



**DULUXGROUP LIMITED**

**Appendix 4E  
Preliminary Final Report  
For the year ended 30 September 2018**

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ASX Code: DLX**

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Disclaimer: Statements contained in the Review of Operations contained on pages 5 to 20, particularly those regarding possible or assumed future performance, estimated Company earnings, potential growth of the Company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve unknown risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward looking statements.

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

## Results for Announcement to the Market

DuluxGroup Limited and its controlled entities results for announcement to the market are set out in the table below:

	2018 \$'000	2017 \$'000	Change \$'000	Change %
Consolidated revenue from operations	1,843,714	1,784,468	59,246	3.3%
Profit for the period attributable to ordinary shareholders of DuluxGroup Limited	150,674	142,941	7,733	5.4%

### Dividends

	Amount per security  Cents	Franked amount per security at 30% tax  Cents
Final dividend on ordinary shares for the year ended 30 September 2018 (record date 26 November 2018; payment date 12 December 2018)	14.0	14.0
Interim dividend on ordinary shares for the year ended 30 September 2018	14.0	14.0
Final dividend on ordinary shares for the previous corresponding period	13.5	13.5
Interim dividend on ordinary shares for the previous corresponding period	13.0	13.0

The Company's DRP has been suspended and therefore will not operate with respect to the final dividend.

### Explanation of Results

Please refer to the 'Review of Operations' for an explanation of the results.

### Other Information

	30 September 2018 Cents	30 September 2017 Cents
Net tangible assets backing per ordinary security	53.7	45.9

### Audit Statement

This report is based on financial statements which have been audited.

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## Review of Operations

### Result summary

- **Sales revenue** of \$1,843.7M, an increase of \$59.2M (+3.3%)
  - Excluding the divested China coatings business, sales revenue grew 4.5%
  - Dulux ANZ, the largest segment, grew 4.8%, consistent with its long term trend
- **EBIT** of \$223.2M, an increase of \$9.0M (+4.2%)
  - Dulux ANZ delivered a \$7.8M (+4.7%) EBIT increase, continuing its track record of consistent earnings growth
  - Other ANZ segments (Selleys & Parchem ANZ, B&D Group and Lincoln Sentry) delivered a combined \$3.1M (+4.7%) EBIT increase
- **NPAT** of \$150.7M, an increase of 5.4%
- **Cash generated from operations** was \$213.9M, a decrease of 6.6%, mainly due to impacts associated with the sale of China and Rocklea redundancy payments
- **Cash conversion** (adjusted for non-recurring items including the China sale, Rocklea redundancies, Merrifield start-up and other one-off costs) was 83%, slightly unfavourable to the prior year's 86% but in line with '80%+' guidance
- **Net debt to EBITDA** improved slightly to 1.3x, notwithstanding the Merrifield capital expenditure
- A **final dividend** of 14.0 cents per share, fully franked, an increase of 0.5 cents. Full year dividend increased 5.7% to 28.0 cents per share, representing a dividend payout ratio of 72%

### Year ended 30 September

<b>A\$M</b>	<b>2018</b>	<b>2017</b>	<b>% Change</b>
<b>Sales revenue</b>	<b>1,843.7</b>	<b>1,784.5</b>	<b>3.3%</b>
EBITDA	257.7	245.5	5.0%
<b>EBIT</b>	<b>223.2</b>	<b>214.2</b>	<b>4.2%</b>
EBIT % to Sales	12.1%	12.0%	0.1 pts
<b>NPAT</b>	<b>150.7</b>	<b>142.9</b>	<b>5.4%</b>
Diluted earnings per ordinary share (EPS) (cents)	38.9	36.7	6.0%
Total dividend per share (cents)	28.0	26.5	5.7%
Cashflow generated from operations	213.9	229.1	(6.6%)
Cash conversion excluding non-recurring items	83%	86%	(3) pts
Net debt to EBITDA	1.3	1.4	7.1%

Note: Numbers in the report are subject to rounding. 'nm' = not meaningful. '~' = approximately  
Refer to glossary on page 20 for definition of terms

## Review of Operations (continued)

### Result by segment

The summary of sales and EBIT by segment is shown below, with further discussion included on the following pages.

<b>Year ended 30 September</b>			
<b>A\$M</b>	<b>2018</b>	<b>2017</b>	<b>% Change</b>
<b>Sales revenue</b>			
Dulux ANZ	982.2	937.3	4.8%
Selleys & Parchem ANZ	269.2	260.7	3.3%
B&D Group	188.7	182.5	3.4%
Lincoln Sentry	203.5	195.2	4.3%
Other businesses	214.3	222.2	(3.6%)
Eliminations	(14.2)	(13.5)	(5.2%)
<b>Total sales revenue</b>	<b>1,843.7</b>	<b>1,784.5</b>	<b>3.3%</b>
<b>EBIT</b>			
Dulux ANZ	172.8	165.0	4.7%
Selleys & Parchem ANZ	34.0	33.7	0.9%
B&D Group	19.7	18.2	8.2%
Lincoln Sentry	15.8	14.5	9.0%
Other businesses	10.7	11.3	(5.3%)
<b>Business EBIT</b>	<b>252.9</b>	<b>242.6</b>	<b>4.2%</b>
Corporate	(29.7)	(28.4)	(4.6%)
<b>Total EBIT</b>	<b>223.2</b>	<b>214.2</b>	<b>4.2%</b>

## Review of Operations (continued)

### Dulux ANZ - Paints and Coatings

#### Continued strong performance in a higher input cost environment

Year ended 30 September A\$M	2018	2017	\$ Change	% Change
Sales revenue	982.2	937.3	44.9	4.8%
EBITDA	191.7	179.7	12.0	6.7%
EBIT	172.8	165.0	7.8	4.7%
<i>EBIT % Sales</i>	<i>17.6%</i>	<i>17.6%</i>		

#### Sales revenue up \$44.9M (+4.8%)

- Revenue grew 5.3% in the Australian business (~90% of segment) and grew 2.6% in New Zealand (flat in Australian dollars).
- In Australia, revenue reflected positive markets (~2.5% growth), modest share gains and positive price benefits to partially mitigate significant raw material price increases.
- The Australian decorative paint market grew at 3.3%, with the first half growing ~5% and the second half reverting to ~1.5%:
  - The renovation and repair market (typically ~75% of market volume) grew ~4.5%, driven by a strong first half (cycling a lower prior corresponding period (pcp), which was impacted by Masters' liquidation), with the second half reverting to ~2% growth; and
  - New construction markets (new housing and commercial) increased modestly.
- The woodcare, powder, protective and texture coatings markets increased modestly.
- In New Zealand, modest revenue growth reflected good second half growth following a flat first half (driven by the exit of woodcare products from Mitre 10 in 2017).

#### EBIT growth of \$7.8M (+4.7%)

- A strong result, with EBIT margin maintained, notwithstanding a higher raw material price environment (titanium dioxide and latex increased well above inflation) and higher Merrifield depreciation.
- \$3M of Merrifield start-up expenses (duplicated costs of operating the existing Rocklea factory and Merrifield during ramp-up) have been recognised in the Corporate segment (consistent with guidance at the half year result).

#### FY19 outlook

- The division is targeting continued revenue and EBIT growth and maintenance of full year EBIT margin.
- Revenue growth is likely to be slightly biased to the second half given the very strong market growth in the first half of FY18 and the later timing of Easter in 2019.
- Raw material increases are moderating. Net input costs (including mitigation) are expected to increase low to mid-single digits, with the rate of increase higher in the first half, before reverting to inflation level increases in the second half.
- Depreciation is likely to increase by approximately \$3M over FY18, predominately reflecting a full year of Merrifield depreciation. This increase will be largely biased to the first half.
- Given the above, EBIT growth is expected to be biased to the second half.

## Review of Operations (continued)

### Selleys & Parchem ANZ - Sealants, Adhesives, Fillers and Construction chemicals

**Modest earnings growth reflected good growth in core businesses and weaker contribution from the Selleys trade channel and Parchem New Zealand**

Year ended 30 September A\$M	2018	2017	\$ Change	% Change
Sales revenue	269.2	260.7	8.5	3.3%
EBITDA	36.7	36.5	0.2	0.5%
EBIT	34.0	33.7	0.3	0.9%
<i>EBIT % Sales</i>	<i>12.6%</i>	<i>12.9%</i>		

#### Selleys (~65% of divisional revenue)

- Selleys grew revenue 3.5% and EBIT grew marginally.
- The core Selleys retail business (95% of revenue) grew both revenue and EBIT at ~5%, driven by a strong performance with key retail customers in positive markets.
- Revenue and EBIT declined in the small Selleys trade business.

#### Parchem (~35% of divisional revenue)

- Parchem grew revenue 2.5% and EBIT was flat.
- The Australian business (94% of revenue) grew revenue by ~4% and EBIT by ~6%, reflecting good progress in growing the Fosroc construction chemicals business and reshaping the Avista decorative concrete and Flextool equipment businesses.
- Revenue and EBIT declined in Parchem New Zealand.

#### FY19 outlook

- The core Selleys and Parchem businesses are positioned for earnings growth, and plans are in place to improve performance in Selleys trade and Parchem New Zealand.



## Review of Operations (continued)

### B&D Group - Garage Doors and Openers

#### Earnings growth driven by revenue and margin improvement

Year ended 30 September A\$M	2018	2017	\$ Change	% Change
Sales revenue	188.7	182.5	6.2	3.4%
EBITDA	26.2	24.9	1.3	5.2%
EBIT	19.7	18.2	1.5	8.2%
<i>EBIT % Sales</i>	<i>10.4%</i>	<i>10.0%</i>		

#### Sales revenue up \$6.2M (+3.4%)

- Overall market growth, led by the Australian existing home market and commercial.
- Positive price outcomes reflected improved mix with a shift towards premium products.

#### EBIT growth of \$1.5M (+8.2%)

- EBIT increase was driven by revenue growth and margin improvement, while increasing investment in marketing and growth projects (e.g. 'B&D to you' vans).

#### FY19 outlook

- The business continues to target revenue and profit growth through new and traditional distribution channels.

## Review of Operations (continued)

### Lincoln Sentry - Cabinet and Architectural Hardware Distribution

#### Continued revenue and profit growth

Year ended 30 September A\$M	2018	2017	\$ Change	% Change
Sales revenue	203.5	195.2	8.3	4.3%
EBITDA	16.9	16.6	0.3	1.8%
EBIT	15.8	14.5	1.3	9.0%
<i>EBIT % Sales</i>	<i>7.8%</i>	<i>7.4%</i>		

#### Sales revenue up \$8.3M (+4.3%)

- Revenue growth was led by the cabinet hardware business, in generally positive markets (biased to renovations) with modest share growth and positive price outcomes.

#### EBIT growth of \$1.3M (+9.0%)

- EBIT growth was driven by revenue, good fixed cost control and lower amortisation, partly offset by margin pressures in competitive markets.

#### FY19 outlook

- The business continues to target revenue and profit growth in markets that remain competitive.

## Review of Operations (continued)

**Other businesses** - Yates garden care, Dulux PNG, DGL Asia (consisting of DGL SE Asia and DGL China and Hong Kong), PT Avian-Selleys Indonesia (50.01% owned) and DGL UK

**Growth from Yates and PNG more than offset by investment in the UK and Indonesia**

Year ended 30 September A\$M	2018	2017	\$ Change	% Change
Sales revenue	214.3	222.2	(7.9)	(3.6%)
EBITDA	13.4	14.3	(0.9)	(6.3%)
EBIT	10.7	11.3	(0.6)	(5.3%)
<i>EBIT % Sales</i>	<i>5.0%</i>	<i>5.1%</i>		

- **Yates ANZ** grew revenue and EBIT complemented by the Organic Crop Protectants (OCP) acquisition (in June 2018).
- The **Dulux PNG** business increased revenue and EBIT in continued weak economic conditions.
- **DGL Asia** delivered a flat EBIT result. An improved EBIT outcome in China and Hong Kong (largely due to reduced losses from the exited coatings businesses) was offset by a lower result from SE Asia (lower Acratex revenue in Malaysia and higher input costs (silicone)).
- The **PT Avian-Selleys Indonesia** joint venture (formed in August 2017) made a small EBIT loss (\$0.5M) due to establishment costs. The joint venture is expected to commence trading by the end of the calendar year.
- The **DGL UK** business increased revenue due to channel distribution expansion of paint sales into Homebase, own stores and online. The EBIT loss was slightly higher than prior year due to the planned investment in sales, marketing and product innovation.

### FY19 outlook

- The Other businesses segment is targeting solid profit growth. Yates will benefit from the full year impact of the OCP acquisition; China will continue to transition towards a 100% owned break even Selleys business, though ~\$2M of final costs associated with this transition are expected, biased toward the first half; Investment will continue in the UK, as the business seeks to build distribution; The PT Avian-Selleys Indonesia JV will incur a slightly larger loss in its first year of operation.
- The sales revenue impact due to the divestiture of the coatings businesses in China and Hong Kong is ~\$45M on an annualised basis. Of this, the FY18 impact was ~\$20M, with the remainder expected to occur in FY19.

## Review of Operations (continued)

### Other Profit & Loss items - Corporate, Interest, Tax

Year ended 30 September

A\$M	2018	2017	% Change
<b>Business EBIT</b>	<b>252.9</b>	<b>242.6</b>	<b>4.2%</b>
Corporate	(29.7)	(28.4)	(4.6%)
<b>EBIT</b>	<b>223.2</b>	<b>214.2</b>	<b>4.2%</b>
<i>EBIT % to Sales</i>	<i>12.1%</i>	<i>12.0%</i>	
Net finance costs	(16.9)	(17.3)	2.3%
Tax expense	(57.7)	(57.3)	(0.7%)
Non-controlling interests	2.1	3.3	(36.4%)
<b>NPAT</b>	<b>150.7</b>	<b>142.9</b>	<b>5.4%</b>

### Corporate

The corporate result includes a \$6.1M profit on sale of the Glen Waverley site (recognised in the first half), fully offset over the full year by start-up expenses for Merrifield of \$3M and investment in one-off growth and other initiatives of \$3.1M.

Corporate in FY19 is estimated to be ~\$31M.

### Net finance costs

The table below shows the components included within net finance costs.

Year ended 30 September

A\$M	2018	2017	% Change
<b>Net finance costs</b>	<b>16.9</b>	<b>17.3</b>	<b>2.3%</b>
Discounting of provisions	(0.9)	(2.1)	57.1%
Defined benefit fund interest	(1.2)	(1.8)	33.3%
Capitalised interest on Merrifield	1.4	2.9	(51.7%)
Interest component of tax write-back	-	0.6	<i>nm</i>
<b>Net interest on bank loans and other borrowings</b>	<b>16.2</b>	<b>16.9</b>	<b>4.1%</b>
<i>All-in net cost of debt<sup>1</sup></i>	<i>3.9%</i>	<i>4.3%</i>	

Net finance costs in FY19 are expected to be ~\$18.5M excluding the impact of interest rate movements.

1. All-in net cost of debt – calculated as Net finance costs excluding the \$2.1M unwinding of the discount on provisions and defined benefit fund interest and including \$1.4M of capitalised interest associated with the Dulux Merrifield paint factory

## Review of Operations (continued)

### Income tax expense

The table below shows a reconciliation between the headline tax expense and the adjusted (or underlying) tax expense (and effective tax rate). The tax provision write-back in both years related to a matter which was closed during the first half, so no further write-backs are expected. The utilisation of carried forward capital losses related to the Glen Waverley profit on sale.

#### Year ended 30 September

<b>A\$M</b>	<b>2018</b>	<b>2017</b>	<b>% Change</b>
<b>Tax expense</b>	<b>57.7</b>	<b>57.3</b>	<b>(0.7%)</b>
Tax provision write-back	2.8	2.5	12.0%
Utilisation of carried forward capital losses	1.1	-	nm
<b>Adjusted tax expense</b>	<b>61.6</b>	<b>59.8</b>	<b>(3.0%)</b>
<i>Effective tax rate</i>	28.0%	29.1%	
<i>Adjusted effective tax rate</i>	29.9%	30.5%	

The effective tax rate in FY19 is expected to be ~30.5%.

## Review of Operations (continued)

### Cash Flow

Year ended 30 September  
A\$M

	2018	2017	% Change
<b>EBITDA</b>	<b>257.7</b>	<b>245.5</b>	<b>5.0%</b>
Non-cash items in EBITDA	(0.9)	10.1	<i>nm</i>
Changes in Trade Working Capital	(31.2)	(25.3)	(23.3%)
Changes in Other Working Capital	(3.9)	(1.1)	(255%)
Rocklea redundancy payments	(7.7)	-	<i>nm</i>
<b>Cash generated from operations</b>	<b>213.9</b>	<b>229.1</b>	<b>(6.6%)</b>
Net income tax and interest paid	(73.7)	(63.1)	(16.8%)
<b>Net cash from operating activities</b>	<b>140.2</b>	<b>166.0</b>	<b>(15.5%)</b>
Minor capital expenditure	(21.9)	(18.1)	(21.0%)
Major capital expenditure (paint factory)	(33.3)	(77.9)	57.3%
Net (Acquisitions)/Disposals	26.2	(0.4)	<i>nm</i>
<b>Net cash from investing activities</b>	<b>(29.0)</b>	<b>(96.5)</b>	<b>69.9%</b>
<b>Net cash from operating and investing activities</b>	<b>111.2</b>	<b>69.5</b>	<b>60.0%</b>
Dividends paid	(97.2)	(92.1)	(5.5%)
Equity and other movements	(20.3)	(11.0)	(84.5%)
<b>Change in net debt</b>	<b>(6.3)</b>	<b>(33.6)</b>	<b>81.3%</b>
<b>Headline cash conversion</b>	<b>75%</b>	<b>86%</b>	
<b>Cash conversion excluding non-recurring items</b>	<b>83%</b>	<b>86%</b>	

**Cash generated from operations** was \$213.9M, \$15.2M (6.6%) lower than the prior year. There were several non-recurring items that impacted this outcome:

- A \$9M decline in cash generated from operations compared to the pcip in China, driven by impacts of the China coatings sale structure and restructuring costs. Net sale proceeds of \$21.0M (recognised within investing cash flows) more than offset this decline;
- A \$6.1M outflow due to one-off costs, including Merrifield start-up costs and other one-off projects. These costs were incurred within Corporate, offsetting the \$6.1M gain on sale for Glen Waverley. The cash benefit of this sale (\$12.9M net sale proceeds) was recognised within investing cash flows; and
- A \$7.7M cash flow item relating to the payment of Rocklea redundancy provisions.

Excluding these non-recurring impacts, cash generated from operations was favourable, driven by higher EBITDA, partly offset by a higher trade working capital (TWC) outflow (refer balance sheet section for explanation).

**Investing cash flows** were lower, driven by reduced Merrifield expenditure and the proceeds from the China and Glen Waverley sales, partially offset by the acquisition of OCP.

**Cash conversion excluding the impact of the above non-recurring items** was 83%, slightly lower than the prior year's 86% but within our 80%+ guidance, with the higher TWC the key driver. Headline cash conversion was 75%.

## Review of Operations (continued)

### Investing activities

#### Dulux Merrifield paint factory

The new Dulux paint factory was successfully completed on time and within its \$165M budget. Beneficial production was achieved (1 February 2018) and the factory ramped up to full production (by July 2018).

During the year, capital of \$33.3M was spent on the factory, inclusive of \$1.4M of capitalised interest. The remaining \$5M of capital expenditure for optimisation works will occur during the first half of the 2019 financial year.

#### Sale of DGL China & Hong Kong Coatings portfolio

Following a strategic review of the joint venture businesses in China and Hong Kong, DGL Camel International (51% owned by DuluxGroup) entered into an agreement in January 2018 to sell most of the coatings portfolio, including the Camel brand, to Yip's Chemical Holdings Limited. The sale transaction was completed on 1 February 2018, with \$21.0M of net proceeds received in the year. A total profit impact of \$0.4M (\$0.2M attributable to DuluxGroup) was recognised during the year, consisting of a profit on sale and associated restructuring costs. For further detail, refer Note 19.

DGL China & Hong Kong has retained the Selleys business and a small coatings business in Hong Kong. DuluxGroup transferred these businesses to 100% owned entities early in FY19. The joint venture will remain in place during FY19 as some of the final costs associated with the transition and exit will be incurred.

#### Sale of Glen Waverley site

The Glen Waverley site, which was acquired just after the Rocklea flood in 2011 and retained as back-up during construction of the Merrifield factory, was sold during the year for \$12.9M. A \$6.1M profit on sale has been recognised.

#### Acquisition of Organic Crop Protectants (OCP)

In June 2018 DuluxGroup acquired OCP, an Australian company which has been developing and manufacturing eco-friendly and registered organic horticultural, nutritional and plant protection products since 1991. The business comprises both commercial and retail divisions. The acquisition will strengthen Yates' competitive position in the natural and organic gardening segment and leverage Yates' sales, marketing and distribution network.

## Review of Operations (continued)

### Balance Sheet

Year ended 30 September  
A\$M

	2018	2017	\$ Change
Trade working capital	302.0	283.3	18.8
Other working capital and provisions	(121.0)	(132.1)	11.1
Property, plant & equipment	383.2	371.8	11.4
Intangible assets	231.6	228.7	2.9
Net other assets/(liabilities)	(14.9)	(10.2)	(4.7)
<b>Capital employed</b>	<b>781.0</b>	<b>741.5</b>	<b>39.5</b>
Net debt (inclusive of USPP hedge)	(340.5)	(334.2)	(6.3)
<b>Net assets/Total shareholders' equity</b>	<b>440.5</b>	<b>407.3</b>	<b>33.2</b>
TWC to rolling sales (point in time) %	16.4%	15.9%	(0.5) pts
Rolling TWC to rolling sales %	16.2%	15.8%	(0.4) pts
Net debt to EBITDA (Gearing %)	1.3	1.4	7.1%
Return on capital employed %	28.6%	28.9%	(0.3) pts
Return on equity %	34.0%	34.8%	(0.8) pts

### Trade Working Capital

- **Rolling** (or average) **TWC** as a percent of sales was 16.2%, 0.4% points unfavourable to the prior year. This was mainly impacted by inventory build associated with the Dulux Merrifield manufacturing transition; and
- Point in time **TWC** was 0.5% points unfavourable to the prior year, largely due to higher year-end inventory in a number of businesses (partly driven by higher input costs), as well as additional working capital in relation to the recently acquired OCP business.

### Debt Facilities

During the year, the \$100M tranche of the syndicated loan facility was extended for a further five years, from November 2018 to 2023. As at reporting date, the weighted average maturity profile of the committed debt facilities (combined limit of \$601M, excluding offshore minor working capital facilities) was ~3.6 years, in-line with the prior year (3.7 years).

Available headroom in the committed debt facilities was ~\$217M.



## Review of Operations (continued)

### Outlook

#### Impact of favourable one-off items in FY18

As outlined at the half year result and in this report, a number of one-off items recognised in the first half of FY18 will not occur in FY19.

The phasing and annual impact of these items on both EBIT and NPAT is shown below.

- **EBIT impact:** Whilst these items had an immaterial impact on EBIT across the year, they will impact the *phasing* of EBIT between the first half and second half.

A\$M	H1 2018	H2 2018	FY 2018
<b>EBIT</b>	<b>114.0</b>	<b>109.2</b>	<b>223.2</b>
Glen Waverley profit on sale	6.1	-	6.1
Merrifield start-up costs and other one-off projects	(3.2)	(2.9)	(6.1)
Sale of China and associated restructuring costs	2.5	(2.1)	0.4
Subtotal - one-off items	5.4	(5.0)	0.4
<b>Adjusted EBIT</b>	<b>108.6</b>	<b>114.2</b>	<b>222.8</b>

- **NPAT impact:** As most of the items relate to interest and tax, they will impact NPAT growth *across the year*, as well as *phasing*.

A\$M	H1 2018	H2 2018	FY 2018
<b>NPAT</b>	<b>79.2</b>	<b>71.5</b>	<b>150.7</b>
Sale of Glen Waverley (tax effected, net of capital losses)	5.3	-	5.3
Merrifield start-up and other one-off costs (tax effected)	(2.2)	(2.0)	(4.2)
Sale of China and associated restructuring costs (after NCI)	1.2	(1.0)	0.2
Tax provision write-back	2.8	-	2.8
Capitalised interest (tax effected)	1.0	-	1.0
Subtotal - one-off items	8.1	(3.0)	5.1
<b>Adjusted NPAT</b>	<b>71.1</b>	<b>74.5</b>	<b>145.6</b>

Management believes that adjusted NPAT is the appropriate base to assess future performance.

### Overall Outlook

Subject to economic conditions, and excluding non-recurring items, 2019 full year NPAT is expected to be higher than the 2018 NPAT of \$150.7M.

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

## Review of Operations (continued)

### Market Outlook

Lead indicators for our key markets remain generally positive.

The key existing home segment exposure (~65%<sup>1</sup> of DuluxGroup revenue) is expected to continue providing resilient and profitable growth, underpinned by:

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

Underlying market demand for this end market is generally 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.

Within the new housing construction market (~15%<sup>1</sup> of DuluxGroup revenue, late cycle), approvals are expected to moderate in FY19, however completions are expected to remain at FY18 levels given the pipeline of work. DuluxGroup businesses are strategically less exposed to this sector.

Commercial and engineering construction markets, which account for ~15%<sup>1</sup> of DuluxGroup revenue, comprise of non-residential construction markets, which are expected to grow, and relevant engineering construction and maintenance markets which are expected to be flat overall.

### Outlook comments from the Business Segments

#### Dulux ANZ

- The division is targeting continued revenue and EBIT growth and maintenance of full year EBIT margin.
- Revenue growth is likely to be slightly biased to the second half given the very strong market growth in the first half of FY18 and the later timing of Easter in 2019.
- Raw material increases are moderating. Net input costs (including mitigation) are expected to increase low to mid-single digits, with the rate of increase higher in the first half, before reverting to inflation level increases in the second half.
- Depreciation is likely to increase by approximately \$3M over FY18, predominately reflecting a full year of Merrifield depreciation. This increase will be largely biased to the first half.
- Given the above, EBIT growth is expected to be biased to the second half.

#### Selleys & Parchem ANZ

- The core Selleys and Parchem businesses are positioned for earnings growth, and plans are in place to improve performance in Selleys trade and Parchem New Zealand.

#### B&D Group

- The business continues to target revenue and profit growth through new and traditional distribution channels.

#### Lincoln Sentry

- The business continues to target revenue and profit growth in markets that remain competitive.

1. Indicative revenue splits for DuluxGroup

## Review of Operations (continued)

### Other businesses

- The Other businesses segment is targeting solid profit growth. Yates will benefit from the full year impact of the OCP acquisition; China will continue to transition towards a 100% owned break even Selleys business, though ~\$2M of final costs associated with this transition are expected, biased toward the first half; Investment will continue in the UK, as the business seeks to build distribution; The PT Avian-Selleys Indonesia JV will incur a slightly larger loss in its first year of operation.
- The sales revenue impact due to the divestiture of the coatings businesses in China and Hong Kong is ~\$45M on an annualised basis. Of this, the FY18 impact was ~\$20M, with the remainder expected to occur in FY19.

### • Other Outlook items for FY19

- Annual depreciation and amortisation expense is expected to be ~\$38.5M.
- Corporate is expected to be ~\$31M.
- Net finance costs are expected to be ~\$18.5M excluding the impact of interest rate movements.
- The effective tax rate is expected to be ~30.5%.
- Capital expenditure is expected to be ~\$35M, including the remaining \$5M Merrifield factory expenditure.
- We are targeting full-year cash conversion to be 80%+ excluding non-recurring items.

## Review of Operations (continued)

### Glossary

1. EBITDA – represents EBIT plus depreciation and amortisation.
2. EBIT – represents earnings before interest and tax.
3. NPAT – represents 'Profit for the year attributable to ordinary shareholders of DuluxGroup Limited' per the financial statements.
4. Operating cash flow – the equivalent of 'Net cash inflow from operating activities'.
5. 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.
6. 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', per the financial statements.
7. 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.
8. Non trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets', per the financial statements.
9. Non trade creditors – represents the 'other payables' portion of 'trade and other payables', per the financial statements.
10. Capital expenditure – represents the 'payments for property, plant and equipment' and 'payments for intangible assets' per the financial statements.
11. Acquisitions – represents 'payments for purchase of businesses, net of cash acquired'.
12. Disposals – represents 'proceeds from sale of property, plant and equipment'.
13. Cash conversion – is calculated as EBITDA, less movement in trade working capital and other operating cash flow movements excluding interest and tax, less minor capital expenditure (capital expenditure projects less than \$5.0M), as a percentage of EBITDA.
14. Return on capital employed – is calculated as EBIT (excluding non-recurring items) divided by capital employed.
15. Return on equity – is calculated as NPAT (excluding non-recurring items) divided by shareholders' equity attributable to ordinary shareholders of DuluxGroup Limited.

# Consolidated Income Statement

For the financial year ended 30 September:

	Notes	2018 \$'000	2017 \$'000
Revenue		1,843,714	1,784,468
Other income	3	21,175	4,227
<b>Expenses</b>			
Changes in inventories of finished goods and work in progress		(7,400)	(6,339)
Raw materials and consumables used and finished goods purchased for resale		769,900	726,836
Employee benefits		406,705	389,791
Depreciation and amortisation	4	34,467	31,282
Repairs and maintenance		13,458	13,281
Operating leases		54,698	53,593
Outgoing freight		75,927	73,070
Purchased services		118,116	118,088
Other expenses <sup>(1)</sup>		177,963	176,118
Share of net profit of equity accounted investment	20	(2,139)	(1,235)
		1,641,695	1,574,485
<b>Earnings before interest and income tax expense (EBIT)</b>		223,194	214,210
Finance income		504	189
Finance expenses	4	(17,442)	(17,483)
<b>Net finance costs</b>		(16,938)	(17,294)
<b>Profit before income tax expense</b>		206,256	196,916
Income tax expense	13	(57,727)	(57,255)
<b>Profit for the year</b>		148,529	139,661
<b>Attributable to:</b>			
Ordinary shareholders of DuluxGroup Limited		150,674	142,941
Non-controlling interest in controlled entities		(2,145)	(3,280)
<b>Profit for the year</b>		148,529	139,661
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share</b>			
Attributable to the ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	5	39.4	37.3
Diluted earnings per share	5	38.9	36.7

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

<sup>(1)</sup> Largely comprises of commissions, royalties and other fixed and variable costs.

# Consolidated Statement of Comprehensive Income

For the financial year ended 30 September:

	2018 \$'000	2017 \$'000
<b>Profit for the year</b>	<b>148,529</b>	139,661
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to the income statement</i>		
<i>Cash flow hedge reserve</i>		
Effective portion of changes in fair value of cash flow hedges	61	1,991
Income tax expense	(18)	(597)
<i>Foreign currency translation reserve</i>		
Foreign currency translation gain/(loss) on foreign operations	1,812	(4,344)
<b>Total items that may be reclassified to the income statement, net of tax</b>	<b>1,855</b>	(2,950)
<i>Items that will not be reclassified to the income statement</i>		
<i>Retained earnings</i>		
Actuarial (losses)/gains on defined benefit plan	(11,676)	21,759
Income tax benefit/(expense)	3,503	(6,528)
<b>Total items that will not be reclassified to the income statement, net of tax</b>	<b>(8,173)</b>	15,231
<b>Other comprehensive income for the year, net of tax</b>	<b>(6,318)</b>	12,281
<b>Total comprehensive income for the year</b>	<b>142,211</b>	151,942
<b>Attributable to:</b>		
Ordinary shareholders of DuluxGroup Limited	144,401	155,240
Non-controlling interest in controlled entities	(2,190)	(3,298)
<b>Total comprehensive income for the year</b>	<b>142,211</b>	151,942

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

# Consolidated Balance Sheet

As at 30 September:

	Notes	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents		55,315	38,974
Trade and other receivables	7	288,760	277,677
Inventories	7	243,947	229,394
Derivative financial assets	15	3,944	3,847
Other assets		9,777	6,613
Assets held for sale	8	-	6,814
<b>Total current assets</b>		<b>601,743</b>	<b>563,319</b>
<b>Non-current assets</b>			
Other receivables	7	8	35
Derivative financial assets	15	42,536	36,945
Equity accounted investment	20	9,892	7,753
Property, plant and equipment	9	383,228	371,805
Intangible assets	10	231,592	228,670
Deferred tax assets	13	50,301	50,436
Other assets		6,185	3,138
<b>Total non-current assets</b>		<b>723,742</b>	<b>698,782</b>
<b>Total assets</b>		<b>1,325,485</b>	<b>1,262,101</b>
<b>Current liabilities</b>			
Trade and other payables	7	264,699	264,912
Interest-bearing liabilities	14	11,395	16,570
Derivative financial liabilities	15	428	619
Current tax payable		11,093	18,567
Provisions	12	74,658	77,369
<b>Total current liabilities</b>		<b>362,273</b>	<b>378,037</b>
<b>Non-current liabilities</b>			
Other payables	7	363	249
Interest-bearing liabilities	14	432,394	398,116
Deferred tax liabilities	13	29,518	28,096
Provisions	12	11,946	13,339
Defined benefit liability	21	48,526	36,964
<b>Total non-current liabilities</b>		<b>522,747</b>	<b>476,764</b>
<b>Total liabilities</b>		<b>885,020</b>	<b>854,801</b>
<b>Net assets</b>		<b>440,465</b>	<b>407,300</b>
<b>Equity</b>			
Share capital	16	289,432	277,282
Treasury shares	16	(41,060)	(22,286)
Reserves		(98,627)	(101,444)
Retained earnings		293,425	257,101
<b>Total equity attributable to ordinary shareholders of DuluxGroup Limited</b>		<b>443,170</b>	<b>410,653</b>
<b>Non-controlling interest in controlled entities</b>		<b>(2,705)</b>	<b>(3,353)</b>
<b>Total equity</b>		<b>440,465</b>	<b>407,300</b>

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

**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 <sup>(3)</sup> \$'000	Foreign currency translation reserve \$'000	Common control reserve <sup>(4)</sup> \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
<b>Balance at 1 October 2017</b>	<b>277,282</b>	<b>(22,286)</b>	<b>8,103</b>	<b>(1,492)</b>	<b>1,155</b>	<b>(109,210)</b>	<b>257,101</b>	<b>410,653</b>	<b>(3,353)</b>	<b>407,300</b>
Profit/(loss) for the year	-	-	-	-	-	-	150,674	150,674	(2,145)	148,529
Other comprehensive income/(loss), net of tax	-	-	-	43	1,857	-	(8,173)	(6,273)	(45)	(6,318)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43</b>	<b>1,857</b>	<b>-</b>	<b>142,501</b>	<b>144,401</b>	<b>(2,190)</b>	<b>142,211</b>
<b>Transactions with owners, recorded directly in equity</b>										
Purchase of treasury shares	-	(27,756)	-	-	-	-	-	(27,756)	-	(27,756)
Shares allocated under the dividend reinvestment plan (DRP)	-	8,937	-	-	-	-	-	8,937	-	8,937
Sale of treasury shares	-	45	-	-	-	-	-	45	-	45
Non-controlling interest on incorporation of a subsidiary <sup>(1)</sup>	-	-	-	-	-	-	-	-	2,838	2,838
Share-based payments	-	-	4,742	-	-	-	-	4,742	-	4,742
Shares vested under the LTEIP and ESIP <sup>(2)</sup>	12,150	-	(3,825)	-	-	-	-	8,325	-	8,325
Dividends paid	-	-	-	-	-	-	(106,177)	(106,177)	-	(106,177)
<b>Balance at 30 September 2018</b>	<b>289,432</b>	<b>(41,060)</b>	<b>9,020</b>	<b>(1,449)</b>	<b>3,012</b>	<b>(109,210)</b>	<b>293,425</b>	<b>443,170</b>	<b>(2,705)</b>	<b>440,465</b>
<b>Balance at 1 October 2016</b>	264,886	(10,658)	8,763	(2,886)	5,481	(109,210)	197,409	353,785	(55)	353,730
Profit/(loss) for the year	-	-	-	-	-	-	142,941	142,941	(3,280)	139,661
Other comprehensive income/(loss), net of tax	-	-	-	1,394	(4,326)	-	15,231	12,299	(18)	12,281
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,394</b>	<b>(4,326)</b>	<b>-</b>	<b>158,172</b>	<b>155,240</b>	<b>(3,298)</b>	<b>151,942</b>
<b>Transactions with owners, recorded directly in equity</b>										
Purchase of treasury shares	-	(18,002)	-	-	-	-	-	(18,002)	-	(18,002)
Shares allocated under the DRP	-	6,366	-	-	-	-	-	6,366	-	6,366
Sale of treasury shares	-	8	-	-	-	-	-	8	-	8
Share-based payments	-	-	3,185	-	-	-	-	3,185	-	3,185
Shares vested under the LTEIP and ESIP <sup>(2)</sup>	12,396	-	(3,845)	-	-	-	-	8,551	-	8,551
Dividends paid	-	-	-	-	-	-	(98,480)	(98,480)	-	(98,480)
<b>Balance at 30 September 2017</b>	<b>277,282</b>	<b>(22,286)</b>	<b>8,103</b>	<b>(1,492)</b>	<b>1,155</b>	<b>(109,210)</b>	<b>257,101</b>	<b>410,653</b>	<b>(3,353)</b>	<b>407,300</b>

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

<sup>(1)</sup> Represents the non-controlling interest on establishment of the PT Avian Selleys business. PT Avian Selleys was incorporated on 19 September 2017.

<sup>(2)</sup> The total amount of \$8,325,000 (2017: \$8,551,000) comprises the following:

- Proceeds of \$6,642,000 (2017: \$7,317,000) (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 2014 Long Term Equity Incentive Plan (LTEIP).

- Amounts totalling \$1,683,000 (2017: \$1,234,000) 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 DuluxGroup as a liability until such time as an employee has the right to on-sell the shares, at which time the amount is recognised in contributed equity.

<sup>(3)</sup> Includes the foreign currency basis reserve which represents changes in the fair value of the Cross Currency Interest Rate Swap attributable to movement in the foreign currency basis spread.

<sup>(4)</sup> The prior year Common control reserve has been restated to account for the deferred tax liability on indefinite life intangibles. Further details are available in the Group's 30 September 2017 Annual Report.



# Consolidated Statement of Cash Flows

For the financial year ended 30 September:

	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>		
Profit before income tax expense	206,256	196,916
Adjustments for:		
Depreciation and amortisation	34,467	31,282
Amortisation of prepaid supply agreements	1,298	1,296
Share-based payments expense	4,725	3,330
Defined benefit service cost	4,215	5,750
Research and development grant income	(802)	(962)
Share of net profit of equity accounted investment	(2,139)	(1,235)
Profit on disposal of business assets	(11,628)	-
Impairment of inventories, trade and other receivables	6,372	3,380
Impairment of property, plant and equipment and intangible assets	2,015	-
Net (profit)/loss on sale of property, plant and equipment	(5,631)	234
Net foreign exchange losses/(gains) on operating items	713	(1,792)
Net finance cost	16,938	17,294
	<b>256,799</b>	<b>255,493</b>
Changes in assets and liabilities:		
Increase in trade, other receivables and other assets	(21,154)	(26,740)
Increase in inventories	(18,137)	(13,338)
Decrease in trade and other payables and provisions	(3,574)	13,695
<b>Cash generated from operations</b>	<b>213,934</b>	<b>229,110</b>
Interest received	435	189
Interest paid	(14,704)	(13,628)
Income taxes paid	(59,435)	(49,701)
<b>Net cash inflow from operating activities</b>	<b>140,230</b>	<b>165,970</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment and intangible assets	(55,215)	(96,073)
Payments for purchase of businesses	(8,047)	(571)
Proceeds from disposal of business assets	20,996	-
Proceeds from disposal of property, plant and equipment and asset held for sale	13,297	191
<b>Net cash outflow from investing activities</b>	<b>(28,969)</b>	<b>(96,453)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	2,807,204	2,890,779
Repayments of borrowings	(2,786,069)	(2,857,650)
Payments for purchase of treasury shares	(27,756)	(18,002)
Proceeds from sale of treasury shares	45	8
Proceeds from employee share plan repayments	8,420	8,551
Dividends paid (net of shares allocated/issued as part of the DRP)	(97,240)	(92,114)
Contribution from non-controlling interest on establishment of business	2,838	-
Other financing activities	(4,000)	-
<b>Net cash outflow from financing activities</b>	<b>(96,558)</b>	<b>(68,428)</b>
<b>Net increase in cash held</b>	<b>14,703</b>	<b>1,089</b>
<b>Cash at the beginning of the year</b>	<b>38,974</b>	<b>39,068</b>
Effects of exchange rate changes on cash	1,638	(1,183)
<b>Cash at the end of the year</b>	<b>55,315</b>	<b>38,974</b>

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

# Notes to the Consolidated Financial Statements

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# Notes to the Consolidated Financial Statements

## About this report

For the financial year ended 30 September 2018

### 1. About this report

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

The Company's registered office is at 1956 Dandenong Rd, Clayton Victoria 3168 Australia. Its principal activities are the marketing and manufacturing of products that protect, maintain and enhance the spaces and places in which we live and work.

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 29. 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 14 November 2018 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 year 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

##### i) 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).

##### ii) 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.

##### iii) 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 10 Intangible assets
- Note 11 Impairment testing
- Note 12 Provisions
- Note 13 Income tax
- Note 21 Superannuation

# Notes to the Consolidated Financial Statements

## Financial Performance

For the financial year ended 30 September 2018

### 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.

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

Defined reportable segments	Products/services
Dulux ANZ	Dulux decorative paints, woodcare, texture, protective, powder and industrial coatings in Australia and New Zealand for both consumer and professional trade markets.
Selleys & Parchem 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.
B&D Group	B&D garage doors and electronic openers for residential, commercial and industrial use in Australia and New Zealand.
Lincoln Sentry	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, DGL International specialty coatings and adhesives businesses in South East Asia, Papua New Guinea coatings business and Craig & Rose decorative paints business and Selleys business in the United Kingdom. Also includes the 51% owned DGL business in China and Hong Kong and the 50.01% owned PT Avian Selleys business in Indonesia.

## 2. Segment report (continued)

	Dulux ANZ		Selleys & Parchem ANZ		B&D Group		Lincoln Sentry		Other businesses		Corporate & unallocated <sup>(3)</sup>		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>														
External revenue	979,865	934,172	261,311	252,033	188,652	182,532	203,421	195,121	210,465	220,610	-	-	1,843,714	1,784,468
Inter-segment revenue	2,373	3,145	7,911	8,682	5	-	82	49	3,835	1,588	(14,206)	(13,464)	-	-
Total revenue	982,238	937,317	269,222	260,715	188,657	182,532	203,503	195,170	214,300	222,198	(14,206)	(13,464)	1,843,714	1,784,468
Other income <sup>(1)</sup>	3,114	3,208	328	495	21	253	(13)	-	11,670	254	6,055	17	21,175	4,227
Total revenue and other income	985,352	940,525	269,550	261,210	188,678	182,785	203,490	195,170	225,970	222,452	(8,151)	(13,447)	1,864,889	1,788,695
<b>Results</b>														
EBITDA <sup>(2)</sup>	191,729	179,675	36,702	36,480	26,238	24,877	16,896	16,606	13,447	14,338	(27,351)	(26,484)	257,661	245,492
Depreciation and amortisation	(18,967)	(14,706)	(2,700)	(2,813)	(6,564)	(6,674)	(1,130)	(2,140)	(2,718)	(3,074)	(2,388)	(1,875)	(34,467)	(31,282)
<b>EBIT</b>	172,762	164,969	34,002	33,667	19,674	18,203	15,766	14,466	10,729	11,264	(29,739)	(28,359)	223,194	214,210
Finance income													504	189
Finance expenses													(17,442)	(17,483)
<b>Profit before income tax expense</b>													206,256	196,916
Income tax expense													(57,727)	(57,255)
<b>Profit for the year</b>													148,529	139,661
<b>Attributable to:</b>														
Ordinary shareholders of DuluxGroup Limited													150,674	142,941
Non-controlling interest in controlled entities													(2,145)	(3,280)
<b>Profit for the year</b>													148,529	139,661
Acquisitions of property, plant and equipment and intangible assets	36,067	85,176	1,831	2,804	2,512	2,162	1,300	798	3,797	2,864	-	-	45,507	93,804

<sup>(1)</sup> Included in other income in the Corporate and unallocated segment is the net profit on disposal of the Glen Waverley site of \$6,063,000.

<sup>(2)</sup> Earnings before interest, income tax expense, depreciation and amortisation.

<sup>(3)</sup> Comprises of centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and the Group's defined benefit pension plan. Within EBITDA, \$3,000,000 of costs associated with the start-up of the Merrifield paint factory has been recognised within the Corporate and unallocated segment.

Revenue from one of the Group's customers was approximately 26% (2017: 25%) of the total Group revenue during the year ended 30 September 2018. This customer operated primarily within the Dulux ANZ, Selleys & Parchem ANZ and Other businesses segments. No other single customers contributed 10% or more to the Group's revenue for both 2018 and 2017.

# Notes to the Consolidated Financial Statements

## Financial Performance

For the financial year ended 30 September 2018

### 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	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	1,545,398	1,468,431	561,077	543,019
New Zealand	201,499	199,280	41,122	44,086
Other countries	96,817	116,757	14,806	16,508
	1,843,714	1,784,468	617,005	603,613

#### b) Accounting policies

##### i) 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 two to four years after the initial sale.

###### Other income

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

Profit and loss from sale 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.

##### ii) 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.

# Notes to the Consolidated Financial Statements

## Financial Performance

For the financial year ended 30 September 2018

### 3. Other income

	2018 \$'000	2017 \$'000
Net profit on disposal of business assets (note 19)	11,628	-
Net profit on disposal of property, plant and equipment <sup>(1)</sup>	5,631	-
Royalty income	276	805
Rental income	1,322	994
Research and development grant income	802	962
Other	1,516	1,466
	<b>21,175</b>	<b>4,227</b>

<sup>(1)</sup> Includes \$6,063,000 of profit on disposal of the Glen Waverley site during the period. The net book value of this site of \$6,814,000 was presented as an asset held for sale within the Consolidated Balance Sheet as at 30 September 2017. Proceeds of \$12,862,000 net of agency fees were received during the year ended 30 September 2018.

### 4. Expenses

Profit before income tax includes the following expense items not otherwise detailed in these financial statements:

	2018 \$'000	2017 \$'000
Depreciation	28,144	24,164
Amortisation	6,323	7,118
Depreciation and amortisation	<b>34,467</b>	<b>31,282</b>
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	16,569	15,410
Provisions: unwinding of discounting	873	2,073
Finance expenses	<b>17,442</b>	<b>17,483</b>
Net loss on disposal of property, plant and equipment	-	234
Net foreign exchange losses	492	413
Research and development expense	<b>20,758</b>	<b>20,608</b>

# Notes to the Consolidated Financial Statements

## Financial Performance

For the financial year ended 30 September 2018

### 5. Earnings per share

	2018 Cents per share	2017 Cents per share
<b>Attributable to the ordinary shareholders of DuluxGroup Limited</b>		
Basic earnings per share	39.4	37.3
Diluted earnings per share	38.9	36.7
	<b>\$'000</b>	<b>\$'000</b>
<b>Earnings used in the calculation of basic and diluted earnings per share</b>		
Profit for the year attributable to ordinary shareholders of DuluxGroup Limited	150,674	142,941
	<b>Number</b>	<b>Number</b>
<b>Weighted average number of ordinary shares outstanding used as the denominator:</b>		
Number for basic earnings per share	382,575,907	382,868,053
Effect of the potential vesting of shares under the LTEIP and ESIP <sup>(1)</sup>	4,908,230	6,158,229
<b>Number for diluted earnings per share</b>	<b>387,484,137</b>	<b>389,026,282</b>

<sup>(1)</sup> The calculation of the weighted average number of shares has been adjusted for the effect of these potential ordinary shares from the earlier of the date of issue or the beginning of the year.

### 6. Dividends

	2018 \$'000	2017 \$'000
<b>Dividends paid</b>		
Final dividend for 2017 of 13.5 cents per share fully franked (2016: Final dividend of 12.5 cents per share fully franked)	52,138	48,278
Interim dividend for 2018 of 14.0 cents per share fully franked (2017: Interim dividend of 13.0 cents per share fully franked)	54,039	50,202
	<b>106,177</b>	<b>98,480</b>
<b>Dividend franking account</b>		
Franking credits available to shareholders for subsequent financial years based on a tax rate of 30% (2017:30%)	29,823	28,745

#### a) Dividends declared after balance date

On 14 November 2018, the Directors determined that a final dividend of 14.0 cents per ordinary share will be paid in respect of the 2018 financial year. The dividend will be fully franked and payable on 12 December 2018. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2018 and will be recognised in the 2019 annual financial statements. The Company's DRP has been suspended and therefore will not operate with respect to the final dividend.



# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 7. Working capital

	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade and other receivables <sup>(1)</sup>	288,760	277,677
Trade and other payables	(264,699)	(264,912)
Inventories:		
Raw materials	44,911	37,758
Work in progress	8,312	6,697
Finished goods	190,724	184,939
	243,947	229,394
<b>Total current</b>	<b>268,008</b>	<b>242,159</b>
<b>Non-current</b>		
Other receivables	8	35
Other payables	(363)	(249)
<b>Total non-current</b>	<b>(355)</b>	<b>(214)</b>
<b>Total working capital</b>	<b>267,653</b>	<b>241,945</b>

<sup>(1)</sup> Current receivables is net of \$20,327,000 (2017: \$20,036,000) 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:

	2018 Gross \$'000	2017 Gross \$'000	2018 Allowance \$'000	2017 Allowance \$'000	2018 Net \$'000	2017 Net \$'000
Not past due	261,934	249,448	12	33	261,922	249,415
Past due 0 - 30 days	15,945	15,201	394	6	15,551	15,195
Past due 31 - 60 days	3,617	3,207	150	10	3,467	3,197
Past due 61 - 90 days	2,270	3,275	93	22	2,177	3,253
Past due 91 - 120 days	2,988	2,316	363	173	2,625	2,143
Past 120 days	6,601	7,110	3,575	2,601	3,026	4,509
	293,355	280,557	4,587	2,845	288,768	277,712

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:

	2018 \$'000	2017 \$'000
Opening balance	2,845	2,914
Allowances made (net of amounts written back)	3,518	1,796
Allowances utilised	(1,868)	(1,819)
Foreign currency exchange differences	92	(46)
<b>Balance at 30 September</b>	<b>4,587</b>	<b>2,845</b>

# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 7. Working capital (continued)

#### b) Accounting policies

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

The expected impairment loss calculation for trade receivables considers the impact of past events and exercises judgment over the impact of current and future economic conditions. The calculation is based on:

- 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
- knowledge of debtor insolvency or other credit risk.

Subsequent changes in economic and market conditions may result in the provision for impairment losses increasing or decreasing in future periods.

##### ii) 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.

##### iii) 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) 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. Assets held for sale

In August 2017, management commenced the sale process of the Glen Waverley site. The net book value of the site was \$6,814,000 inclusive of both land and machinery, plant and equipment. Accordingly, the asset associated to the Glen Waverley site was presented as an asset held for sale within the Consolidated Balance Sheet at 30 September 2017. This asset was sold during the year ended 30 September 2018, (refer note 3). No assets are held for sale at 30 September 2018.

# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 9. Property, plant and equipment

	Land \$'000	Buildings and leasehold improvements \$'000	Machinery, plant and equipment \$'000	Total \$'000
<b>2018</b>				
Cost	46,645	139,707	493,001	679,353
Less accumulated depreciation and impairment	-	(44,349)	(251,776)	(296,125)
<b>Net book value</b>	<b>46,645</b>	<b>95,358</b>	<b>241,225</b>	<b>383,228</b>
Balance at 1 October 2017	45,254	75,240	251,311	371,805
Additions	-	1,622	40,481	42,103
Business acquisitions	-	-	225	225
Disposals	-	(264) <sup>(1)</sup>	(863)	(1,127)
Business disposal	-	-	(161)	(161)
Depreciation	-	(3,466)	(24,678)	(28,144)
Impairment	-	-	(1,961)	(1,961)
Transfer between classes <sup>(2)</sup>	1,384	22,315	(23,699)	-
Foreign currency exchange differences	7	(89)	570	488
<b>Balance at 30 September 2018</b>	<b>46,645</b>	<b>95,358</b>	<b>241,225</b>	<b>383,228</b>
<b>2017</b>				
Cost	45,254	117,937	485,663	648,854
Less accumulated depreciation and impairment	-	(42,697)	(234,352)	(277,049)
<b>Net book value</b>	<b>45,254</b>	<b>75,240</b>	<b>251,311</b>	<b>371,805</b>
Balance at 1 October 2016	51,685	78,717	181,639	312,041
Additions	-	95	92,920	93,015
Business acquisitions	-	-	44	44
Fair value adjustment on business acquisitions	-	(490)	-	(490)
Disposals	-	(12) <sup>(1)</sup>	(425)	(437)
Depreciation	-	(2,738)	(21,426)	(24,164)
Reclassification to assets held for sale	(6,425)	-	(389)	(6,814)
Foreign currency exchange differences	(6)	(332)	(1,052)	(1,390)
<b>Balance at 30 September 2017</b>	<b>45,254</b>	<b>75,240</b>	<b>251,311</b>	<b>371,805</b>

<sup>(1)</sup> Includes an amount of \$264,000 (2017: \$12,000) relating to the reassessment of the leased properties restoration provision.

<sup>(2)</sup> Transfers relate primarily to the finalisation of the new paint factory.

#### a) Assets under construction

Included in the closing balances above are assets under construction at 30 September 2018 of \$12,280,000 (2017: \$145,300,000).

#### b) Accounting policies

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer to note 11). 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 leasehold 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) Accounting estimates and judgments

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.

# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 10. Intangible assets

	Goodwill	Patents, trademarks and rights	Brand names	Software	Customer contracts	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2018</b>						
Cost	152,033	8,246	63,717	41,590	29,299	294,885
Less accumulated amortisation	-	(6,143)	(727)	(36,134)	(20,289)	(63,293)
<b>Net book value</b>	<b>152,033</b>	<b>2,103</b>	<b>62,990</b>	<b>5,456</b>	<b>9,010</b>	<b>231,592</b>
Balance at 1 October 2017	144,637	2,217	64,582	5,378	11,856	228,670
Additions	-	64	-	3,340	-	3,404
Business acquisitions	7,157	-	-	5	-	7,162
Business disposal	-	-	(1,497)	-	-	(1,497)
Amortisation	-	(178)	(89)	(3,210)	(2,846)	(6,323)
Impairment	-	-	-	(54)	-	(54)
Foreign currency exchange differences	239	-	(6)	(3)	-	230
<b>Balance at 30 September 2018</b>	<b>152,033</b>	<b>2,103</b>	<b>62,990</b>	<b>5,456</b>	<b>9,010</b>	<b>231,592</b>
<b>2017</b>						
Cost	144,637	8,193	65,894	38,276	29,299	286,299
Less accumulated amortisation	-	(5,976)	(1,312)	(32,898)	(17,443)	(57,629)
<b>Net book value</b>	<b>144,637</b>	<b>2,217</b>	<b>64,582</b>	<b>5,378</b>	<b>11,856</b>	<b>228,670</b>
Balance at 1 October 2016	143,665	2,354	64,759	7,376	15,893	234,047
Additions	-	-	-	789	-	789
Business acquisitions	194	-	-	-	-	194
Amortisation	790	-	-	-	-	790
Transfers between classes	-	(131)	(117)	(2,829)	(4,041)	(7,118)
Foreign currency exchange differences	(12)	(6)	(60)	42	4	(32)
<b>Balance at 30 September 2017</b>	<b>144,637</b>	<b>2,217</b>	<b>64,582</b>	<b>5,378</b>	<b>11,856</b>	<b>228,670</b>

#### a) Intangibles under development

Included in the closing balance above are software assets under development at 30 September 2018 of \$3,243,000 (2017: \$1,441,000).

#### b) Accounting policies

##### i) 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 or under development, 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 11) and are carried at cost less accumulated impairment.

##### ii) 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 11).

# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 10. Intangibles (continued)

#### c) Accounting estimates and judgments

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 is as follows:

	Goodwill		Brand Names	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Dulux ANZ	29,272	29,272	26,900	26,900
Selleys & Parchem ANZ	43,283	43,285	3,400	3,400
B&D Group	39,537	39,537	15,000	15,000
Lincoln Sentry	18,193	18,193	2,400	2,400
Yates <sup>(1)</sup>	17,196	10,039	14,858	14,858
DGL International UK <sup>(1)</sup>	4,552	4,311	-	-
	152,033	144,637	62,558	62,558

<sup>(1)</sup> Included within the 'Other businesses' segment in note 2.

### 11. Impairment

During the year ended 30 September 2018, impairment of property, plant and equipment and intangible assets (software) totalling \$2,015,000 was recognised as a result of restructuring following the sale of the Group's coatings business in China (refer note 19). The review for impairment at 30 September 2018 did not result in any further impairment charges being recognised by the Group (2017: \$NIL). For all Cash-Generating Units (CGUs) apart from the UK CGU (part of the Other Businesses segment), a reasonable possible change to impairment model inputs would not cause the recoverable amount to be below their respective carrying amount. For the UK CGU, the business is still in its start-up phase. The recoverable amount has been determined using a value-in-use based approach. If there was a negative variation in any key assumption, in the absence of other factors, this may lead to an impairment of the UK CGU. The UK CGU includes \$9,534,000 of non-current assets and \$17,927,000 of total assets at 30 September 2018.

#### 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 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. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The test of goodwill and its impairment is undertaken at the level noted above in note 10(d). 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, 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.

The pre-tax discount rates applied in the discounted cash flow models range between 8% and 14% (2017: 10% and 15%). The sales revenue terminal growth rates applied in the discounted cash flow models range between 0% and 3% (2017: 0% and 7%).

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.

# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 11. Impairment (continued)

#### a) Accounting policies (continued)

##### i) Reversals of impairment

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) Accounting estimates and judgments

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.

### 12. Provisions

	Employee entitlements \$'000	Restru- cturing <sup>(1)</sup> \$'000	Leased properties \$'000	Other \$'000	Total \$'000
<b>2018</b>					
Current	63,901	6,579	574	3,604	74,658
Non-current	4,416	-	6,200	1,330	11,946
<b>Total provisions</b>	<b>68,317</b>	<b>6,579</b>	<b>6,774</b>	<b>4,934</b>	<b>86,604</b>
Balance at 1 October 2017		9,710	8,443	4,454	
Provisions made (net of amounts written back)		6,337	(1,243)	4,673	
Provisions utilised		(9,490)	(1,169)	(4,346)	
Unwind of discounting		-	690	148	
Foreign currency exchange differences		22	53	5	
<b>Balance at 30 September 2018</b>		<b>6,579</b>	<b>6,774</b>	<b>4,934</b>	
<b>2017</b>					
Current	63,503	9,710	714	3,442	77,369
Non-current	4,598	-	7,729	1,012	13,339
<b>Total provisions</b>	<b>68,101</b>	<b>9,710</b>	<b>8,443</b>	<b>4,454</b>	<b>90,708</b>
Balance at 1 October 2016		8,258	9,566	4,867	
Provisions made (net of amounts written back)		809	(1,116)	5,080	
Provisions utilised		(379)	(808)	(5,649)	
Unwind of discounting		1,022	848	171	
Foreign currency exchange differences		-	(47)	(15)	
<b>Balance at 30 September 2017</b>		<b>9,710</b>	<b>8,443</b>	<b>4,454</b>	

<sup>(1)</sup> At 30 September 2018 the closing balance largely comprises the restructuring costs in association with the sale of the Group's coatings business in China (refer note 19). As at 30 September 2017 the closing balance largely comprises the redundancy costs recognised in association with the Group's supply chain projects.

Current employee benefit liabilities include \$26,782,000 (2017: \$26,046,000) in respect of long service leave due at 30 September 2018. Amounts expected to be settled during the 2019 financial year amount to approximately \$2,234,000.

# Notes to the Consolidated Financial Statements

## Operating Assets and Liabilities

For the financial year ended 30 September 2018

### 12. Provisions (continued)

#### 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.

##### i) 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.

##### ii) 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.

##### iii) 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.

##### iv) Other

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

#### b) Accounting estimates and judgments

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.

# Notes to the Consolidated Financial Statements

## Taxation

For the financial year ended 30 September 2018

### 13. Income tax

#### a) Income tax expense

	2018 \$'000	2017 \$'000
Current tax expense	52,661	55,195
Deferred tax expense	5,066	2,060
<b>Income tax expense</b>	<b>57,727</b>	<b>57,255</b>
<b>Deferred tax expense included in income tax expense comprises:</b>		
Decrease in deferred tax assets	3,711	1,611
Increase in deferred tax liabilities	1,355	449
	<b>5,066</b>	<b>2,060</b>
<b>Reconciliation of prima facie tax expense to income tax expense</b>		
Profit before income tax expense	206,256	196,916
Prima facie income tax expense calculated at 30% of profit before tax	61,877	59,075
Tax effect of items which (decrease)/increase tax expense:		
Foreign tax rate differential	(981)	69
Non-taxable income and profits, net of non-deductible expenditure	(3,014)	(1,290)
Share of net profit of equity accounted investment	(642)	(370)
Tax losses and other deferred tax assets not recognised	2,919	1,422
Sundry items	384	1,054
Amounts over provided in prior years	(2,816)	(2,705)
<b>Income tax expense</b>	<b>57,727</b>	<b>57,255</b>

#### b) Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
Trade and other receivables	383	424	-	-
Inventories	3,333	3,549	-	-
Property, plant and equipment	4,624	4,840	5,694	3,786
Intangible assets	2,577	2,669	21,693	22,719
Trade and other payables	752	671	60	91
Provisions	3,642	6,196	-	-
Employee entitlements	34,600	31,019	-	-
Tax losses	-	249	-	-
Other	390	819	2,071	1,500
<b>Total</b>	<b>50,301</b>	<b>50,436</b>	<b>29,518</b>	<b>28,096</b>
<b>Expected to be recovered/settled:</b>				
Within 12 months	25,092	20,502	2,131	1,592
After more than 12 months	25,209	29,934	27,387	26,504
	<b>50,301</b>	<b>50,436</b>	<b>29,518</b>	<b>28,096</b>
<b>Movements:</b>				
Opening balance	50,436	59,231	28,096	27,335
Additions - business acquisitions	44	-	-	-
Adjustment - prior year acquisitions	-	36	-	336
Charged to profit or loss	(3,711)	(1,611)	1,355	449
Credited/(charged) to other comprehensive income	3,485	(7,126)	-	-
Foreign currency exchange differences	47	(94)	67	(24)
<b>Balance at 30 September</b>	<b>50,301</b>	<b>50,436</b>	<b>29,518</b>	<b>28,096</b>



# Notes to the Consolidated Financial Statements

## Taxation

For the financial year ended 30 September 2018

### 13. Income tax (continued)

#### c) Unrecognised deferred tax assets and liabilities

	2018 \$'000	2017 \$'000
<b>Tax losses and other deferred tax assets not recognised in:</b>		
Australia <sup>(1)</sup>	-	1,086
China <sup>(2)</sup>	10,827	7,918
Hong Kong	598	577
Indonesia <sup>(3)</sup>	83	-
Malaysia	462	237
United Kingdom	2,415	994
	<b>14,385</b>	<b>10,812</b>

<sup>(1)</sup> Capital losses.

<sup>(2)</sup> Expiration dates between 2018 and 2023 (2017: between 2017 and 2022).

<sup>(3)</sup> Expiration date during 2023.

A deferred tax liability of \$1,199,000 (2017: \$1,000,000) 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 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.

#### i) 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) Accounting estimates and judgments

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.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 14. Interest-bearing liabilities

	2018 \$'000	2017 \$'000
<b>Current - Unsecured</b>		
Bank loan - RMB denominated	2,255	10,040
Bank loan - HKD denominated	7,802	6,530
Bank loan - MYR denominated	1,338	-
	<b>11,395</b>	<b>16,570</b>
<b>Non-current - Unsecured</b>		
Bank loan - AUD denominated <sup>(1)</sup>	131,163	156,427
Bank loan - NZD denominated	51,376	-
United States Private Placement (USPP) <sup>(2)</sup>	248,301	241,689
Loan from non-controlling interest - RMB denominated	1,554	-
	<b>432,394</b>	<b>398,116</b>

<sup>(1)</sup> The non-current AUD denominated unsecured bank loan amount comprises of AUD 132,000,000 (2017: AUD 157,000,000) drawn under the Group's committed bank loan facilities, net of unamortised prepaid loan establishment fees of AUD 837,000 (2017: AUD 573,000).

<sup>(2)</sup> The carrying value of the USPP is net of unamortised prepaid loan establishment fees of AUD 769,000 (2017: AUD 865,000).

#### a) USPP

The USPP comprises 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:

	2018 \$'000	2017 \$'000
USPP - carrying amount	248,301	241,689
add back USPP prepaid loan establishment fees	769	865
CCIRS	(44,739)	(38,275)
IRS	(3,266)	(3,214)
<b>Net USPP debt</b>	<b>201,065</b>	<b>201,065</b>

#### b) Analysis of changes in interest-bearing liabilities

	Bank & non-controlling interest loans		Net USPP debt	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Balance at 1 October	172,997	139,590	241,689	261,993
<b>Cash flows:</b>				
Proceeds from borrowings	2,807,204	2,890,779	-	-
Repayments of borrowings	(2,786,069)	(2,857,650)	-	-
<b>Non-cash changes - carrying value:</b>				
Changes in fair value	-	-	6,516	(20,399)
Foreign exchange	1,030	(613)	-	-
Other movements	326	891	96	95
<b>Balance at 30 September</b>	<b>195,488</b>	<b>172,997</b>	<b>248,301</b>	<b>241,689</b>

#### c) 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 committed bank loan facilities, USPP and other overseas bank facilities as detailed in note 17.

#### d) Defaults and breaches

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

#### e) 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.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

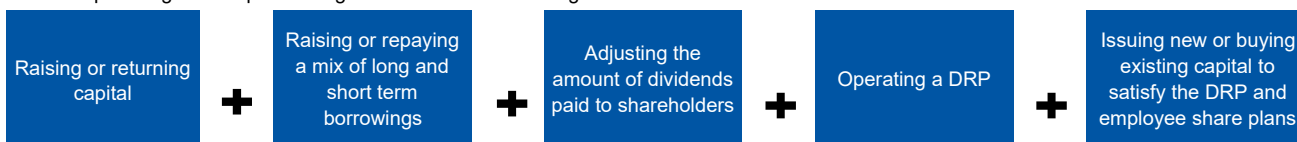
For the financial year ended 30 September 2018

### 15. 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:



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

	Calculation	2018 \$'000	2017 \$'000	Metric/Ratio
<b>Net debt to EBITDA</b>	Gross interest-bearing liabilities	445,395	416,124	
	Less:			
	Prepaid loan establishment fees	(1,606)	(1,438)	
	USPP derivatives <sup>(1)</sup>	(48,005)	(41,489)	
	Cash and cash equivalents	(55,315)	(38,974)	
	Net debt	340,469	334,223	
	EBITDA	257,661	245,492	
				<b>1.3 times</b> (2017: 1.4 times)
<b>Interest cover ratio</b>	EBITDA	257,661	245,492	
	Net finance costs	16,938	17,294	
	Less:			
	Amortisation of prepaid loan establishment fees	(382)	(987)	
	Unwind of discounting	(873)	(2,073)	
	Defined benefit fund interest	(1,243)	(1,812)	
	Addback:			
	Capitalised interest	1,370	2,922	
	Adjusted net finance costs	15,810	15,344	
				<b>16.3</b> (2017: 16.0 times)
<b>Accounting gearing ratio</b>	Net debt <sup>(2)</sup>	340,469	334,223	
	Net debt plus total equity	780,934	741,523	
				<b>44%</b> (2017: 45%)

<sup>(1)</sup> Foreign currency and interest rate hedges relating to the USPP notes.

<sup>(2)</sup> 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 15(c) to 15(e) below.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 15. Financial and capital management (continued)

#### c) Market risk

##### i) 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 2018. As at 30 September 2018, the Group had no fixed interest rate hedging in place.

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:

	2018 \$'000	2017 \$'000	2018 % p.a	2017 % p.a
Cash at bank and on hand	55,315	38,974	1.0	0.6
Other financial asset <sup>(1)</sup>	4,000	-	5.5	-
Net interest bearing liabilities <sup>(2)</sup>	397,390	374,635	3.6	3.8

<sup>(1)</sup> Comprises a \$4,000,000 non-current interest-bearing loan receivable recorded as part of other assets in the consolidated balance sheet (2017: \$NIL).

<sup>(2)</sup> 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		Increase/(decrease) in total equity	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest rates were -10%	991	857	991	857
Interest rates were +10%	(991)	(857)	(991)	(857)

##### ii) 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 Group's foreign currency exposures are USD, NZD, RMB, HKD, EUR, GBP 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.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 15. Financial and capital management (continued)

#### c) Market risk (continued)

##### ii) Foreign exchange risk (continued)

##### Foreign exchange risk - transactional (continued)

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 in to account the current level of exchange rates and the volatility observed on a historical basis.

	AUD/USD		AUD/PGK	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
<b>Increase/(decrease) in profit after income tax expense<sup>(1)</sup></b>				
Foreign exchange rates -10%	(386)	(279)	381	455
Foreign exchange rates +10%	268	228	(312)	(372)
<b>Increase/(decrease) in total equity<sup>(1)</sup></b>				
Foreign exchange rates -10%	(386)	(279)	381	455
Foreign exchange rates +10%	268	228	(312)	(372)

<sup>(1)</sup> 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 2018 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, GBP 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 2018, the Group did not have any outstanding derivative instruments pertaining to foreign currency earnings (2017: NIL).

##### iii) 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 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.

# Notes to the Consolidated Financial Statements

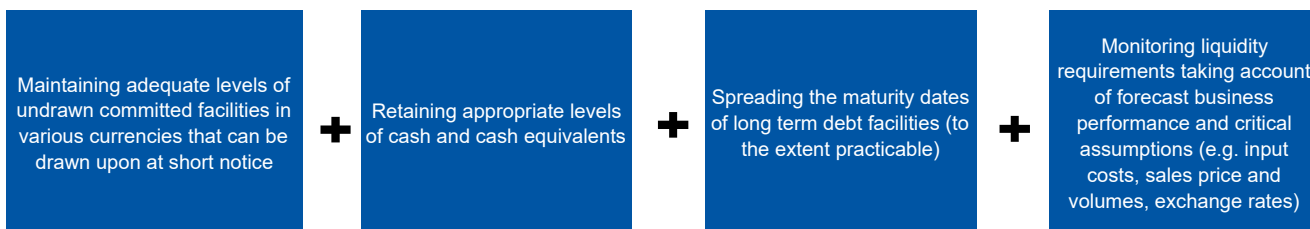
## Capital and Risk Management

For the financial year ended 30 September 2018

### 15. 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:



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

	Uncommitted bank overdraft facilities <sup>(1)</sup>		Committed bank overdraft, USPP and loan facilities <sup>(2,3)</sup>	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Amount of facilities available	10,422	10,439	626,719	620,989
Amount of facilities undrawn	10,422	10,439	229,329	246,354

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

<sup>(2)</sup> As at the 30 September 2018, the maturity dates of the committed loan facilities range from 7 January 2019 to 19 September 2026 (2017: 7 January 2018 to 19 September 2026).

<sup>(3)</sup> Includes AUD 250,000,000 (2017: AUD 250,000,000) unsecured multi-currency syndicated bank loan facility, AUD 100,000,000 (2017: AUD 100,000,000) unsecured bilateral loan facility, AUD 50,000,000 (2017: AUD 50,000,000) unsecured overdraft facility and notes issued under the USPP of AUD 201,065,000 (2017: AUD 201,065,000). Includes other working capital facilities denominated in RMB, HKD and MYR totalling an equivalent AUD 25,654,000 (2017: 19,922,000).

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:

	Bank loans and derivative financial liabilities <sup>(1)</sup>				Total	
	Trade and other payables					
Financial liabilities	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Carrying amount	265,062	265,161	445,823	416,743	710,885	681,904
Less than 1 year	264,699	264,912	25,832	29,228	290,531	294,140
1 to 2 years	68	67	194,290	165,529	194,358	165,596
2 to 5 years	215	210	61,669	60,477	61,884	60,687
Over 5 years	62	136	172,572	177,685	172,634	177,821
<b>Total</b>	<b>265,044</b>	<b>265,325</b>	<b>454,363</b>	<b>432,919</b>	<b>719,407</b>	<b>698,244</b>

<sup>(1)</sup> 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 customers 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 2018, it is not expected that any counterparty will fail to meet its obligations.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 15. Financial and capital management (continued)

#### 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 techniques
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 <sup>(1)</sup>	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

<sup>(1)</sup> 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.

#### g) Financial instruments

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

	Cash and cash equivalents		Financial assets/(liabilities) at amortised cost		Derivative instruments designated as hedges		Total carrying amount	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Financial assets</b>								
Cash at bank and on hand	55,315	38,974	-	-	-	-	55,315	38,974
Trade and other receivables	-	-	288,768	277,712	-	-	288,768	277,712
Derivative financial assets	-	-	-	-	46,480	40,792	46,480	40,792
Other financial assets	-	-	4,000	-	-	-	4,000	-
	55,315	38,974	292,768	277,712	46,480	40,792	394,563	357,478
<b>Financial liabilities</b>								
Trade and other payables	-	-	(265,062)	(265,161)	-	-	(265,062)	(265,161)
Interest-bearing liabilities <sup>(1)</sup>	-	-	(443,789)	(414,686)	-	-	(443,789)	(414,686)
Derivative financial liabilities	-	-	-	-	(428)	(619)	(428)	(619)
	-	-	(708,851)	(679,847)	(428)	(619)	(709,279)	(680,466)

<sup>(1)</sup> The fair value of the USPP is \$251,046,000 (2017: \$242,550,000).

#### h) Hedge accounting

The following section summarises the derivative financial instruments held by the Group.

Types of Hedge	Description	Derivative
Cash flow hedges	A derivative or financial instrument to hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction.	Exchange derivative contracts to hedge future foreign currency operational payments (forwards, swaps or options).
		Interest rate derivative contracts to hedge future interest payments (forwards, swaps or options).
		Foreign exchange derivative contracts (FECs) to hedge future capital expenditure payments (forwards or options).
Fair value hedges	A derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability.	Contracts to hedge the fair value movements of designated assets or liabilities.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 15. Financial and capital management (continued)

#### h) Hedge accounting (continued)

The Group held the following derivatives as at 30 September:

				Cumulative balance				During the period	
	Maturity (years)	Hedge rates	Nominal amount of hedging instrument and hedged item	Carrying amount of the hedging instrument		Cumulative fair value adjustment on hedged item	Balance of gains/ (losses) deferred in reserves <sup>(1,2)</sup>	Gains/ (losses) recognised in reserves <sup>(2)</sup>	Gains/ (losses) reclassified from reserves <sup>(2,3)</sup>
				Assets	Liabilities				
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2018									
Cash flow hedges									
FECs and options - operating expenditure	0 - 1	Various <sup>(4)</sup>	(33,895)	703	(89)	-	418	418	(300)
FECs - capital expenditure	0 - 1	Various <sup>(5)</sup>	(1,145)	13	-	-	13	13	-
CCIRS <sup>(6)</sup>	0 - 9	Floating	161,065	43,599	-	(46,149)	(2,501)	15,905	16,575
Total cash flow hedges				44,315	(89)	(46,149)	(2,070)	16,336	16,275
Fair value hedges									
CCIRS <sup>(6)</sup>	0 - 9	Floating	161,065	(1,410)	-	1,410	-	-	-
IRS	0 - 7	Floating	40,000	3,266	-	(3,266)	-	-	-
Total fair value hedges				1,856	-	(1,856)	-	-	-
Economic hedges not hedge accounted									
FECs	0 - 1	Various <sup>(7)</sup>	6,037	309	(339)	-	-	-	-
Total economic hedges				309	(339)	-	-	-	-
Total				46,480	(428)	(48,005)	(2,070)	16,336	16,275
2017									
Cash flow hedges									
FECs and options - operating expenditure	0 - 1	Various <sup>(4)</sup>	(44,126)	470	(182)	-	(300)	(345)	(1,060)
FECs - capital expenditure <sup>(8)</sup>	0 - 1	-	-	-	-	-	-	-	(149)
CCIRS <sup>(6)</sup>	0 - 9	Floating	161,065	27,562	-	(29,575)	(1,831)	(6,022)	(5,554)
IRS	0 - 1	2.91%	150,000	-	-	-	-	-	(1,595)
Total cash flow hedges				28,032	(182)	(29,575)	(2,131)	(6,367)	(8,358)
Fair value hedges									
CCIRS <sup>(6)</sup>	0 - 9	Floating	161,065	8,700	-	(8,700)	-	-	-
IRS	0 - 7	Floating	40,000	3,214	-	(3,214)	-	-	-
Total fair value hedges				11,914	-	(11,914)	-	-	-
Economic hedges not hedge accounted									
FECs	0 - 1	Various <sup>(7)</sup>	(19,924)	846	(437)	-	-	-	-
Total economic hedges				846	(437)	-	-	-	-
Total				40,792	(619)	(41,489)	(2,131)	(6,367)	(8,358)

<sup>(1)</sup> The balance of gains/(losses) deferred in reserves is net of hedge ineffectiveness (inclusive of credit value adjustment and foreign currency basis spreads) and option premiums. These are not shown separately in this table as they are not considered material.

<sup>(2)</sup> Before tax.

<sup>(3)</sup> Gains and losses recognised in the reserve will be reclassified to the income statement in the same period when the hedged item affects the income statement or in line with the cost of hedging.

<sup>(4)</sup> Hedge rates range between: AUD/USD 0.70-0.79 (2017: AUD/USD 0.74-0.79), AUD/RMB 4.81-5.13 (2017: AUD/RMB 5.17-5.37), AUD/EUR 0.60-0.64 (2017: AUD/EUR 0.67-0.69), AUD/JPY 81.90-82.90 (2017: AUD/JPY NIL).

<sup>(5)</sup> Hedge rates range between: AUD/USD 0.72-0.73, AUD/EUR 0.61-0.63.

<sup>(6)</sup> The CCIRS is designated into cash flow and fair value hedge relationships in relation to the USPP financial liabilities. During the period the \$16,575,000 gain (2017: \$5,554,000 loss) derived from the CCIRS foreign currency hedging impact was fully offset by the foreign currency translation movement on the USPP financial liabilities.

<sup>(7)</sup> Hedge rates range between: AUD/RMB 4.96-4.97 (2017: AUD/RMB 5.22-5.29), AUD/GBP 0.55-0.57 (2017: AUD/GBP 0.58-0.62), HKD/RMB 0.85-0.89 (2017: HKD/RMB 0.83-0.86), USD/SGD 1.36-1.37 (2017: USD/SGD 1.35-1.36), AUD/NZD NIL (2017: AUD/NZD 1.07-1.09), AUD/MYR NIL (2017: AUD/MYR 3.40-3.41), AUD/SGD NIL (2017: AUD/SGD 1.06-1.08).

<sup>(8)</sup> During the financial year ended 30 September 2017, \$149,000 was reclassified from the reserve to the cost of property, plant and equipment.



# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 15. Financial and capital management (continued)

#### i) Accounting policies

##### i) 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.

##### ii) 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.

# Notes to the Consolidated Financial Statements

## Capital and Risk Management

For the financial year ended 30 September 2018

### 16. Contributed equity

Movements in contributed equity since 1 October 2017 were as follows:

Details	Ordinary shares		Treasury shares		Total contributed equity	
	Number of shares	2018 \$'000	Number of shares	2018 \$'000	Number of shares	2018 \$'000
Balance at 1 October 2017	389,250,252	277,282	(3,659,160)	(22,286)	385,591,092	254,996
Purchase of treasury shares	-	-	(3,552,090)	(27,756)	(3,552,090)	(27,756)
Shares allocated under the DRP <sup>(1)</sup>	-	-	1,153,964	8,937	1,153,964	8,937
Sale of treasury shares	-	-	5,796	45	5,796	45
Shares vested under the LTEIP and ESIP	-	12,150	-	-	-	12,150
<b>Balance at 30 September 2018</b>	<b>389,250,252</b>	<b>289,432</b>	<b>(6,051,490)</b>	<b>(41,060)</b>	<b>383,198,762</b>	<b>248,372</b>

<sup>(1)</sup> 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 2017 are as follows:

Details	Number of shares		
	Issued ordinary capital	Treasury	Total
Balance at 1 October 2017	2,734,477	3,659,160	6,393,637
Purchase of treasury shares	-	3,552,090	3,552,090
Shares allocated under the DRP	-	(1,153,964)	(1,153,964)
Sale of treasury shares	-	(5,796)	(5,796)
Shares vested under the LTEIP and ESIP	(2,120,631)	-	(2,120,631)
<b>Balance at 30 September 2018</b>	<b>613,846</b>	<b>6,051,490</b>	<b>6,665,336</b>

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 \$37,205,284.

#### 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.

# Notes to the Consolidated Financial Statements

## Group structure

For the financial year ended 30 September 2018

### 17. 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	Name of entity	Country of incorporation
DuluxGroup (Investments) Pty Ltd <sup>(1,2)</sup>	Australia	DGL International (Hong Kong) Limited (formerly DGL Camel International Limited) <sup>(5)</sup>	Hong Kong
DuluxGroup (Finance) Pty Ltd <sup>(1,2)</sup>	Australia	DGL Powder Coatings (Hong Kong) Limited (formerly DGL Camel Powder Coatings Limited) <sup>(5)</sup>	Hong Kong
DuluxGroup (New Zealand) Pty Ltd <sup>(1,2)</sup>	Australia	DGL (Hong Kong) Limited (formerly DGL Camel (Hong Kong) Limited) <sup>(5)</sup>	Hong Kong
DuluxGroup (Australia) Pty Ltd <sup>(1,2)</sup>	Australia	DGL (China) Limited (formerly DGL Camel (China) Limited) <sup>(5)</sup>	Hong Kong
Dulux Holdings Pty Ltd <sup>(1,2)</sup>	Australia	Counterplast Limited	Hong Kong
DuluxGroup (Employee Share Plans) Pty Ltd <sup>(1)</sup>	Australia	DGL Chemicals (Hong Kong) Limited <sup>(6)</sup>	Hong Kong
DuluxGroup Employee Share Plan Trust	Australia	PT Avian Selleys Indonesia <sup>(7)</sup>	Indonesia
DuluxGroup (Nominees) Pty Ltd <sup>(1,2)</sup>	Australia	DGL International (Malaysia) Sdn Bhd	Malaysia
Alesco Corporation Pty Ltd <sup>(1)</sup>	Australia	DGL International Myanmar Co Ltd	Myanmar
Alesco Finance Pty Ltd <sup>(3)</sup>	Australia	Alesco New Zealand Limited	New Zealand
Alesco Holdings Pty Ltd <sup>(4)</sup>	Australia	B&D Doors (NZ) Limited <sup>(2)</sup>	New Zealand
B&D Australia Pty Ltd <sup>(1,2)</sup>	Australia	Concrete Plus Limited <sup>(2)</sup>	New Zealand
Automatic Technology (Australia) Pty Ltd <sup>(1,2)</sup>	Australia	Lincoln Sentry Limited	New Zealand
Parchem Construction Supplies Pty Ltd <sup>(1,2)</sup>	Australia	Robinhood Limited	New Zealand
Lincoln Sentry Group Pty Ltd <sup>(1,2)</sup>	Australia	Dulux Holdings (PNG) Ltd	Papua New Guinea
Concrete Technologies Pty Ltd	Australia	DuluxGroup (PNG) Pte Ltd <sup>(2)</sup>	Singapore
Pargone Pty Ltd	Australia	DGL International (Singapore) Pte Ltd	Singapore
Counterplast Technology (Dalian) Company Limited	China	DGL Chemical (Singapore) Pte Ltd (formerly DGL Camel (Singapore) Pte Ltd) <sup>(5)</sup>	Singapore
DGL Chemicals Technology (Shanghai) Limited (formerly DGL Camel Coatings (Shanghai) Limited) <sup>(5)</sup>	China	Craig & Rose Limited	United Kingdom
DGL Chemicals (Dongguan) Limited (formerly DGL Camel Coatings (Dongguan) Limited) <sup>(5)</sup>	China	Automatic Technology America LLC	USA
DGL Chemicals (Shanghai) Limited <sup>(6)</sup>	China	DGL International (Vietnam) Limited Company	Vietnam
DGL Powder Coatings Dongguan (formerly DGL Camel Powder Coatings (Dongguan) Limited) <sup>(5)</sup>	China		

<sup>(1)</sup> 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 Corporations (Wholly-owned Companies) Instrument 2016/785.

<sup>(2)</sup> 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.

<sup>(3)</sup> This entity was deregistered during the year ended 30 September 2018.

<sup>(4)</sup> This entity was re-registered and then deregistered during the financial year ended 30 September 2018.

<sup>(5)</sup> These entities form part of the DGL Camel International Group, in which the Group has a 51% equity holding.

<sup>(6)</sup> These entities were incorporated during the year ended 30 September 2018.

<sup>(7)</sup> This entity forms part of the PT Avian Selleys business, in which the Group has a 50.01% equity holding.

# Notes to the Consolidated Financial Statements

## Group structure

For the financial year ended 30 September 2018

### 18. Businesses acquired

#### 2018

On 12 June 2018, the Group acquired the Organic Crop Protectants (OCP) business in Australia. The business develops and manufactures quality eco-friendly and registered organic horticultural, nutritional and plant protection products.

The acquisition accounting for this transaction is provisional and as allowed under Australian Accounting Standards any adjustments made to these provisional numbers will be reflected in future financial periods. Finalisation is expected no later than 11 June 2019.

The provisional assets and liabilities recognised as a result of this acquisition are as follows:

	Fair value \$'000
Cash consideration	8,022
Deferred consideration	900
<b>Total consideration</b>	<b>8,922</b>
Net assets of business acquired:	
Inventories	1,680
Property, plant and equipment and software	230
Deferred tax assets	44
Provision for employee entitlements	(189)
<b>Net identifiable assets acquired</b>	<b>1,765</b>
<b>Goodwill on acquisition<sup>(1)</sup></b>	<b>7,157</b>

<sup>(1)</sup> None of the goodwill recognised is expected to be deductible for tax purposes.

#### 2017

On 28 November 2016, the Group acquired the Venetian Plaster business in Australia. The business manufactures and markets distinctive texture finishes for both residential and commercial settings.

##### 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.

##### b) 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.

# Notes to the Consolidated Financial Statements

## Group structure

For the financial year ended 30 September 2018

### 19. Businesses disposed

#### 2018

Following a strategic review of the DGL Camel Coatings portfolio, DGL Camel International (joint venture company 51% owned by DuluxGroup) entered in to an agreement to sell most of the coatings portfolio to Yip's Chemical Holdings Limited on 3 January 2018. The transaction was completed on 1 February 2018, with cash consideration received during the year ended 30 September 2018.

Profit on disposal before tax has been calculated as follows:

	2018 \$'000
Cash consideration	21,842
Deferred consideration	963
Transaction costs	(846)
<b>Net proceeds</b>	<b>21,959</b>
Book value of assets sold:	
Trade receivables	5,518
Inventories	3,155
Brand names	1,497
Property, plant and equipment	161
<b>Profit on disposal of business assets</b>	<b>11,628</b>
<b>Attributable to:</b>	
Ordinary shareholders of DuluxGroup Limited	5,930
Non-controlling interest in controlled entities	5,698
<b>Profit on disposal of business assets</b>	<b>11,628</b>

The profit on disposal is included in 'Other income' in the income statement (refer to note 3) and is disclosed as part of 'Other businesses' in the segment report (refer note 2).

As a consequence of the sale, the Group has incurred further one-off restructuring costs of \$11,225,000, comprising redundancies, impairment of property, plant and equipment, software intangible assets, onerous lease and other provisions. These costs are included as part of purchased services, other expenses and employee benefits expense in the Consolidated Income Statement. Accordingly, the impact of the disposal together with the associated restructuring costs on net profit was \$403,000, with \$206,000 attributable to DuluxGroup Limited shareholders.

#### 2017

No business disposals occurred during the financial year ended 30 September 2017.

# Notes to the Consolidated Financial Statements

## Group structure

For the financial year ended 30 September 2018

### 20. 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:

	2018 \$'000	2017 \$'000
<b>Pinegro Products Pty Ltd</b>		
Percentage of ownership interest held <sup>(1)</sup>	50%	50%
Opening balance	7,753	6,518
Share of net profit	2,139	1,235
Balance at 30 September	9,892	7,753

<sup>(1)</sup> Acquired on 1 December 2009 and incorporated on 10 April 1979.

#### a) Transactions and balances with joint ventures

Transactions during the financial year and outstanding balances at reporting date with Pinegro Products Pty Ltd are:

	2018 \$	2017 \$
<b>Joint ventures</b>		
Sales of goods	418,792	340,963
Purchases of goods	8,539,822	7,044,441
Current receivables	51,836	36,255
Current payables	1,745,870	1,902,544

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 2018 (2017: \$NIL).

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 21. 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.

##### i) 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.

##### ii) 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.

##### iii) 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 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 2018 was \$21,686,000 (2017: \$20,586,000).

#### c) Defined benefit 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 4.2% (2017: 4.3%), pension take up rate of 50% (2017: 40%), future salary increases of 3.8% (2017: 3.8%) and future inflation of 2.5% (2017: 2.5%).

The amounts recognised in the balance sheet and a reconciliation of the movement in the net defined liability are as follows:

	2018	2017
	\$'000	\$'000
Present value of the defined benefit obligations	203,244	190,823
Fair value of defined benefit plan assets	(154,718)	(153,859)
<b>Net defined benefit liability at 30 September</b>	<b>48,526</b>	<b>36,964</b>
Opening balance	36,964	56,466
Actuarial losses/(gains) <sup>(1)</sup>	11,676	(21,759)
Current service cost <sup>(2)</sup>	4,215	5,750
Interest cost <sup>(2)</sup>	1,243	1,812
Employer contributions <sup>(3)</sup>	(5,572)	(5,305)
<b>Balance at 30 September</b>	<b>48,526</b>	<b>36,964</b>

<sup>(1)</sup> Actuarial losses are recognised in other comprehensive income.

<sup>(2)</sup> Current service cost and interest cost are recognised in the consolidated income statement as part of employee benefits and finance expenses respectively.

<sup>(3)</sup> 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 \$6,283,000 for the financial year ending 30 September 2019.

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 21. Superannuation (continued)

#### c) Defined benefit plans (continued)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2018	2017
Cash and other assets	31%	32%
Equity instruments	40%	35%
Fixed interest securities	15%	17%
Property	14%	16%

#### d) 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.

### 22. 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:

	2018	2017
	\$	\$
DuluxGroup LTEIP <sup>(1,2)</sup>	3,418,293	3,185,263
DuluxGroup ESIP	1,017,944	-
Deferred short term incentive	287,889	144,552
	4,724,126	3,329,815

<sup>(1)</sup> 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 (2017: \$NIL).

<sup>(2)</sup> During the year ended 30 September 2018, \$16,700 of share based payments expense relating to the LTEIP was capitalised to the cost of intangibles under construction.

#### 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.



# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

## 22. Share-based payments (continued)

### a) DuluxGroup LTEIP (continued)

Details of shares issued under these plans are as follows:

Grant date	Life of share options (years)	Expiry date	Grant date	Fair value at grant date	Risk free interest rate	Share price volatility	Number of shares				
							Balance at start of year	Granted during year <sup>(1)</sup>	Lapsed during year	Exercised during year	Balance at end of year
28 Nov 14	3.1	Jan 18	\$ 5.71	\$ 1.72	2.5%	22.5%	1,731,918	-	(20,238)	(1,711,680)	-
27 Nov 15	3.1	Jan 19	\$ 6.30	\$ 1.92	2.1%	22.5%	1,709,851	160,338	(77,007)	-	1,793,182 <sup>(2)</sup>
7 Dec 16	3.1	Jan 20	\$ 5.89	\$ 1.73	1.9%	20.0%	2,064,692	171,480	(102,860)	-	2,133,312
15 Dec 17	3.1	Jan 21	\$ 7.73	\$ 2.15	2.0%	20.0%	-	1,866,154	(50,450)	-	1,815,704

<sup>(1)</sup> During the financial year ended 30 September 2018, LTEIP shares were granted in respect of prior year plans to one executive upon joining the Group.

<sup>(2)</sup> Since the end of the financial year, these shares have met the applicable DuluxGroup LTEIP performance condition and will vest on 8 December 2018. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 8 December 2018 to 2 February 2019.

### b) DuluxGroup ESIP

In December 2017, eligible Australian employees of the Group were invited to acquire DuluxGroup ordinary shares to the value of \$500 through salary sacrifice with \$500 matching from the Group (December 2016: \$1,000 with no matching). Eligible employees in New Zealand were invited to acquire ordinary shares to the value of NZD \$390 through salary sacrifice with \$390 matching from the Group (December 2016: NZD \$780 with no matching). For the first time, eligible employees in PNG were invited to acquire ordinary shares between Kina \$129 - \$1,289 through salary sacrifice with the equivalent matching from the Group. For the first time, eligible employees in the UK were invited to acquire ordinary shares to the value of £295 before tax through salary sacrifice with the post-tax value matched from the Group.

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 2018
17 December 2015	226,196
16 December 2016	192,628
15 December 2017	241,026

### c) Deferred Short Term Incentive (STI)

A portion of any STI awarded to eligible executives is deferred into rights to shares under the Deferred STI program, which was implemented in the 2017 financial year. Deferred STI awards are subject to forfeiture on leaving employment with the Group during the two-year deferral period in certain circumstances (such as on dismissal for misconduct, or where an executive resigns or retires without a managed transition approved by the Board). The rights are exercised into shares for the duration of the forfeiture period so that executives receive dividends in respect of the shares; and are fully-aligned shareholders. The purpose of this program is to increase the retention of executives, to support the achievement of the minimum shareholding guidelines, and to enable the forfeiture of awards from key executives under the Company's malus and clawback policy.

### d) Accounting policies

#### i) 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.

#### ii) 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.

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 23. 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.

	2018 \$	2017 \$
Short term employee benefits <sup>(1)</sup>	7,683,526	7,024,479
Other long term benefits <sup>(2)</sup>	103,593	73,583
Post employment benefits	148,811	146,687
Share-based payments	1,841,000	1,708,636
<b>Total</b>	<b>9,776,930</b>	<b>8,953,385</b>

<sup>(1)</sup> Short term employee benefits includes the movement in the annual leave entitlement for the period of \$61,264 (2017: \$(12,018)).

<sup>(2)</sup> Other long term benefits includes the movement in the long service leave entitlement for the period of \$103,593 (2017: \$73,583).

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 KMP, including their related parties, in the share capital and options of the Company at 30 September are set out in the table below:

	2018 Number	2017 Number
Number of options and rights for fully paid ordinary shares	2,616,622	2,778,622
Number of fully paid ordinary shares	2,347,388	2,757,791

#### c) Other transactions and balances with KMP

All transactions with KMP are made on normal commercial terms and conditions and in the ordinary course of business. There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2018.

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.

### 24. Commitments

#### a) Capital expenditure commitments

Capital expenditure as at 30 September 2018 on property, plant and equipment contracted but not provided for and payable was \$5,730,000 (2017: \$5,373,000).

#### 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.

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- No later than one year	48,123	46,390
- Later than one, no later than five years	118,292	112,513
- Later than five years	41,982	47,574
	<b>208,397</b>	<b>206,477</b>
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	6,651	6,713

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 25. Contingent liabilities

During the normal course of business, the Company or Group is subject to various claims, litigation and regulatory investigations. These are evaluated on a case-by-case basis and, where appropriate, independent specialist advice is sought to assess the potential outcome. Provisions are recognised where appropriate, although the outcome of any pending or future claims, litigation and regulatory investigations cannot be predicted with certainty.

### 26. Deed of cross guarantee

Entities which are party to a Deed of Cross Guarantee (Closed Group), entered into in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 are disclosed in note 17. 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

	2018 \$'000	2017 \$'000
<b>Profit before income tax expense</b>	<b>212,015</b>	196,348
Income tax expense	(54,656)	(53,412)
<b>Profit for the year</b>	<b>157,359</b>	142,936
<b>Retained earnings</b>		
Opening balance	218,290	158,642
Profit for the year	157,359	142,936
Actuarial (losses)/gains on defined benefit plan recognised directly in retained earnings (net of tax)	(8,173)	15,231
Dividends paid - ordinary shares	(106,145)	(98,519)
<b>Balance at 30 September</b>	<b>261,331</b>	218,290

#### b) Consolidated statement of comprehensive income

	2018 \$'000	2017 \$'000
<b>Profit for the year</b>	<b>157,359</b>	142,936
<b>Other comprehensive income/(loss)</b>		
<i>Items that may be reclassified to the income statement</i>		
<i>Cash flow hedge reserve</i>		
Effective portion of changes in fair value of cash flow hedges	61	1,991
Income tax expense	(18)	(597)
<i>Foreign currency translation reserve</i>		
Foreign currency translation loss on foreign operations	(369)	(2,863)
<b>Total items that may be reclassified to the income statement, net of tax</b>	<b>(326)</b>	(1,469)
<i>Items that will not be reclassified to the income statement</i>		
<i>Retained earnings</i>		
Actuarial (losses)/gains on defined benefit plan	(11,676)	21,759
Income tax benefit/(expense)	3,503	(6,528)
<b>Total items that will not be reclassified to the income statement, net of tax</b>	<b>(8,173)</b>	15,231
<b>Other comprehensive income/(loss) for the year, net of tax</b>	<b>(8,499)</b>	13,762
<b>Total comprehensive income for the year</b>	<b>148,860</b>	156,698

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 26. Deed of cross guarantee (continued)

#### c) Consolidated balance sheet

	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash and cash equivalents	86,604	19,823
Trade and other receivables	319,019	294,798
Inventories	220,697	204,491
Derivative financial assets	3,944	3,847
Other assets	7,678	5,896
Assets held for sale	-	6,814
<b>Total current assets</b>	<b>637,942</b>	<b>535,669</b>
<b>Non-current assets</b>		
Other receivables	7	8
Derivative financial assets	42,536	36,945
Investment in controlled entities	66,929	62,485
Equity accounted investment	9,892	7,753
Property, plant and equipment	370,571	353,392
Intangible assets	226,384	227,624
Deferred tax assets	48,477	48,528
Other assets	6,185	3,138
<b>Total non-current assets</b>	<b>770,981</b>	<b>739,873</b>
<b>Total assets</b>	<b>1,408,923</b>	<b>1,275,542</b>
<b>Current liabilities</b>		
Trade and other payables	250,630	243,901
Interest-bearing liabilities	67,248	13,674
Derivative financial liabilities	428	619
Current tax liabilities	10,030	17,233
Provisions	66,233	74,529
<b>Total current liabilities</b>	<b>394,569</b>	<b>349,956</b>
<b>Non-current liabilities</b>		
Other payables	345	236
Interest-bearing liabilities	430,840	398,116
Deferred tax liabilities	28,820	26,944
Provisions	10,991	11,798
Defined benefit liability	48,526	36,964
<b>Total non-current liabilities</b>	<b>519,522</b>	<b>474,058</b>
<b>Total liabilities</b>	<b>914,091</b>	<b>824,014</b>
<b>Net assets</b>	<b>494,832</b>	<b>451,528</b>
<b>Equity</b>		
Share capital	292,961	293,413
Reserves	(59,460)	(60,175)
Retained earnings	261,331	218,290
<b>Total equity</b>	<b>494,832</b>	<b>451,528</b>

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 27. Parent entity disclosures

#### a) Summary financial information

The financial statements for the parent entity, DuluxGroup Limited, show the following aggregate amounts:

	2018 \$'000	2017 \$'000
Current assets	86,940	93,341
Non-current assets	229,260	229,263
<b>Total assets</b>	<b>316,200</b>	<b>322,604</b>
Current liabilities	10,278	15,750
<b>Total liabilities</b>	<b>10,278</b>	<b>15,750</b>
<b>Net assets</b>	<b>305,922</b>	<b>306,854</b>
Contributed equity	292,961	293,413
Other reserves	8,009	7,093
Retained earnings	4,952	6,348
<b>Equity</b>	<b>305,922</b>	<b>306,854</b>
Profit before income tax expense <sup>(1)</sup>	103,808	59,074
Income tax benefit	1,004	1,053
<b>Profit for the year</b>	<b>104,812</b>	<b>60,127</b>
<b>Total comprehensive income of the parent entity</b>	<b>104,812</b>	<b>60,127</b>

<sup>(1)</sup> Profit before income tax expense includes dividend income totalling \$107,162,000 declared by DuluxGroup (New Zealand) Pty Ltd (\$90,000,000) and DuluxGroup (Nominees) Pty Ltd (\$17,162,000) during the year ended 30 September 2018 (2017: DuluxGroup (New Zealand) Pty Ltd \$54,000,000 and DuluxGroup (Nominees) Pty Ltd \$8,585,000).

#### b) Guarantees

Details of guarantees entered into by the parent entity in relation to external banking facilities as at 30 September 2018 are set out in note 17. 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 2018 (2017: \$NIL).

#### d) Contingent liabilities

Refer to note 25 for information relating to contingent liabilities of the parent entity.

### 28. Auditors' remuneration

	2018 \$	2017 \$
Audit services - audit and review of financial reports		
KPMG Australia	668,000	663,000
Overseas KPMG firms <sup>(1,2)</sup>	539,604	461,334
	<b>1,207,604</b>	<b>1,124,334</b>
Other services <sup>(3)</sup>		
Other assurance services - KPMG Australia	187,650	106,742
Board and executive remuneration services - KPMG Australia	207,375	128,500
Other assurance services - Overseas KPMG firms <sup>(2)</sup>	92,932	16,737
	<b>487,957</b>	<b>251,979</b>

<sup>(1)</sup> Includes fees paid or payable for overseas subsidiaries' local statutory lodgement purposes and other regulatory compliance requirements.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 29. 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 2017.

The Group has adopted the following new and amended accounting standards.

Reference	Title	Application
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 Oct 2017
AASB 2017-2	Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	1 Oct 2017
AASB 2017-4	Amendments to Australian Accounting Standards - Uncertainty over Income Tax Treatments	1 Oct 2017
AASB 2017-5	Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 Oct 2017
AASB 2017-7	Amendments to Australian Accounting Standards - Long-term interests in Associates and Joint Ventures	1 Oct 2017
AASB 2018-1	Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle	1 Oct 2017

The adoption of these standards did not have a significant impact on the consolidated financial statements and has impacted disclosures only.

The Group adopted the amendments to AASB 107 during the current period. The amendments require disclosure regarding the changes in liabilities, including cash and non-cash changes, arising from financing activities. A reconciliation has been provided in note 14(b).

#### a) 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 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 2015-8	Amendments to Australian Accounting Standards - Effective Date of AASB 15	1 Oct 2018
AASB 2016-3	Amendments to Australian Accounting Standards - Clarifications to AASB 15	1 Oct 2018
AASB 16	Leases	1 Oct 2019
AASB 2017-6	Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation	1 Oct 2019
AASB 2018-2	Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement	1 Oct 2019

#### i) AASB 16 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 (ROU) and a lease liability. The lease liability represents the present value of future lease payments with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard.

AASB 16 is mandatory for annual reporting periods beginning after 1 January 2019, but is available for early adoption. A project team, including members from finance, treasury and property functions has been established to perform a detailed assessment of the impact of the new standard and to ensure a high quality implementation. The Group is in the process of performing its impact assessment and has progressed in its implementation plan, focusing on the collation of data to support the evaluation of the accounting impact and the assessment of the need for changes to systems and processes.

As at 30 September 2018 the Group has non-cancellable undiscounted lease commitments as disclosed in note 24. These commitments predominantly relate to property, equipment and vehicle leases and will require ROU assets and associated lease liabilities. The nature of the expenses relating to these leases will change as the new standard will require a depreciation charge for the ROU asset and an interest expense on the lease liability, rather than a straight-line operating lease expense. Key financial ratios will be impacted for these changes.

More detailed quantitative and qualitative disclosures will be provided once the impact assessment is completed during the financial year ended 30 September 2019.

# Notes to the Consolidated Financial Statements

## Other disclosures

For the financial year ended 30 September 2018

### 29. New accounting standards and interpretations (continued)

#### a) Issued but not yet effective (continued)

##### ii) *AASB 15 Revenue from Contracts with Customers*

AASB 15 Revenue from Contracts with Customers was released in December 2015 by the AASB and requires the identification of discrete performance obligations within a transaction and an allocation of an associated transaction price to these obligations. Under the new standard revenue is recognised based on the transfer of control of ownership, rather than the transfer of risk and reward of ownership under the previous standard.

The Group has continued to progress its assessment of the impact of the new standard. A detailed review of material revenue streams and key customers contracts and agreements has been performed in line with the five step model required under the new standard. Based upon this continuing assessment, the impact of AASB 15 is not expected to be material.

AASB 15 is mandatory for reporting periods beginning after 1 January 2018 and the Group will apply the new standard in the financial year commencing 1 October 2018.

### 30. 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 2018, 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.



# Independent Auditor's Report

To the shareholders of DuluxGroup Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of DuluxGroup Limited ("the Company").

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 September 2018 and its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- The consolidated balance sheet as at 30 September 2018
- The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statements of changes in equity, and the consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the 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 fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were 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 these matters.



## The carrying value of property, plant and equipment, and intangible assets (\$614.8M)

Refer to Note 9 and 10 in the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group's Cash Generating Units (CGUs) operate in a broad range of market segments and regions which range from the domestic consumer market through to industrial and commercial markets across Australia, New Zealand, UK and Asia. These markets and regions are subject to cyclical demand characteristics which can significantly impact the financial performance of each CGU and consequently their carrying values.</p> <p>The carrying value of property, plant and equipment and intangible assets was considered a key audit matter because of:</p> <ul style="list-style-type: none"> <li>the size of the balances (being 46.4% of the Group's total assets); and</li> <li>the level of judgement applied by us in evaluating the reasonableness of the inputs used in assessing the Group's assessment of the recoverable value of each CGU.</li> </ul> <p>The UK CGU was a specific area of focus in performing the annual impairment testing as during the year certain conditions arose (exit of a major customer) impacting the UK CGU.</p> <p>This increased the possibility of property, plant and equipment and intangible assets being impaired for the UK CGU and increased the risk of inaccurate forecasts and a wider range of possible outcomes for us to consider.</p> <p>This increased the level of judgement applied by us when evaluating the inputs used by the Group in assessing the recoverable amount of the UK CGU and consequently further increased the level of audit effort from senior audit team members.</p> <p>The increased judgement resulted in a valuation specialist being engaged to supplement the senior audit team members in assessing the discount rate applied in determining the recoverable value of the UK CGU.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>Testing key controls in the Group's impairment assessment process including the approval of forecasts by the Group;</li> <li>Assessing the Group's determination of CGUs based on our understanding of the nature of the Group's business units. We examined the internal reporting of the Group to assess how the CGUs are monitored and reported, and we considered the implications for the Group's identification of CGUs in accordance with accounting standards requirements;</li> <li>Comparing forecast cash flows in the value in use models to Board approved budgets and business plans;</li> <li>Assessing key inputs into the value in use models including forecast revenue, costs, discount rates and terminal growth rates. We challenged these key inputs by comparing market growth rates to industry reports and the discount rate for the Australian and UK CGUs to comparable companies. For non-market based inputs such as revenue and costs, we compared forecasts to actual performance currently being achieved;</li> <li>Assessing the allocation of corporate overheads to CGUs by comparing the allocation methodology to our understanding of the business;</li> <li>Assessing the historical accuracy of the Group's forecasts by comparing the forecasts used in 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 future uncertainty is greater or volatility is expected;</li> <li>Challenging the discount rate used by the Group for the UK and Australian CGUs through using our valuation specialists to</li> </ul>

	<p>independently evaluate the rate;</p> <ul style="list-style-type: none"> <li>• Performing a sensitivity analysis on key assumptions used in the models to identify those assumptions at higher risk of bias or inconsistency in application; and</li> <li>• Assessing the Group's disclosures regarding reasonable possible changes that may impact the valuation of the UK CGU, by comparing these disclosures to our business understanding and accounting standard requirements.</li> </ul>
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## Other Information

Other Information is financial and non-financial information in DuluxGroup Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of DuluxGroup Limited for the year ended 30 September 2018, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 September 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Gordon Sangster

Partner

Melbourne

14 November 2018