Annual Reports, adjusted for non-recurring items.
3. Non trade working capital consists of non-trade debtors, non-trade creditors and total provisions, as disclosed in the Balance Sheet commentary in Profit Reports.
4. Minor capital expenditure is capital expenditure on projects that are less than A$5M.
5. Major capital expenditure is capital expenditure on projects that are greater than A$5M.
6. Net Debt/EBITDA is calculated by taking closing net debt (adjusted to include the asset balance relating to the cross currency interest rate swap established to hedge the USD currency and interest rate exposures relating to the US Private Placement debt), as a percentage of the most recent twelve months of EBITDA before non-recurring items. For 2013, this has been calculated on a pro forma basis (i.e. taking twelve months EBITDA from the Alesco businesses).
7. Effective interest rate is the effective interest rate on bank loans and the US Private Placement bond.
8. There has been a change in the classification between trade working capital and non trade working capital in FY16. FY15 has been restated to reflect a comparative basis.

Shareholder Information

Stock Exchange Listing

DuluxGroup's shares are listed on the Australian Securities Exchange (ASX) and are traded under the code DLX.

DuluxGroup Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067, Australia

Telephone (within Australia): 1300 090 835
Telephone (international): +613 9415 4183
Facsimile: +613 9473 2500
Website: www.computershare.com

Tax and Dividend Payments

For Australian registered shareholders who have not quoted their Tax File Number (TFN) or Australian Business Number (ABN), the company is obliged to deduct tax at the top marginal rate plus Medicare levy from unfranked and/or partially franked dividends. If you have not already quoted your TFN/ABN, you may do so by contacting our Share Registry (see above for contact details).

Dividend Payments

Your dividends will be paid in Australian dollars by cheque mailed to the address recorded on the share register, unless you have elected to be paid by direct credit or are a participant in the Dividend Reinvestment Plan (DRP). If you have not elected to be paid by direct credit or fully participate in the DRP, why not have us bank your dividend payments for you so you can have immediate access to your dividend payment? Your dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia.

Dividends paid by direct credit appear in your account as cleared funds, thus allowing you to access them on payment date. You may elect to receive your dividends by way of direct credit by going to our Share Registry's website www.investorcentre.com.

Dividend Reinvestment Plan (DRP)

The DRP enables DuluxGroup's fully paid ordinary shareholders (having a registered address or being resident in Australia or New Zealand) to reinvest all or part of their dividends in additional DuluxGroup fully paid ordinary shares. Applications are available by going to our Share Registry website www.investorcentre.com.

Consolidation of Multiple Holdings

If you have multiple issuer sponsored holdings that you wish to consolidate into a single account, please notify the Share Registry in writing, quoting your full registered names and Securityholder Reference Number (SRN) for these accounts and nominating the account to which the holdings are to be consolidated.

Change of Name and/or Address

For issuer sponsored holdings: please notify the Share Registry in writing if you change your name and/or address (please supply details of your new/previous name, your new/previous address and your SRN), or change the details online by going to our Share Registry website www.investorcentre.com. For CHESS holdings: please notify your sponsor (usually your broker) in writing if you change your name and/or address.

Share Enquiries

Shareholders seeking information about their shareholding should contact the DuluxGroup Share Registry, Computershare Investor Services Pty Limited. Contact details are above. Before you call, make sure you have your SRN or Holder Identification Number (HIN) handy. You can do so much more online via the internet by visiting our Share Registry website www.investorcentre.com. You can access a wide variety of holding information and make some changes online or download forms including:

- Check your current and previous holding balances
- Choose your preferred annual report option
- Update your address details (Issuer Sponsored holdings)
- Update your bank details
- Confirm whether you have lodged your TFN or ABN or exemption
- Register your TFN/ABN/exemption
- Check transaction and dividend history
- Enter your email address
- Check share prices and graphs
- Download a variety of instruction forms
- Subscribe to email announcements

You can access this information via a security login using your SRN or HIN as well as your surname (or company name) and postcode/Country code (must be the postcode/Country code recorded for that holding).

Shareholder Timetable*

31 March 2017	**DuluxGroup 2017 Half Year End**
17 May 2017	Announcement of Half Year Financial Results
30 September 2017	**DuluxGroup 2017 Year End**
15 November 2017	Announcement of Full Year Financial Results
21 December 2017	**Annual General Meeting 2017**

* Timing of events is subject to change

DuluxGroup Communications

DuluxGroup's website www.duluxgroup.com.au offers shareholders details of the latest share price, announcements to the ASX, investor and analyst presentations, webcasts and the Chairman's and Managing Director's AGM addresses. The website also provides further information about the company and offers insights into DuluxGroup's businesses.

DuluxGroup's printed communications include the Annual Report, however, we can now provide all communications electronically including dividend statements, notices of meeting and proxy forms. Electronic transmission enhances shareholder communication, results in significant cost savings for the Company and is more environmentally friendly. Shareholders wishing to receive all communications electronically should visit the Share Registry website www.investorcentre.com to register their preference.

Shareholders may elect to receive a copy of the Annual Report or notification by email when the Annual Report is available online at www.duluxgroup.com.au. If you do not make an Annual Report election you will not receive a copy of the Annual Report. If you wish to change your Annual Report election, you may do so at any time, please go to www.investorcentre.com or contact our Share Registry.

Copies of reports are available on request.

Telephone: +613 9263 5678
Facsimile: +613 9263 5030
Email: company.info@duluxgroup.com.au

Auditors

KPMG

DuluxGroup Limited

ABN 42 133 404 065

Registered address and head office

1956 Dandenong Road
Clayton, Victoria 3168
Australia

Postal address

PO Box 60
Clayton South, Victoria 3169

Telephone: +613 9263 5678
Facsimile: +613 9263 5030

Email: company.info@duluxgroup.com.au
Website: www.duluxgroup.com.au

Investor Relations

Telephone: +613 9263 5678
Email: company.info@duluxgroup.com.au

DuluxGroup

Rules 4.7.3 and 4.10.3[1]

Appendix 4G

Key to Disclosures
Corporate Governance Council Principles and Recommendations

Name of entity:

DuluxGroup Limited

ABN / ARBN:	Financial year ended:
42 133 404 065	30 September 2016

Our corporate governance statement[2] for the above period above can be found at:[3]

X These pages of our annual report: 48 to 59

☐ This URL on our website:

The Corporate Governance Statement is accurate and up to date as at 11 November 2016 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.

Date:	11 November 2016
Name of ~~Director or~~ Secretary authorising lodgement:	Simon Black

[1] Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

[2] "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

[3] Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found. You can, if you wish, delete the option which is not applicable.

Throughout this form, where you are given two or more options to select, you can, if you wish, delete any option which is not applicable and just retain the option that is applicable. If you select an option that includes "OR" at the end of the selection and you delete the other options, you can also, if you wish, delete the "OR" at the end of the selection.

ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT		
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at … and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management): × in our Corporate Governance Statement <u>AND</u> × in our Board Charter which is located in the corporate governance/charters section of DuluxGroup's website www.duluxgroup.com.au
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>AND</u> × in relation to 1.2(b): all material information relevant to a decision on whether or not to elect or re-elect a director is also found in DuluxGroup's AGM Notice of Meeting
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>AND</u> × in our Board Charter which is located in the corporate governance/charters section of DuluxGroup's website www.duluxgroup.com.au
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	… the fact that we have a diversity policy that complies with paragraph (a): × in our Corporate Governance Statement <u>OR</u> ☐ at … and a copy of our diversity policy or a summary of it: × in the corporate governance/governance policies section of DuluxGroup's website www.duluxgroup.com.au … and the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them: × in our Corporate Governance Statement <u>OR</u> ☐ at … and the information referred to in paragraphs (c)(1) or (2): × in our Corporate Governance Statement <u>OR</u> ☐ at

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	... the evaluation process referred to in paragraph (a): × in our Corporate Governance Statement OR ☐ at ... and the information referred to in paragraph (b): × in our Corporate Governance Statement OR ☐ at
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	... the evaluation process referred to in paragraph (a): × in our Corporate Governance Statement OR ☐ at ... and the information referred to in paragraph (b): × in our Corporate Governance Statement AND × details of the outcomes of the FY16 performance evaluations for the CEO and other senior executives are in the Remuneration Report section of DuluxGroup's 2016 Annual Report
PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE		
2.1	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	... the fact that we have a nomination committee that complies with paragraphs 2.1(a)(1) and (2): × in our Corporate Governance Statement OR ☐ at ... and a copy of the charter of the committee: × in the corporate governance/charters section of DuluxGroup's website www.duluxgroup.com.au ... and the information referred to in paragraphs (4) and (5): × 2.1(a)(4): in our Corporate Governance Statement AND × 2.1(a)(5): in the Directors' Report section of DuluxGroup's 2016 Annual Report
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	... our board skills matrix: × in our Corporate Governance Statement OR ☐ at
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	... the names of the directors considered by the board to be independent directors: × in our Corporate Governance Statement OR ☐ at ... and, where applicable, the information referred to in paragraph (b): × in our Corporate Governance Statement OR ☐ at ... and the length of service of each director: × in our Corporate Governance Statement AND × in the Board Members section of DuluxGroup's 2016 Annual Report

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
2.4	A majority of the board of a listed entity should be independent directors.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at
PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY		
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	… our code of conduct or a summary of it: × in our Corporate Governance Statement <u>AND</u> × in the corporate governance/governance policies section of DuluxGroup's website www.duluxgroup.com.au
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING		
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	… the fact that we have an audit committee that complies with paragraphs 4.1(a)(1) and (2): × in our Corporate Governance Statement <u>OR</u> ☐ at … and a copy of the charter of the committee: × in the corporate governance/charters section of DuluxGroup's website www.duluxgroup.com.au … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement <u>OR</u> × 4.1(a)(4): in the Board Members section of DuluxGroup's 2016 Annual Report × 4.1(a)(5): in the Directors' Report section of DuluxGroup's 2016 Annual Report
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	… the fact that we follow this recommendation: × in our Corporate Governance Statement <u>OR</u> ☐ at

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE		
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	… our continuous disclosure compliance policy or a summary of it: ☒ in our Corporate Governance Statement <u>OR</u> ☒ in the corporate governance/governance policies section of DuluxGroup's website www.duluxgroup.com.au
PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	… information about us and our governance on our website: ☒ in the corporate governance and investor centre sections of DuluxGroup's we www.duluxgroup.com.au
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	… our policies and processes for facilitating and encouraging participation at meetings of security holders: ☒ in our Corporate Governance Statement <u>AND</u> ☒ in the corporate governance/governance policies section of DuluxGroup's website www.duluxgroup.com.au
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK		
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	… the fact that we have a committee or committees to oversee risk that comply with paragraphs 7.1(a)(1) and (2): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at … and a copy of the charter of the committee: ☒ in the corporate governance/charters section of DuluxGroup's website www.duluxgroup.com.au … and the information referred to in paragraphs (4) and (5): ☒ 7.1(a)(4): in our Corporate Governance Statement <u>AND</u> ☒ 7.1(a)(5): in the Directors' Report section of DuluxGroup's 2016 Annual Report
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	… the fact that board or a committee of the board reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at … and that such a review has taken place in the reporting period covered by this Appendix 4G: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	... how our internal audit function is structured and what role it performs: × in our Corporate Governance Statement OR ☐ at
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	... whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks: × in our Corporate Governance Statement AND × in the Safety and Sustainability Report section of DuluxGroup's 2016 Annual Report
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY		
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	... the fact that we have a remuneration committee that complies with paragraphs 8.1(a)(1) and (2): × in our Corporate Governance Statement OR ☐ at ... and a copy of the charter of the committee: × in the corporate governance/charters section of DuluxGroup's website www.duluxgroup.com.au ... and the information referred to in paragraphs (4) and (5): × 8.1(a)(4): in our Corporate Governance Statement AND × 8.1(a)(5): in the Directors' Report section of DuluxGroup's 2016 Annual Report
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	... separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives: ☐ in our Corporate Governance Statement OR × in the Remuneration Report section of DuluxGroup's 2016 Annual Report
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	... our policy on this issue or a summary of it: × in our Corporate Governance Statement AND × in the corporate governance/governance policies section of DuluxGroup's website www.duluxgroup.com.au