



DuluxGroup Limited

ABN 42 133 404 065

17 June 2019

ASIC REGISTRATION OF SCHEME BOOKLET

DuluxGroup Limited (**DuluxGroup**) refers to its announcement on 14 June 2019 regarding the proposed acquisition of DuluxGroup by Nippon Paint Holdings Co., Ltd by way of a scheme of arrangement (**Scheme**), and the orders made by the Federal Court of Australia approving the convening of the Scheme Meeting and the despatch of an explanatory statement and notice of the Scheme Meeting (together, the **Scheme Booklet**) to DuluxGroup shareholders.

DuluxGroup is pleased to confirm that the Australian Securities and Investments Commission has now registered the Scheme Booklet. A copy of the Scheme Booklet is attached to this announcement including the Independent Expert's Report from Grant Samuel & Associates Pty Limited (which concludes that the Scheme is fair and reasonable and, accordingly, is in the best interests of DuluxGroup shareholders, in the absence of a superior proposal).

Shareholders who have elected to receive notifications electronically will receive an email with links to where they can download the Scheme Booklet and lodge their proxy online. Shareholders who have not made such an election will be mailed a printed copy of the Scheme Booklet. An electronic version of the Scheme Booklet will also be available for viewing and downloading online at DuluxGroup's website (www.duluxgroup.com.au).

The Scheme Meeting will be held at 2:00 pm (AEST) on 31 July 2019 at The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia.

All DuluxGroup shareholders are encouraged to vote either by attending the Scheme Meeting in person or by appointing a proxy, attorney or corporate representative to attend the meeting and vote on their behalf.

The directors of DuluxGroup unanimously recommend that DuluxGroup shareholders vote in favour of the Scheme, in the absence of a superior proposal. The directors also intend to vote, or cause to be voted, all DuluxGroup shares in which they have a relevant interest in favour of the Scheme, subject to the same qualification.

Once received, DuluxGroup encourages shareholders to read the Scheme Booklet in its entirety before deciding whether or not to vote in favour of the Scheme at the Scheme Meeting. DuluxGroup also encourages shareholders to note key events and indicative dates as set out in the Scheme Booklet.

If, after reading the Scheme Booklet, you have any further questions in relation to the Scheme or the Scheme Booklet, please contact the DuluxGroup Limited Shareholder Information Line on 1300 352 256 (within Australia) or +61 3 9415 4223 (outside Australia) Monday to Friday from 8.30 am to 5.30 pm (AEST).

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SCHEME BOOKLET

For a scheme of arrangement between DuluxGroup Limited and its shareholders in relation to the proposed acquisition by Nippon Paint Holdings Co., Ltd.

YOUR DIRECTORS
UNANIMOUSLY RECOMMEND
THAT YOU **VOTE IN FAVOUR** OF
THE SCHEME IN THE ABSENCE
OF A SUPERIOR PROPOSAL

VOTE IN FAVOUR

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You should read it in its entirety before deciding whether or not to vote in favour of the Scheme.

If you are in any doubt about how to deal with this document, you should contact your broker or financial, tax or legal adviser immediately.

If you have any questions in relation to this Scheme Booklet or the Scheme, you should call the DuluxGroup Shareholder Information Line on 1300 352 256 (within Australia) or +61 3 9415 4223 (outside Australia) any time between 8:30am and 5:30pm (AEST) on Monday to Friday.

If you have sold all your DuluxGroup Shares, please disregard this Scheme Booklet.

FINANCIAL ADVISER



LEGAL ADVISER



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IMPORTANT NOTICES

General

Nature of this document

This Scheme Booklet is important. You should read it carefully and in its entirety before deciding how to vote at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

This Scheme Booklet explains the terms of the proposed acquisition of all DuluxGroup Shares by Nippon Paint, by way of a scheme of arrangement between DuluxGroup and DuluxGroup Shareholders under Part 5.1 of the Corporations Act. A copy of the proposed Scheme is set out in Appendix D to this Scheme Booklet.

This Scheme Booklet details how the Scheme will be considered and implemented if all the Conditions to the Scheme are satisfied or, if permitted, waived. It is not a disclosure document required by Chapter 6D of the Corporations Act.

If you have sold all your DuluxGroup Shares, please disregard this Scheme Booklet.

Defined terms

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 11.

Investment decisions

The information in this Scheme Booklet does not constitute financial product advice. This Scheme Booklet has been prepared without reference to the investment objectives, financial situation or particular needs of any DuluxGroup Shareholder or any other person. This Scheme Booklet should not be relied on as the sole basis for any investment decision. Independent legal, financial and tax advice should be sought before making any investment decision in relation to your DuluxGroup Shares.

Purpose of this Scheme Booklet

The purpose of this Scheme Booklet is to give DuluxGroup Shareholders the information required to make an informed decision about whether to vote in favour of the Scheme Resolution. This Scheme Booklet also provides information as is prescribed by law or is otherwise material to the decision of DuluxGroup Shareholders whether to vote in favour of the Scheme Resolution.

Voting will take place at the Scheme Meeting to be held at 2:00pm on 31 July 2019 at The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia. You should read this Scheme Booklet in full before deciding how to vote on the Scheme Resolution.

The Scheme has advantages, disadvantages and risks, which may affect DuluxGroup Shareholders in different ways depending on their individual circumstances. You should seek professional advice on your circumstances, as appropriate.

Preparation of and responsibility for this Scheme Booklet

DuluxGroup has been solely responsible for preparing the DuluxGroup Information. The information concerning DuluxGroup and the intentions, views and opinions of DuluxGroup and the DuluxGroup Directors contained in this Scheme Booklet has been prepared by DuluxGroup and is the responsibility of DuluxGroup. Nippon Paint, its Related Bodies Corporate and their respective directors, officers, employees and advisers have not verified any DuluxGroup Information and do not assume any responsibility for the accuracy or completeness of any DuluxGroup Information.

Nippon Paint has been solely responsible for preparing the Nippon Paint Information. The information concerning Nippon Paint and the intentions, views and opinions of Nippon Paint contained in this Scheme Booklet, has been prepared by Nippon Paint and is the responsibility of Nippon Paint. DuluxGroup, its Related Bodies Corporate and their respective directors, officers, employees or advisers have not verified any Nippon Paint Information and do not assume any responsibility for the accuracy or completeness of any Nippon Paint Information.

The Independent Expert has prepared the Independent Expert's Report and takes responsibility for that report. DuluxGroup, Nippon Paint, and their respective Related Bodies Corporate and their respective directors, officers, employees or advisers do not take any responsibility for the Independent Expert's Report, except in the case of DuluxGroup in relation to the information which it has provided to the Independent Expert. The Independent Expert's Report is set out in Appendix B to this Scheme Booklet.

Regulatory information and role of ASIC and ASX

This document is the explanatory statement for the scheme of arrangement between DuluxGroup and Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included at Appendix D to this Scheme Booklet.

A copy of this Scheme Booklet (including the Independent Expert's Report) has been lodged with, and registered by, ASIC as required by section 412(6) of the Corporations Act. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, then the statement will be produced to the Court at the Second Court Hearing.

Neither ASIC nor any of its officers take any responsibility for the contents of this Scheme Booklet. This Scheme Booklet was lodged and registered with ASIC on 17 June 2019 in accordance with section 412(6) of the Corporations Act.

Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved this Scheme Booklet required to accompany the Notice of Scheme Meeting does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how DuluxGroup Shareholders should vote on the Scheme Resolution (on this matter DuluxGroup Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for the content of, this Scheme Booklet.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Notice of Scheme Meeting

Notice is hereby given that, by an order of the Court made on 14 June 2019, pursuant to section 411(1) of the Corporations Act, a meeting of DuluxGroup Shareholders will be held at 2:00pm on 31 July 2019 at The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia (i.e. this is the Scheme Meeting).

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without any modifications or conditions as are thought fit by the Court) to be made between DuluxGroup and DuluxGroup Shareholders and to consider and, if thought fit, to pass the Scheme Resolution.

To enable you to make an informed voting decision, further information about the Scheme is set out in the accompanying explanatory statement (for the purposes of section 412(1) of the Corporations Act) which, together with the Notice of Scheme Meeting, forms part of this Scheme Booklet.

Notice of Second Court Hearing

The date of the Second Court Hearing to approve the Scheme is expected to be 6 August 2019. The hearing will be at 10:15am at the Federal Court of Australia (Victoria Registry) (Owen Dixon Commonwealth Law Courts Building, 305 William Street, Melbourne, Victoria, 3000).

Each DuluxGroup Shareholder has the right to appear and be heard at the Second Court Hearing and may oppose the approval of the Scheme at the Second Court Hearing. If you wish to appear in this manner, you must file and serve on DuluxGroup a notice of appearance, in the prescribed form, together with any affidavit on which you wish to rely at the Second Court Hearing. The notice of appearance and affidavit must be served on DuluxGroup at its address for service at least one day before the Second Court Date.

The address for service for DuluxGroup is: DuluxGroup Limited, 1956 Dandenong Road, Clayton VIC 3168, Australia (Attention: Simon Black) (Email: simon.black@duluxgroup.com.au).

Status of this Scheme Booklet

Regarding DuluxGroup Shares, this Scheme Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that disclosure to investors under Part 6D.2 of the Corporations Act is not required for any offer of securities if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act and approved at a meeting held due to an order made by the Court under section 411(1) of the Corporations Act.

Foreign jurisdictions and shareholders

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements, which may be different from the requirements applicable in other jurisdictions. The financial information included in this Scheme Booklet is based on financial statements that have been prepared in accordance with Australian equivalents to International Financial Reporting Standards, which may differ from generally accepted accounting principles in other jurisdictions. No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside Australia.

Forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements.

The forward-looking statements in this Scheme Booklet are not based on historical facts, but rather reflect the current views of DuluxGroup or, in relation to the Nippon Paint Information, Nippon Paint, held only as at the date of this Scheme Booklet concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as “believe”, “aim”, “expect”, “anticipated”, “intending”, “foreseeing”, “likely”, “should”, “planned”, “may”, “estimated”, “potential”, or other similar words and phrases. Similarly, statements that describe DuluxGroup’s or Nippon Paint’s objectives, plans, goals or expectations are or may be forward-looking statements. The statements in this Scheme Booklet about the impact that the Scheme may have on the results of DuluxGroup’s operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

Any other forward-looking statements included in this Scheme Booklet and made by DuluxGroup have been made on reasonable grounds and reflect its present intentions as at the date of this Scheme Booklet and may be subject to change. Although DuluxGroup believes that the views reflected in any forward-looking statements in this Scheme Booklet (other than the Nippon Paint Information) have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause either DuluxGroup’s or Nippon Paint’s actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements. Deviations as to future results, performance and achievements are both normal and to be expected. DuluxGroup Shareholders should note that the historical financial performance of DuluxGroup is no assurance of future financial performance of DuluxGroup (whether or not the Scheme is implemented). DuluxGroup Shareholders should review carefully all of the information included in this Scheme Booklet. The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet. None of DuluxGroup, Nippon Paint or any of their respective directors, officers, employees and advisers give any representation, warranty, assurance or guarantee to DuluxGroup Shareholders that any forward-looking statements will actually occur or be achieved. DuluxGroup Shareholders are cautioned not to place undue reliance on such forward-looking statements.

Subject to any continuing obligations under law or the ASX Listing Rules, DuluxGroup and Nippon Paint do not give any undertaking to update or revise any forward-looking statements after the date of this Scheme Booklet to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Forward-looking statements – Nippon Paint Information

Any forward-looking statements included in the Nippon Paint Information have been made on reasonable grounds. Although Nippon Paint believes that the views reflected in any forward-looking statements included in the Nippon Paint Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct. Additionally, statements of the intentions of Nippon Paint reflect its present intentions as at the date of this Scheme Booklet and may be subject to change.

Presentation of financial information

Section 7.9 contains financial information relating to DuluxGroup for the financial years ended 30 September 2017 and 30 September 2018, and for the half-year ended 31 March 2019.

The financial information in Section 7.9 is a summary only and has been prepared and extracted for the purposes of this Scheme Booklet only. The information has been extracted from the audited financial reports of DuluxGroup for the financial years ended 30 September 2017 and 30 September 2018, and from the reviewed financial report for the half-year ended 31 March 2019.

Privacy and personal information

DuluxGroup and Nippon Paint may need to collect personal information in connection with the Scheme.

The personal information may include the names, contact details and details of holdings of DuluxGroup Shareholders, together with contact details of individuals appointed as proxies, attorneys or corporate representatives for the Scheme Meeting. Personal information is held on the public register in accordance with Chapter 2C of the Corporations Act. The primary purpose of the collection of personal information is to assist DuluxGroup and Nippon Paint to conduct the Scheme Meeting and implement the Scheme. The information may be disclosed to DuluxGroup, Nippon Paint and their respective Related Bodies Corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Scheme. DuluxGroup Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. DuluxGroup Shareholders may contact the Registry if they wish to exercise these rights.

If the information outlined above is not collected, DuluxGroup may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme. DuluxGroup Shareholders who appoint an individual as their proxy, attorney or corporate representative to vote at the Scheme Meeting should inform that individual of the matters outlined above.

Interpretation

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 11. Some of the documents reproduced in the Appendices to this Scheme Booklet have their own defined terms, which are sometimes different from those in the Glossary in Section 11.

Any diagrams, charts, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in diagrams, charts, graphs and tables is based on information available at the date of this Scheme Booklet. All numbers are rounded, unless otherwise indicated.

The financial amounts in this Scheme Booklet are expressed in Australian currency, unless stated otherwise. A reference to dollars, \$, A\$ or cents is to Australian currency, unless otherwise stated. All times referred to in this Scheme Booklet are references to times in Melbourne, Australia, unless stated otherwise.

Date

This Scheme Booklet is dated 17 June 2019.

Supplementary information

DuluxGroup will issue supplementary information to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- (a) a material statement in this Scheme Booklet is or becomes false or misleading in a material respect;
- (b) a material omission from this Scheme Booklet;
- (c) a significant change affecting a matter included in this Scheme Booklet; or
- (d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to consultation with Nippon Paint and obtaining any relevant approvals, DuluxGroup may circulate and publish any supplementary document by:

- (a) making an announcement to ASX;
- (b) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- (c) posting the supplementary document to DuluxGroup Shareholders at their registered address as shown in the Share Register, or by email for DuluxGroup Shareholders who have elected to receive communications electronically; or
- (d) posting a statement on DuluxGroup's website (www.duluxgroup.com.au),

as DuluxGroup, in its absolute discretion, considers appropriate.

1.

CHAIRMAN'S LETTER

17 June 2019

Dear DuluxGroup Shareholders,

On behalf of the Board of Directors of DuluxGroup Limited (**DuluxGroup**), I provide you with this Scheme Booklet, which contains important information for your consideration about the proposed acquisition of DuluxGroup by Nippon Paint Holdings Co., Ltd (**Nippon Paint**).

On 17 April 2019, DuluxGroup announced that it had entered into a Scheme Implementation Deed with Nippon Paint to acquire 100% of DuluxGroup Shares. The proposed acquisition will be effected via a scheme of arrangement (**Scheme**) (which is a commonly used legal procedure in Australia to enable one company to acquire another company), subject to DuluxGroup Shareholder and Court approval, and certain other Conditions.

Your Directors consider that the Scheme is a very attractive opportunity for DuluxGroup Shareholders to realise the value of their investment in DuluxGroup, in the absence of a Superior Proposal.

Total Cash Value

The Scheme Consideration payable by Nippon Paint under the Scheme is \$9.37 per DuluxGroup Share.

In addition, on 15 May 2019, DuluxGroup announced a fully franked Interim Dividend of \$0.15 per DuluxGroup Share and a fully franked Special Dividend of \$0.28 per DuluxGroup Share (together, the **Permitted Dividends**). The Permitted Dividends will be paid on 28 June 2019 to those DuluxGroup Shareholders on the Share Register on 24 June 2019 (**Dividend Record Date**). The Permitted Dividends are not conditional on the Scheme and will be paid irrespective of whether the Scheme proceeds.

Accordingly, if the Scheme proceeds, those DuluxGroup Shareholders who receive the Permitted Dividends and the Scheme Consideration will, in aggregate, receive \$9.80 per DuluxGroup Share (**Total Cash Value**). Any DuluxGroup Shareholder that acquires DuluxGroup Shares after the Dividend Record Date will receive \$9.37 per DuluxGroup Share if the Scheme proceeds.

The Total Cash Value of \$9.80 per DuluxGroup Share represents an attractive premium over trading prices of DuluxGroup Shares on ASX prior to the announcement of the proposed Scheme:

- 27.8% to the close of trading of DuluxGroup Shares on 16 April 2019 of \$7.67 per share (being the last trading day prior to the announcement of the Scheme Implementation Deed);
- 32.7% to the 1-month VWAP of DuluxGroup Shares of \$7.39 per share; and
- 35.4% to the 3-month VWAP of DuluxGroup Shares of \$7.24 per share.

The Total Cash Value of \$9.80 per DuluxGroup Share implies a fully diluted market capitalisation for DuluxGroup of \$3.8 billion and an enterprise value of approximately \$4.2 billion.¹

DuluxGroup Directors' Recommendation

Your Directors have considered the advantages and disadvantages of the Scheme (including the Scheme Consideration), and unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal. Subject to that qualification, each of your Directors intends to vote, or cause to be voted, all DuluxGroup Shares in which they have a Relevant Interest in favour of the Scheme Resolution.

After carefully considering the alternative strategic options available to DuluxGroup to maximise value, including continuing to pursue domestic and global growth as a standalone company, my fellow Directors and I have concluded that the proposed transaction with Nippon Paint is in the best interests of DuluxGroup Shareholders. While the DuluxGroup Board is confident that DuluxGroup is well positioned to continue to deliver growth for DuluxGroup Shareholders into the future, your Directors consider that the material premium implicit in Nippon Paint's offer and the opportunity to realise certain and immediate value represents an attractive outcome for DuluxGroup Shareholders.

Reasons to vote in favour of the Scheme Resolution are set out in detail in Section 3.2. There are also reasons why you may choose to vote against the Scheme Resolution which are set out in Section 3.3.

Mr Patrick Houlihan (DuluxGroup's Managing Director and Chief Executive Officer) and Mr Stuart Boxer (Chief Financial Officer and Executive Director) will, if the Scheme is implemented, become entitled to early vesting of unvested LTEIP Shares and forgiveness of 30% of the original amount of the associated loans. The DuluxGroup Board (excluding Mr Houlihan and Mr Boxer)² exercised discretion to give effect to these arrangements in accordance with the LTEIP terms and allocation of LTEIP Shares previously approved by DuluxGroup Shareholders. These matters and other interests and benefits of DuluxGroup Directors in relation to the Scheme are set out in Sections 7.14, 7.16.1 and 7.17.

¹ Implied market capitalisation derived from \$9.80 per DuluxGroup Share multiplied by 389.3 million DuluxGroup Shares on issue and Enterprise Value includes DuluxGroup net debt (inclusive of USPP hedge) of \$340.5 million and minority interest of \$2.7 million as at 30 September 2018.

² The exercise of discretion by the DuluxGroup Board was approved by the non-executive DuluxGroup Directors. Patrick Houlihan and Stuart Boxer did not vote on the resolution given their interest in the subject matter of the resolution.

Independent Expert's Report

Your Directors appointed Grant Samuel & Associates Pty Limited as the Independent Expert. **The Independent Expert has concluded that the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal.** The Independent Expert has assessed the full underlying value of DuluxGroup at between \$8.53 and \$9.93 per DuluxGroup Share. The Total Cash Value of \$9.80 per DuluxGroup Share is within this valuation range.

The Independent Expert's Report is included as Appendix B to this Scheme Booklet.

How to Vote

The Scheme can only be implemented if it is approved by the Court and, at the Scheme Meeting, the Scheme Resolution is approved by a majority in number of the DuluxGroup Shareholders that vote on the Scheme Resolution (in person or by proxy) and that represent at least 75% of the total votes cast. The Scheme Meeting will be held at 2:00pm on 31 July 2019 at The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia.

Your vote is important and I strongly encourage you to vote on this significant proposed transaction. You may vote on the Scheme Resolution by attending the Scheme Meeting in person, or by appointing a proxy, attorney or body corporate representative to attend the Scheme Meeting and vote on your behalf. If you do not wish to or are unable to attend the Scheme Meeting in person, I encourage you to vote on the Scheme Resolution by completing the personalised proxy form accompanying this Scheme Booklet and returning it to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001 so that it is received no later than 2:00pm on 29 July 2019.

Further Information

This Scheme Booklet sets out important information relating to the Scheme, including the reasons for your Directors' recommendation and the Independent Expert's Report. It also sets out some reasons why you may wish to vote against the Scheme Resolution.

I encourage you to read this Scheme Booklet carefully and in its entirety. You should also seek independent legal, financial, tax or other professional advice before making an investment decision in relation to your DuluxGroup Shares.

If you have any questions regarding the Scheme or this Scheme Booklet you should contact the DuluxGroup Shareholder Information Line on 1300 352 256 (within Australia) or +61 3 9415 4223 (outside Australia) on Monday to Friday between 8:30am and 5:30pm.

On behalf of the DuluxGroup Directors, I thank you for your ongoing support and I look forward to your participation at the Scheme Meeting.

Yours sincerely,



Graeme Liebelt
Chairman
DuluxGroup Limited

The Scheme is a very attractive opportunity for DuluxGroup Shareholders to realise the value of their investment in DuluxGroup.

2. KEY DATES

Unless expressly stated otherwise, all references in this Scheme Booklet to time relate to the time in Melbourne, Victoria, Australia.

EVENT	DATE AND TIME
First Court Date The date on which the Court made orders convening the Scheme Meeting	14 June 2019
Dividend Record Date To determine entitlements to the Permitted Dividends	24 June 2019
Dividend Payment Date Payment date for the Permitted Dividends	28 June 2019
Last date for proxy forms Last date for proxy forms or powers of attorney to be received by the Registry for the Scheme Meeting	2:00pm on 29 July 2019
Eligibility to vote Time and date for determining eligibility to vote at the Scheme Meeting	7:00pm on 29 July 2019
Scheme Meeting	2:00pm on 31 July 2019

If the Scheme Resolution is approved by DuluxGroup Shareholders at the Scheme Meeting

EVENT	DATE AND TIME
Second Court Date DuluxGroup to apply for Court orders approving the Scheme	10:15am on 6 August 2019
Effective Date Court orders to be lodged with ASIC and announced on ASX Trading in DuluxGroup Shares on ASX to be suspended from close of trading	6 August 2019
Scheme Record Date Scheme Record Date to determine entitlements to Scheme Consideration	14 August 2019
Implementation Date Scheme Consideration to be paid to Scheme Shareholders on the Implementation Date	21 August 2019

Please note that all of the above times and dates are indicative only and subject to change. DuluxGroup may vary any or all of these dates and times and will provide reasonable notice of any such variation. In particular, the date of the Scheme Meeting may be postponed or adjourned if satisfaction of a Condition, for example, relating to receipt of a regulatory approval is delayed. Certain times and dates are conditional on the approval of the Scheme by DuluxGroup Shareholders and by the Court. Any changes will be announced by DuluxGroup to ASX.

3.

KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

The Scheme has a number of advantages and disadvantages that may affect DuluxGroup Shareholders in different ways depending on their individual circumstances. DuluxGroup Shareholders should seek professional advice on their particular circumstances, as appropriate.

Section 3.2 provides a summary of some of the reasons why the DuluxGroup Board unanimously recommends DuluxGroup Shareholders vote in favour of the Scheme Resolution. Section 3.2 should be read in conjunction with Section 3.3, which sets out reasons why DuluxGroup Shareholders may wish to vote against the Scheme Resolution. You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting. While the DuluxGroup Directors acknowledge the reasons to vote against the Scheme Resolution, they believe the advantages of the Scheme significantly outweigh the disadvantages.

3.1 Summary of reasons why you might vote for and against the Scheme Resolution

Reasons to vote in favour of the Scheme Resolution

- ✓ Your Directors unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal
- ✓ The Independent Expert has concluded that the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal
- ✓ The Total Cash Value represents an attractive premium to the trading levels of DuluxGroup Shares on ASX prior to the announcement of the transaction on 17 April 2019
- ✓ The Total Cash Value equates to an attractive acquisition multiple which compares favourably to comparable transactions in the global paint and coatings industry
- ✓ The all cash consideration provides DuluxGroup Shareholders with certainty of value and the opportunity to realise their investment for cash, avoiding the uncertainties and risks associated with DuluxGroup's business
- ✓ DuluxGroup's share price may fall in the near-term if the Scheme is not implemented and in the absence of a Superior Proposal
- ✓ Since the announcement of the Scheme, no Superior Proposal has emerged
- ✓ No brokerage will be payable by you for the transfer of your DuluxGroup Shares under the Scheme

Potential reasons to vote against the Scheme Resolution

- ✗ You may disagree with the DuluxGroup Directors' unanimous recommendation and the conclusion in the Independent Expert's Report, and believe that the Scheme is not in your best interests
- ✗ You will no longer be able to directly participate in the future financial performance and growth of DuluxGroup's business
- ✗ You may find it difficult to identify or invest in an alternative business with similar characteristics to DuluxGroup
- ✗ You may consider that there is the potential for a Superior Proposal to emerge
- ✗ The tax implications of the Scheme may not be suitable to your financial circumstances or position

3.2 Reasons to vote in favour of the Scheme Resolution

3.2.1 Your Directors unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal

Your Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme Resolution at the Scheme Meeting.

In reaching their recommendation, your Directors have assessed the Scheme (including the Scheme Consideration) having regard to the reasons to vote in favour of, or against, the Scheme Resolution, as set out in this Scheme Booklet.

In the absence of a Superior Proposal, each of your Directors intends to vote all DuluxGroup Shares in which they have a Relevant Interest in favour of the Scheme Resolution. The interests of DuluxGroup Directors are set out in Section 7.14.

3.2.2 The Independent Expert has concluded that the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal

Your Directors appointed Grant Samuel & Associates Pty Limited to prepare an Independent Expert's Report, including an opinion as to whether the Scheme is in the best interests of DuluxGroup Shareholders.

The Independent Expert has concluded that the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal.

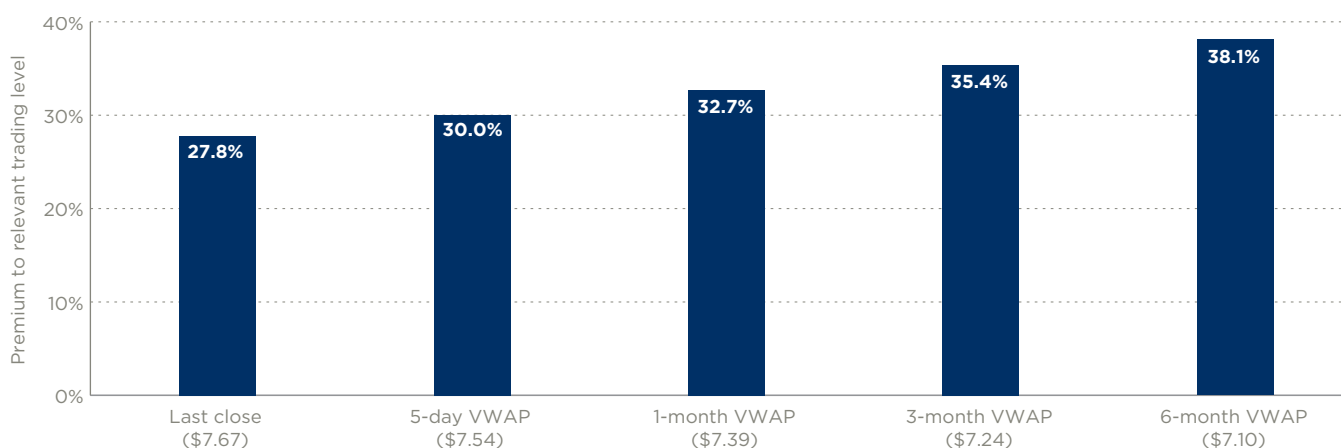
The Independent Expert's Report is included as Appendix B of this Scheme Booklet and your Directors encourage you to read this report in full.

3.2.3 The Total Cash Value represents an attractive premium to the trading levels of DuluxGroup Shares on ASX prior to the announcement of the transaction on 17 April 2019

The Total Cash Value represents a premium of:

- 27.8% to the close of trading of DuluxGroup Shares on 16 April 2019 of \$7.67 per share (being the last trading day prior to the announcement of the Scheme Implementation Deed);
- 32.7% to the 1-month VWAP of DuluxGroup Shares of \$7.39 per share; and
- 35.4% to the 3-month VWAP of DuluxGroup Shares of \$7.24 per share,

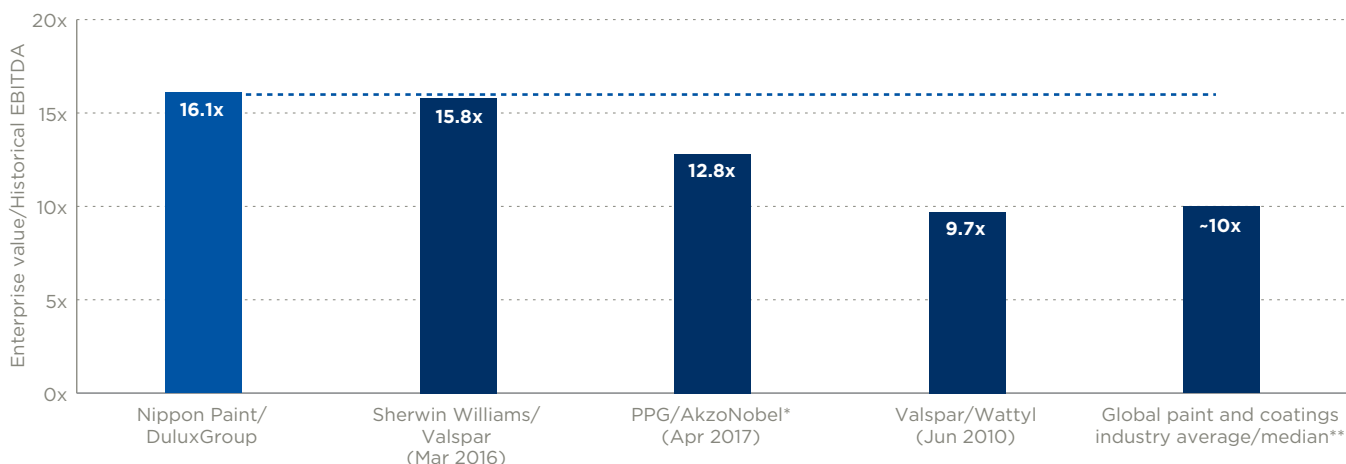
as shown in the chart below.



Source: IRESS, DuluxGroup Shares traded on ASX.

3.2.4 The Total Cash Value equates to an attractive acquisition multiple which compares favourably to comparable transactions in the global paint and coatings industry

The Total Cash Value implies a FY2018 P/E multiple of 25.3x, a FY2018 EV/EBIT multiple of 18.6x and a FY2018 EV/EBITDA multiple of 16.1x. These transaction metrics represent a significant premium to selected precedent global paint and coatings transactions, on a historical EV / EBITDA basis,³ as shown in the chart below.⁴



* PPG's acquisition of AkzoNobel did not proceed.

** Global paint and coatings industry average / median derived from transactions over the last two decades.

3.2.5 The all cash consideration provides DuluxGroup Shareholders with certainty of value and the opportunity to realise their investment for cash, avoiding the uncertainties and risks associated with DuluxGroup's business

The offer from Nippon Paint is a 100% cash offer. This provides a high degree of certainty of value and timing. More specifically, if the Scheme is implemented, DuluxGroup Shareholders will receive the Scheme Consideration (payable by Nippon Paint) of \$9.37 per DuluxGroup Share. DuluxGroup Shareholders that hold DuluxGroup Shares on the Dividend Record Date will also receive \$0.43 cash per DuluxGroup Share by way of the Permitted Dividends, resulting in such DuluxGroup Shareholders receiving the Total Cash Value of \$9.80 per DuluxGroup Share.

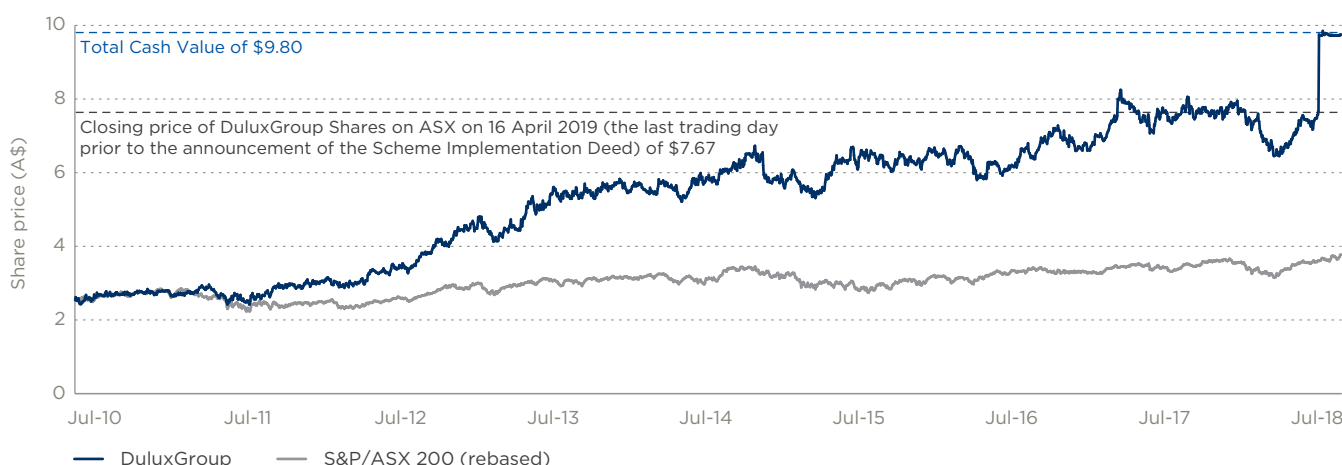
In contrast, if the Scheme does not proceed, the amount which DuluxGroup Shareholders will be able to realise for their investment in DuluxGroup Shares will be uncertain. The Scheme removes this uncertainty for DuluxGroup Shareholders. For details of the risks relating to remaining a DuluxGroup Shareholder, see Section 7.12.

³ The metrics in this chart which have been compared against the 16.1x EV/EBITDA multiple were determined by the Independent Expert. Please refer to Section 5.4 of the Independent Expert's Report for details.

⁴ The transactions were selected by DuluxGroup as being the most relevant global paint and coatings transactions. This chart does not include all transactions that have been announced and completed in the global paint and coatings industry and, as such, is not an exhaustive list. Please refer to the Independent Expert's Report for additional comparable industry transactions.

3.2.6. DuluxGroup's share price may fall in the near-term if the Scheme is not implemented and in the absence of a Superior Proposal

On the last trading day prior to the announcement of the Scheme, being 16 April 2019, DuluxGroup's share price was \$7.67. Since then, it has increased by 27.1% to \$9.75 per DuluxGroup Share on 13 June 2019 (being the last practicable trading day prior to the date of this Scheme Booklet). The DuluxGroup Directors are unable to predict the price at which DuluxGroup Shares will trade in the future but consider that, if the Scheme is not implemented and a Superior Proposal is not forthcoming, the price of DuluxGroup Shares may fall.



Source: IRESS (as at 13 June 2019, being the last practicable trading day prior to despatch of this Scheme Booklet).

3.2.7. Since the announcement of the Scheme, no Superior Proposal has emerged

Since the initial announcement of the Scheme on 17 April 2019 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the DuluxGroup Directors are not aware of any Superior Proposal that is likely to emerge.

3.2.8. No brokerage will be payable by you for the transfer of your DuluxGroup Shares under the Scheme

You will not incur any brokerage on the transfer of your DuluxGroup Shares to Nippon Paint under the Scheme. It is possible that brokerage may be incurred if you transfer your DuluxGroup Shares other than under the Scheme.

3.3. Potential reasons to vote against the Scheme Resolution

3.3.1. You may disagree with the DuluxGroup Directors' unanimous recommendation and the conclusion in the Independent Expert's Report, and believe that the Scheme is not in your best interests

Despite the recommendation of the DuluxGroup Directors and the conclusion of the Independent Expert that the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal, you may believe that the Scheme is not in the best interests of DuluxGroup Shareholders or not in your best interests.

3.3.2. You will no longer be able to directly participate in the future financial performance and growth of DuluxGroup's business

If the Scheme is implemented, you will cease to be a DuluxGroup Shareholder and will lose the ability to directly participate in any potential upside that may result from maintaining your investment in DuluxGroup.

This means that you will not participate in the future financial performance and potential growth of DuluxGroup, and will not retain exposure to the value that could be created by DuluxGroup for DuluxGroup Shareholders in the future.

3.3.3. You may find it difficult to identify or invest in an alternative business with similar characteristics to DuluxGroup

You may prefer to keep your DuluxGroup Shares to maintain your investment in a public company with DuluxGroup's specific characteristics, including but not limited to risk, return and liquidity characteristics. You may consider that it would be difficult to identify and invest in alternative investments that have a similar profile to DuluxGroup.

In addition, despite the risk factors relevant to DuluxGroup's future operations as a standalone entity (including those in Section 7.12), you may consider that DuluxGroup may be able to generate greater returns for its assets as a stand-alone entity, or by exploring alternative corporate transactions in the future.

3.3.4. You may consider that there is the potential for a Superior Proposal to emerge

You may believe that there is potential for a Superior Proposal to be made in the foreseeable future. This may include a takeover offer or alternative transaction proposal which would deliver a total consideration to DuluxGroup Shareholders in excess of the Scheme Consideration. However, as at the date of this Scheme Booklet, no Superior Proposal has emerged and the DuluxGroup Directors are not aware of any Superior Proposal that is likely to emerge.

3.3.5. The tax implications of the Scheme may not be suitable to your financial circumstances or position

If the Scheme is implemented, there may be tax consequences that result for you as a DuluxGroup Shareholder, some of which may be adverse. Further detail regarding the tax implications of the Scheme is contained in Section 9.

3.4 Additional considerations relating to the Scheme

You should also take into account the following additional considerations in deciding how to vote on the Scheme Resolution.

3.4.1. The Scheme may be implemented even if you vote against the Scheme Resolution or do not vote at all

You should be aware that if you do not vote, or if you vote against the Scheme Resolution, the Scheme may still be implemented if it is approved by the Requisite Majorities of DuluxGroup Shareholders and by the Court, and if the Conditions are satisfied or waived (as applicable). If this occurs, your DuluxGroup Shares will be transferred to Nippon Paint and you will receive the Scheme Consideration even though you voted against, or did not vote on, the Scheme Resolution.

3.4.2. The Permitted Dividends are not conditional on the Scheme

The Permitted Dividends will be paid by DuluxGroup on 28 June 2019, irrespective of whether the Scheme proceeds. The DuluxGroup Directors will consider DuluxGroup's ongoing funding and liquidity requirements, as well as its franking account balance, and may decide to not pay a final dividend for the financial year ending 30 September 2019.

DuluxGroup has established a new committed debt facility (totalling \$110 million) to fund the payment of the Special Dividend. DuluxGroup's leverage will be higher following the drawdown of additional debt to fund the Special Dividend however, it will remain at comfortable levels and the additional debt does not result in DuluxGroup breaching any financial covenants.

Any DuluxGroup Shareholder that acquires DuluxGroup Shares after the Dividend Record Date and participates in the Scheme will receive the Scheme Consideration, being \$9.37 per DuluxGroup Share.

3.4.3. Conditions of the Scheme

The Scheme is subject to the satisfaction (or waiver) of the Conditions which are summarised below and set out in the Scheme Implementation Deed (which is Appendix C to this Scheme Booklet). If the Conditions are not satisfied or waived (as applicable) by the End Date (being 17 September 2019 or such other date as agreed between DuluxGroup and Nippon Paint), the Scheme will not proceed and DuluxGroup Shareholders will not receive the Scheme Consideration.

As at the date of this Scheme Booklet, the outstanding Conditions which must be satisfied or waived (as applicable) before the Scheme can become Effective are summarised as follows:

- (a) The Court approves the Scheme in accordance with the Corporations Act.
- (b) DuluxGroup Shareholders approve the Scheme Resolution by the Requisite Majorities.
- (c) OIO Approval is obtained before 5:00pm on the Business Day before the Second Court Date.
- (d) No restraining order, injunction or other order (made by a court of competent jurisdiction or Government Agency in Australia or New Zealand) that would prevent the Scheme from becoming Effective or being implemented is in effect as at 8:00am on the Second Court Date.
- (e) No Prescribed Occurrence occurs before 8:00am on the Second Court Date.
- (f) No Material Adverse Change occurs before 8:00am on the Second Court Date.
- (g) The DuluxGroup Warranties are materially true and correct as at 5:00pm on the Business Day before the Second Court Date.
- (h) The Nippon Paint Warranties are materially true and correct as at 5:00pm on the Business Day before the Second Court Date.

The Conditions in paragraphs (a), (b) and (c) above cannot be waived.

As at the date of this Scheme Booklet, the DuluxGroup Directors are not aware of any reason why the Conditions should not be satisfied.

KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

3.4.4. Exclusivity

The Scheme Implementation Deed includes certain exclusivity arrangements that DuluxGroup has agreed to with Nippon Paint which are customary in schemes of arrangement. These are summarised below.

- (a) **'No-shop' obligation:** DuluxGroup must not solicit, encourage or initiate a Competing Proposal.
- (b) **'No-talk' obligation:** DuluxGroup must not participate in any discussions or negotiations about, or which may reasonably lead to, a Competing Proposal.
- (c) **'No-due diligence' obligation:** DuluxGroup must not provide, or make available, non-public information regarding DuluxGroup (including due diligence information) to a Third Party for the purpose of formulating, developing or finalising a Competing Proposal.

The "no-talk" and "no due diligence" obligations do not apply to a bona fide Competing Proposal that the DuluxGroup Board determines is, or could reasonably be expected to become, a Superior Proposal, where failing to respond to the Competing Proposal may constitute a breach of the DuluxGroup Directors' fiduciary or statutory duties.

In addition, DuluxGroup is required to notify Nippon Paint of any written Competing Proposals that DuluxGroup receives and also provide Nippon Paint with a matching right if a Superior Proposal is received by DuluxGroup. As at the date of this Scheme Booklet, no such Competing Proposal has been received.

3.4.5. Termination rights

The Scheme Implementation Deed may be terminated, before 8:00am on the Second Court Date, in certain circumstances. These are summarised below.

- **By Nippon Paint:** if any DuluxGroup Director publicly withdraws, changes or adversely modifies his or her recommendation that DuluxGroup Shareholders vote in favour of the Scheme Resolution, or publicly recommends a Competing Proposal.
- **By DuluxGroup:** if all or a majority of DuluxGroup Directors withdraw or change their recommendation in circumstances where DuluxGroup receives a Superior Proposal and DuluxGroup has complied with the exclusivity arrangements that are summarised in Section 3.4.4, or the Independent Expert concludes that the Scheme is not or is no longer in the best interests of DuluxGroup Shareholders.
- **By DuluxGroup or Nippon Paint:** if the other party materially breaches the Scheme Implementation Deed and the breach is not remedied within 10 Business Days, or a Condition has not been satisfied or waived (as applicable) and DuluxGroup and Nippon Paint are unable to agree on a course of action within 10 Business Days.

If the Scheme Implementation Deed is terminated, the Scheme will not proceed.

3.4.6. Break Fee (payable by DuluxGroup)

DuluxGroup must pay the Break Fee to Nippon Paint in certain circumstances. These are summarised below.

- **Recommendation of DuluxGroup Directors:** before the Second Court Date, a DuluxGroup Director changes, withdraws or adversely modifies his or her recommendation that DuluxGroup Shareholders vote in favour of the Scheme Resolution, or publicly recommends a Competing Proposal (except where the Independent Expert concludes that the Scheme is not or is no longer in the best interests of DuluxGroup Shareholders).
- **Material breach by DuluxGroup:** Nippon Paint terminates the Scheme Implementation Deed due to a material breach of the Scheme Implementation Deed by DuluxGroup and such breach is not remedied within 10 Business Days.
- **Entry into a Competing Proposal:** before the Implementation Date or termination of the Scheme Implementation Deed, DuluxGroup enters into any arrangement, agreement or understanding to implement a Competing Proposal.
- **Third Party acquisition:** a Competing Proposal is publicly announced by a Third Party before the Second Court Date and the Third Party making the Competing Proposal acquires a majority of DuluxGroup Shares or Control of DuluxGroup within six months from the announcement.

The Break Fee is Nippon Paint's sole and exclusive remedy against DuluxGroup for breach of the Scheme Implementation Deed.

3.4.7. Reverse Break Fee (payable by Nippon Paint)

Nippon Paint must pay the Reverse Break Fee to DuluxGroup if DuluxGroup terminates the Scheme Implementation Deed because of a material breach of the Scheme Implementation Deed by Nippon Paint and such breach has not been remedied. The Reverse Break Fee will be DuluxGroup's sole and exclusive remedy against Nippon Paint for breach of the Scheme Implementation Deed, except where the Scheme becomes Effective and Nippon Paint does not pay the Aggregate Scheme Consideration.

4. FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER
The Scheme at a glance	
Why have I received this Scheme Booklet?	This Scheme Booklet has been sent to you because you are a DuluxGroup Shareholder and you are being asked to vote on the Scheme Resolution. This Scheme Booklet is intended to help you to consider and decide on how to vote on the Scheme Resolution at the Scheme Meeting. If you have sold all your DuluxGroup Shares, please disregard this Scheme Booklet.
What is the Scheme?	<p>The Scheme is a scheme of arrangement between DuluxGroup and DuluxGroup Shareholders. A “scheme of arrangement” is a statutory procedure in the Corporations Act that is commonly used in transactions in Australia that may result in a change of ownership or control of a company. In addition to requiring Court approval, schemes of arrangement require a vote in favour of a resolution to implement the scheme of arrangement by the Requisite Majorities at a meeting of shareholders. If the Scheme becomes Effective, DuluxGroup will become a wholly owned subsidiary of Nippon Paint and will be delisted from ASX.</p> <p>The Scheme is Appendix D to this Scheme Booklet.</p>
Who is Nippon Paint?	<p>Nippon Paint, founded in 1881, is a global leader in the paints and coating industry, developing and providing a wide variety of advanced, innovative products and value-added services to customers across the globe.</p> <p>Headquartered in Osaka, Japan, Nippon Paint has operations in 26 countries and territories with approximately 20,400 employees globally. It generated reported net sales of approximately JPY628 billion (approximately A\$8.3 billion) for the financial year ended 31 December 2018. Proportions of Nippon Paint’s sales by region for that financial year are: Asia (excluding Japan) 57%, Japan 29%, the Americas 12% and Europe 2%.</p> <p>Nippon Paint globally offers a comprehensive portfolio of paints and coatings products, such as decorative, automotive, industrial and marine applications, as well as an array of surface treatment agents and paint/coatings-related services.</p> <p>Nippon Paint is listed on the Tokyo Stock Exchange (TYO:4612) with a market capitalisation of approximately JPY1.4 trillion, which equates to approximately A\$18.5 billion, as of 11 June 2019. Please refer to Section 8 for further information in relation to Nippon Paint.</p>
What do the DuluxGroup Directors recommend?	The DuluxGroup Directors unanimously recommend that DuluxGroup Shareholders vote in favour of the Scheme Resolution in the absence of a Superior Proposal. The reasons for this recommendation, and other matters that you may wish to take into consideration, are set out in the “Reasons to vote in favour of the Scheme Resolution” Section on page 8.
What are the intentions of the DuluxGroup Directors?	Each DuluxGroup Director intends to vote all the DuluxGroup Shares in which he or she has a Relevant Interest in favour of the Scheme Resolution in the absence of a Superior Proposal. The shareholding of each DuluxGroup Director is set out in Section 7.14.
What are the reasons to vote in favour of the Scheme Resolution?	The reasons to vote in favour of the Scheme are set out in the “Reasons to vote in favour of the Scheme Resolution” Section on page 8.
What is the conclusion of the Independent Expert?	The Independent Expert has concluded that the Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal.
What if the Independent Expert changes its opinion?	If the Independent Expert changes its opinion, this will be announced to ASX and the DuluxGroup Directors will carefully consider the Independent Expert’s revised opinion and advise you of their recommendation. The DuluxGroup Directors may withdraw or change their recommendation, and may terminate the Scheme Implementation Deed without paying the Break Fee to Nippon Paint, if the Independent Expert concludes that the Scheme is not or is no longer in the best interests of DuluxGroup Shareholders.
What are the prospects of receiving a Superior Proposal?	<p>Since the initial announcement of the Scheme on 17 April 2019 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the DuluxGroup Directors are not aware of any Superior Proposal that is likely to emerge.</p> <p>DuluxGroup Shareholders should note that DuluxGroup has agreed to certain exclusivity and break fee provisions in favour of Nippon Paint, which are summarised in Section 3.4.</p>

QUESTION **ANSWER**

An overview of the Total Cash Value

What is the Total Cash Value?	<p>The Scheme Consideration payable by Nippon Paint under the Scheme is \$9.37 per DuluxGroup Share. In addition, the Permitted Dividends of \$0.43 per DuluxGroup Share (in aggregate) will be paid on 28 June 2019 to those DuluxGroup Shareholders on the Share Register on the Dividend Record Date (24 June 2019). The Permitted Dividends are not conditional on the Scheme and will be paid irrespective of whether the Scheme proceeds.</p> <p>Accordingly, if the Scheme proceeds, those DuluxGroup Shareholders who receive the Permitted Dividends and the Scheme Consideration will, in aggregate, receive the Total Cash Value of \$9.80 per DuluxGroup Share. Any DuluxGroup Shareholder that acquires DuluxGroup Shares after the Dividend Record Date (24 June 2019) will receive \$9.37 per DuluxGroup Share if the Scheme proceeds.</p>
What is the premium of the Total Cash Value to DuluxGroup's Share price?	<p>The Total Cash Value of \$9.80 per DuluxGroup Share represents:</p> <ul style="list-style-type: none"> • 27.8% to the close of trading of DuluxGroup Shares on 16 April 2019 of \$7.67 per share (being the last trading day prior to the announcement of the Scheme Implementation Deed); • 32.7% to the 1-month VWAP of DuluxGroup Shares of \$7.39 per share; and • 35.4% to the 3-month VWAP of DuluxGroup Shares of \$7.24 per share.
Who is entitled to participate in the Scheme?	<p>Persons who hold DuluxGroup Shares on the Scheme Record Date will participate in the Scheme and, if the Scheme is implemented, those persons will receive the Scheme Consideration in respect of each DuluxGroup Share held on the Scheme Record Date.</p>
When will I receive the Total Cash Value?	<p>As the Permitted Dividends are not conditional on the Scheme, the Permitted Dividends will be paid separately from the Scheme Consideration. DuluxGroup Shareholders on the Share Register on 24 June 2019 will receive the Permitted Dividends on 28 June 2019.</p> <p>If the Scheme becomes Effective, DuluxGroup Shareholders on the Share Register on the Scheme Record Date will be paid the Scheme Consideration on the Implementation Date.</p>
What are the tax consequences of the Scheme for me?	<p>If the Scheme is implemented, there will be tax consequences for DuluxGroup Shareholders, which may include tax being payable on any gain on disposal of DuluxGroup Shares.</p> <p>General information about the likely Australian tax consequences of the Scheme is set out in Section 9. However, the tax consequences arising to DuluxGroup Shareholders will vary depending on their own specific profile, characteristics and circumstances. Accordingly, DuluxGroup Shareholders should obtain professional tax advice having regard to their own particular circumstances.</p>
Will I have to pay brokerage?	<p>No, you will not have to pay brokerage if your DuluxGroup Shares are acquired under the Scheme.</p>
Can I sell my DuluxGroup Shares now?	<p>You can sell your DuluxGroup Shares on-market at any time before the close of trading on ASX on the Effective Date. However, if you do so you will receive the prevailing on-market price set at the time of sale which may not be the same price as the Scheme Consideration, and if you sell your DuluxGroup Shares prior to the Dividend Record Date you will not be paid the Permitted Dividends, and you may also be required to pay brokerage.</p> <p>DuluxGroup intends to apply to ASX for DuluxGroup Shares to be suspended from official quotation on ASX from close of trading on the Effective Date. You will not be able to sell your DuluxGroup Shares on-market after that time.</p>

The Permitted Dividends

What are the Permitted Dividends?	<p>The Permitted Dividends comprise both of the following dividends that are payable by DuluxGroup:</p> <ul style="list-style-type: none"> • Interim Dividend: a fully franked cash dividend of \$0.15 for each DuluxGroup Share held by a DuluxGroup Shareholder on the Dividend Record Date. • Special Dividend: a fully franked cash dividend of \$0.28 for each DuluxGroup Share held by a DuluxGroup Shareholder on the Dividend Record Date. <p>The Permitted Dividends are not conditional on the Scheme and will be paid to eligible DuluxGroup Shareholders irrespective of whether the Scheme proceeds.</p>
Am I eligible to receive the Permitted Dividends?	<p>If you hold DuluxGroup Shares on the Dividend Record Date (24 June 2019), you will be eligible to receive the Permitted Dividends in respect of each DuluxGroup Share that you hold on that date.</p>
When will I receive the Permitted Dividends?	<p>As the Permitted Dividends are not conditional on the Scheme, the Permitted Dividends will be paid separately from the Scheme Consideration. The Dividend Payment Date is 28 June 2019.</p>

QUESTION**ANSWER****Will I receive any further dividends from DuluxGroup?**

Following the payment of the Permitted Dividends, no further dividends will be paid by DuluxGroup if the Scheme proceeds. The Permitted Dividends are not conditional on the Scheme. If the Scheme is not implemented, the DuluxGroup Directors will consider DuluxGroup's ongoing funding and liquidity requirements, as well as its franking account balance, and may decide to not pay a final dividend for the financial year ending 30 September 2019.

How is the Special Dividend being funded?

DuluxGroup has established a new committed debt facility (totalling \$110 million) to fund the payment of the Special Dividend. DuluxGroup's leverage will be higher following the drawdown of additional debt to fund the Special Dividend however, it will remain at comfortable levels and the additional debt does not result in DuluxGroup breaching any financial covenants.

Will the Permitted Dividends be franked?

DuluxGroup intends that the Permitted Dividends will be fully franked. This means that DuluxGroup Shareholders on the Share Register at the Dividend Record Date (24 June 2019) should be distributed approximately:

- (a) \$0.064 of franking credits per DuluxGroup Share in connection with the Interim Dividend; and
- (b) \$0.120 of franking credits per DuluxGroup Share in connection with the Special Dividend.

Depending on your personal circumstances, you may be entitled to an Australian tax offset in respect of the franking credits. DuluxGroup has applied to the ATO for a class ruling to confirm the tax treatment of the Special Dividend. General information about the Permitted Dividends and franking credits is set out in Section 9.

Scheme, voting and approvals**Are there any Conditions that must be satisfied or waived in order for the Scheme to be implemented?**

Yes. The Conditions which remain outstanding as at the date of this Scheme Booklet are summarised in Section 3.4.3. As at the date of this Scheme Booklet, the DuluxGroup Directors are not aware of any reason why those Conditions should not be satisfied.

What happens if these Conditions are not satisfied or the Scheme Implementation Deed is terminated?

If the Conditions are not satisfied or waived (as applicable) or the Scheme Implementation Deed is terminated, then the Scheme will not be implemented and, as set out in Section 7.10.1:

- (a) you will retain your DuluxGroup Shares and they will not be acquired by Nippon Paint;
- (b) you will not receive the Scheme Consideration;
- (c) DuluxGroup will continue to operate as a standalone company listed on ASX; and
- (d) if no Superior Proposal is received by the DuluxGroup Board, then the DuluxGroup Share price may fall.

What happens if the Scheme is implemented?

If the Scheme becomes Effective and you remain a DuluxGroup Shareholder as at the Scheme Record Date, all of your DuluxGroup Shares will be transferred to Nippon Paint under the Scheme.

If the Scheme becomes Effective, on the Implementation Date DuluxGroup Shareholders will receive Scheme Consideration of \$9.37 per DuluxGroup Share.

Can the Scheme be terminated?

The Scheme Implementation Deed may be terminated in certain circumstances, details of which are summarised in Section 3.4.5. If the Scheme Implementation Deed is terminated, the Scheme will not be implemented.

Am I entitled to vote at the Scheme Meeting?

If you are registered as a DuluxGroup Shareholder on the Share Register at 7:00pm on 29 July 2019, then you will be entitled to attend and vote at the Scheme Meeting.

When and where will the Scheme Meeting be held?

Location: The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia

Date: 31 July 2019

Time: 2:00pm

Is voting compulsory?

Voting is not compulsory. However, the Scheme will only be successful if it is approved by the Requisite Majorities of DuluxGroup Shareholders, so voting is important and DuluxGroup Directors encourage you to vote. If the Scheme Resolution is approved, you will be bound by the Scheme Resolution whether or not you voted and whether or not you voted in favour of it.

FREQUENTLY ASKED QUESTIONS

QUESTION

ANSWER

What voting majority is required to approve the Scheme?

For the Scheme to be approved, the Scheme Resolution must be passed by the Requisite Majorities, being:

- a majority in number (more than 50%) of DuluxGroup Shareholders who vote on the Scheme Resolution (whether in person, by proxy, by attorney or, in the case of corporate DuluxGroup Shareholders, by a corporate representative); and
- at least 75% of the votes cast on the Scheme Resolution by DuluxGroup Shareholders.

What choices do I have as a DuluxGroup Shareholder?

As a DuluxGroup Shareholder, you have the following choices in relation to the Scheme:

- vote in favour of the Scheme Resolution at the Scheme Meeting;
- vote against the Scheme Resolution at the Scheme Meeting;
- sell your DuluxGroup Shares on ASX; or
- do nothing.

For more information on your choices as a DuluxGroup Shareholder, please see Section 6.4.

What happens if I do not vote, or if I vote against the Scheme Resolution?

If you do not vote, or if you vote against the Scheme Resolution, the Scheme may not be approved at the Scheme Meeting by the Requisite Majorities of DuluxGroup Shareholders. If this occurs then the Scheme will not be implemented, you will not receive the Scheme Consideration and you will remain a DuluxGroup Shareholder. For more information on what happens if the Scheme is not implemented, please see Section 7.10.1.

However, if the Scheme Resolution is approved by the Requisite Majorities at the Scheme Meeting and the Scheme is implemented, your DuluxGroup Shares will be transferred to Nippon Paint and you will receive the Scheme Consideration for each DuluxGroup Share you hold on the Scheme Record Date, whether or not you voted in favour of the Scheme Resolution.

Can I keep my DuluxGroup Shares?

If the Scheme is implemented, you will receive (on the Implementation Date) the Scheme Consideration of \$9.37 per DuluxGroup Share and your DuluxGroup Shares will be transferred to Nippon Paint, even if you did not vote at all or if you voted against the Scheme Resolution.

When will the results of the Scheme Meeting be available?

The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to ASX once available.

Even if the Scheme Resolution is passed at the Scheme Meeting by the Requisite Majorities, the Scheme will only be implemented if Court approval of the Scheme is obtained and all the other Conditions are satisfied or waived (as applicable). The Conditions of the Scheme are summarised in Section 3.4.3.

What do I do if I oppose the Scheme?

If you, as a DuluxGroup Shareholder, oppose the Scheme, you should do the following:

- call the DuluxGroup Shareholder Information Line on 1300 352 256 (within Australia) or +61 3 9415 4223 (outside Australia) Monday to Friday between 8:30am and 5:30pm and obtain further information;
- attend the Scheme Meeting either in person or by proxy and vote against the Scheme Resolution; and/or
- if DuluxGroup Shareholders pass the Scheme Resolution at the Scheme Meeting and you wish to appear and be heard at the Second Court Hearing and oppose the approval of the Scheme at the Second Court Hearing, you must lodge a notice of intention to appear at the Second Court Hearing, attend the Second Court Hearing and indicate opposition to the Scheme.

Please see the “Important notices” Section of this Scheme Booklet for further details under the heading “Notice of Second Court Hearing” on page 2 if a DuluxGroup Shareholder wishes to oppose the Scheme.

Further information

What if I want further information?

If you have any questions about the Scheme or you would like additional copies of this Scheme Booklet, please contact the DuluxGroup Shareholder Information Line on 1300 352 256 (within Australia) or +61 3 9415 4223 (outside Australia) Monday to Friday between 8:30am and 5:30pm.

For information about your individual financial or tax circumstances please consult your financial, legal, tax or other professional adviser.

5. HOW TO VOTE

5.1. Who is entitled to vote at the Scheme Meeting?

If you are registered on the Share Register as a DuluxGroup Shareholder at 7:00pm on 29 July, then you will be entitled to attend and vote at the Scheme Meeting. Voting is not compulsory.

5.2. Joint holders

In the case of DuluxGroup Shares held by joint holders, only one of the joint holders is entitled to vote. If more than one DuluxGroup Shareholder votes in respect of jointly held DuluxGroup Shares, only the vote of the DuluxGroup Shareholder whose name appears first in the Share Register will be counted.

5.3. Your vote is important

In order for the Scheme to be implemented, the Scheme Resolution must be approved by DuluxGroup Shareholders by the Requisite Majorities at the Scheme Meeting. For this reason, the DuluxGroup Directors unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal.

If you are unable to attend the Scheme Meeting, the DuluxGroup Directors urge you to complete and return, in the enclosed reply paid envelope, the personalised proxy form that accompanies this Scheme Booklet or lodge your proxy form online at Computershare's website (www.investorvote.com.au) in accordance with the instructions given there.

5.4. Location and details of Scheme Meeting

The details of the Scheme Meeting are as follows:

Location: The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia

Date: 31 July 2019

Time: 2:00pm

5.5. Notice of Scheme Meeting

A copy of the Notice of Scheme Meeting is set out in Appendix A to this Scheme Booklet.

5.6. Voting in person, by attorney or corporate representative

If you wish to vote in person, you must attend the Scheme Meeting.

If you cannot attend the Scheme Meeting, you may vote by proxy (see Section 5.7).

Attorneys who plan to attend the Scheme Meeting should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

A body corporate that is a DuluxGroup Shareholder may appoint an individual to act as its corporate representative and should bring to the Scheme Meeting evidence of his or her appointment, including any authority under which it is signed. The appointment must be in accordance with section 250D of the Corporations Act.

5.7. Voting by proxy

If you wish to appoint a proxy to attend and vote at the Scheme Meeting on your behalf, please complete and sign the personalised proxy form accompanying this Scheme Booklet in accordance with the instructions set out on the proxy form or lodge your proxy form online at Computershare's website (www.investorvote.com.au) in accordance with the instructions given there. You may complete the proxy form in favour of the Chairman of the Scheme Meeting or appoint up to two proxies to attend and vote on your behalf at the Scheme Meeting.

TO BE VALID, PROXY FORMS FOR THE SCHEME MEETING MUST BE RECEIVED BY THE REGISTRY BY NO LATER THAN 2:00pm (MELBOURNE TIME) ON 29 July 2019.

Proxy forms, duly completed in accordance with the instructions set out on the proxy form, may be returned to the Registry in one of the following ways:

- online at www.investorvote.com.au (to use the online voting facility, DuluxGroup Shareholders will need their securityholder reference number (SRN) or holder identification number (HIN) and control number as shown on the front of the proxy form);
- by post in the reply-paid envelope provided to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, Australia;
- by hand delivery during business hours (Monday to Friday, 8:30am to 5:30pm) to the Registry at Computershare Investor Services, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067, Australia; or
- by fax to the Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

6. OVERVIEW OF THE SCHEME

6.1. Background

On 17 April 2019, DuluxGroup announced that it had signed the Scheme Implementation Deed with Nippon Paint. Pursuant to the Scheme Implementation Deed, Nippon Paint will acquire all DuluxGroup Shares on issue by way of the Scheme.

If the Scheme is approved by DuluxGroup Shareholders at the Scheme Meeting and by the Court, and if all other necessary approvals and Conditions for the Scheme are satisfied or waived (as applicable), DuluxGroup will become a wholly-owned subsidiary of Nippon Paint and will be delisted from ASX. If the Scheme is not approved, the Scheme will not be implemented and DuluxGroup will continue as a stand-alone entity listed on ASX.

6.2. What is a scheme of arrangement?

A scheme of arrangement is a statutory procedure that is commonly used to enable one company to acquire another company. The Scheme is a scheme of arrangement between DuluxGroup and its shareholders under which Nippon Paint would acquire all of the DuluxGroup Shares in exchange for the Scheme Consideration.

The Scheme must be approved by the Requisite Majorities of DuluxGroup Shareholders, being a majority in number of DuluxGroup Shareholders that vote on the Scheme Resolution (in person or by proxy) and that represent at least 75% of the total votes cast on the Scheme Resolution. The Scheme must also be approved by the Court at the Second Court Hearing.

The Scheme will become binding on DuluxGroup and DuluxGroup Shareholders only if the Conditions to the Scheme, set out in Section 3.4.3, are satisfied or waived (as applicable).

6.3. DuluxGroup Directors' unanimous recommendation

The DuluxGroup Directors have considered the advantages and disadvantages of the Scheme, and unanimously recommend that DuluxGroup Shareholders vote in favour of the Scheme Resolution, in the absence of a Superior Proposal. The DuluxGroup Directors may withdraw or change their recommendation in circumstances where DuluxGroup receives a Superior Proposal and DuluxGroup has complied with the exclusivity arrangements that are summarised in Section 3.4.4, or the Independent Expert concludes that the Scheme is not or is no longer in the best interests of DuluxGroup Shareholders.

In making this recommendation, the DuluxGroup Directors have considered the advantages and disadvantages of the Scheme, including the information set out in:

- Section 3 (Key considerations relevant to your vote);
- Section 6.8 (If the Scheme does not become Effective);
- Section 7.12 (Risks associated with DuluxGroup if the Scheme is not implemented); and
- Appendix B (Independent Expert's Report).

In considering whether to vote in favour of the Scheme Resolution, the DuluxGroup Directors encourage you to:

- carefully read this Scheme Booklet (including the Independent Expert's Report);
- consider the choices available to you as outlined in Section 6.4;

- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- obtain financial advice from your broker or financial adviser on the Scheme and obtain tax advice on the effect of the Scheme becoming Effective.

The interests of each DuluxGroup Director are disclosed in Section 7.14.

6.4. Your choices as a DuluxGroup Shareholder

As a DuluxGroup Shareholder, you have the following four options in relation to your DuluxGroup Shares:

6.4.1. Vote in favour of the Scheme Resolution at the Scheme Meeting

The DuluxGroup Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme Resolution. The reasons for the DuluxGroup Directors' unanimous recommendation are set out in the "Reasons to vote in favour of the Scheme Resolution" Section on page 8.

Also, the Independent Expert has concluded that the Scheme is in the best interests of DuluxGroup Shareholders in the absence of a Superior Proposal.

6.4.2. Vote against the Scheme Resolution at the Scheme Meeting

If, despite the DuluxGroup Directors' unanimous recommendation and the conclusion of the Independent Expert, you do not support the Scheme, you may vote against the Scheme Resolution.

However, if the Scheme Resolution is approved by the Requisite Majorities at the Scheme Meeting and the Scheme is implemented, your DuluxGroup Shares will be transferred to Nippon Paint and you will receive the Scheme Consideration for each DuluxGroup Share you hold on the Scheme Record Date, whether or not you voted in favour of the Scheme Resolution.

6.4.3. Sell your DuluxGroup Shares on ASX

You can sell your DuluxGroup Shares on ASX at any time before the cessation of trading of DuluxGroup Shares on ASX. If you sell your DuluxGroup Shares on ASX, you may incur brokerage or other costs. If the Scheme becomes Effective, trading in DuluxGroup Shares on ASX is expected to cease at the close of trading on ASX on the day on which the Scheme becomes Effective.

6.4.4. Do nothing

If, despite the DuluxGroup Directors' unanimous recommendation and the conclusion of the Independent Expert, you decide to do nothing, you should note that if all of the Conditions to the Scheme are satisfied or waived (as applicable), including receipt of the approval of the Requisite Majorities, the Scheme will bind all DuluxGroup Shareholders, including those who vote against the Scheme Resolution or those who do not vote at all.

Your vote is important. If the Scheme Resolution is not approved by the Requisite Majorities of DuluxGroup Shareholders, you will not be entitled to receive any of the Scheme Consideration.

6.5. If the Scheme becomes Effective

If the Scheme becomes Effective and you remain a DuluxGroup Shareholder as at the Scheme Record Date, each of your DuluxGroup Shares will be acquired by Nippon Paint on the Implementation Date, even if you do not vote on the Scheme Resolution or if you vote against the Scheme Resolution at the Scheme Meeting.

6.6. Scheme Consideration

If the Scheme becomes Effective, Scheme Shareholders will receive Scheme Consideration of \$9.37 per DuluxGroup Share under the Scheme.

In addition, on 15 May 2019, DuluxGroup announced an Interim Dividend of \$0.15 per DuluxGroup Share and a Special Dividend of \$0.28 per DuluxGroup Share (together, the Permitted Dividends). The Permitted Dividends will be paid on the Dividend Payment Date (28 June 2019) to those DuluxGroup Shareholders on the Share Register on the Dividend Record Date (24 June 2019). The Permitted Dividends are not conditional on the Scheme and will be paid irrespective of whether the Scheme proceeds.

Accordingly, if the Scheme proceeds, those DuluxGroup Shareholders who receive the Permitted Dividends and the Scheme Consideration will, in aggregate, receive the Total Cash Value of \$9.80 per DuluxGroup Share. Any DuluxGroup Shareholder that acquires DuluxGroup Shares after the Dividend Record Date will receive \$9.37 per DuluxGroup Share if the Scheme proceeds.

6.6.1. Funding of Scheme Consideration

A summary of how Nippon Paint intends to fund the Aggregate Scheme Consideration is set out in Section 8.5.

6.6.2. Eligibility to receive the Scheme Consideration

It is important to note that you will only receive the Scheme Consideration if you are a Scheme Shareholder. You will be a Scheme Shareholder if you hold DuluxGroup Shares at the Scheme Record Date (which is 7:00pm on the fifth Business Day after the Effective Date, or such other time and date as Nippon Paint and DuluxGroup agree in writing).

6.6.3. Mechanisms for payment of Scheme Consideration and the Permitted Dividends

DuluxGroup will pay the Scheme Consideration by either:

- (a) making a payment to your nominated bank account detailed in the Share Register as at the Scheme Record Date; or
- (b) sending a cheque for the Scheme Consideration that you are entitled to receive under the Scheme to your address shown in the Share Register as at the Scheme Record Date.

The Scheme Consideration and the Permitted Dividends will be paid by DuluxGroup in the same way that you have previously elected to receive dividends from DuluxGroup. Accordingly, DuluxGroup Shareholders are encouraged to elect to receive their dividend entitlements via electronic funds transfer.

If you have not previously notified the Registry of your nominated bank account or you would like to change your existing nominated bank account, you should contact the Registry on 1300 090 835 (within Australia) or +61 3 9415 4183 (outside Australia) Monday to Friday between 8:30am and 5:30pm before the Scheme Record Date.

If a Scheme Shareholder has not nominated a bank account and their whereabouts are unknown as at the Scheme Record Date, the Scheme Consideration will be paid into a separate bank account and held by DuluxGroup until claimed or applied under laws dealing with unclaimed money. If you wish to confirm your current address details with the Registry, you may do so using the contact details above.

6.7. Key steps in the Scheme

6.7.1. Preliminary steps

DuluxGroup and Nippon Paint entered into the Scheme Implementation Deed on 17 April 2019, under which DuluxGroup agreed to, among other things, propose the Scheme.

Nippon Paint has executed the Deed Poll, under which Nippon Paint agrees to, subject to the Scheme becoming Effective, provide the Scheme Consideration to which each Scheme Shareholder is entitled under the terms of the Scheme.

A copy of the proposed Scheme is set out in Appendix D to this Scheme Booklet. A copy of the Deed Poll is set out in Appendix E to this Scheme Booklet.

6.7.2. Scheme Meeting

In accordance with an order of the Court made on 14 June 2019, a meeting of DuluxGroup Shareholders will be held at 2:00pm on 31 July at The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia for the purposes of approving the Scheme Resolution. The Notice of Scheme Meeting, which sets out the Scheme Resolution, is set out in Appendix A to this Scheme Booklet.

Each DuluxGroup Shareholder who is registered on the Share Register at 7:00pm on 29 July is entitled to attend and vote at the Scheme Meeting.

Instructions on how to attend and vote at the Scheme Meeting in person, or to appoint a proxy to attend and vote on your behalf, are set out in Section 5.

6.7.3. Scheme Resolution approval requirements

At the Scheme Meeting, the Scheme Resolution must be approved by the Requisite Majorities, being:

- (a) a majority in number (i.e. more than 50%) of DuluxGroup Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate DuluxGroup Shareholders, by a corporate representative); and
- (b) at least 75% of the total number of votes cast on the Scheme Resolution.

6.7.4. Second Court Hearing

After the Scheme Meeting, DuluxGroup will apply to the Court for orders approving the Scheme, if:

- (a) the Scheme Resolution is approved by the Requisite Majorities of DuluxGroup Shareholders; and
- (b) all Conditions (other than the Condition relating to Court approval) have been or can be satisfied or waived (as applicable).

The Second Court Hearing is expected to take place at 10:15am on 6 August 2019. Any DuluxGroup Shareholder has a right to appear at the Second Court Hearing.

6.7.5. Effective Date

If, at the Second Court Hearing, the Court makes an order approving the Scheme under section 411(4)(b) of the Corporations Act, DuluxGroup will lodge with ASIC an office copy of the Court orders approving the Scheme under section 411(10) of the Corporations Act. It is anticipated that the Court orders will be lodged with ASIC on the day of the Second Court Hearing. Once such Court orders are lodged with ASIC, the Scheme will become "Effective". This means that the Scheme will be binding on DuluxGroup and each DuluxGroup Shareholder. Nippon Paint will be bound to pay the Aggregate Scheme Consideration in accordance with the Deed Poll.

On the Effective Date, DuluxGroup will notify ASX that the Scheme has become Effective. DuluxGroup will then lodge with ASX a copy of the Court orders approving the Scheme. Trading in DuluxGroup Shares on ASX will be suspended from close of trading on the Effective Date. The Effective Date is expected to be 6 August 2019.

Once the Scheme becomes Effective:

- (a) Nippon Paint is bound to pay the Aggregate Scheme Consideration on the Implementation Date;
- (b) each Scheme Shareholder, without the need for any further action, irrevocably appoints DuluxGroup as its attorney and agent for the purposes of enforcing the Deed Poll against Nippon Paint (see Section 6.7.10 for more information); and
- (c) subject to payment of the Aggregate Scheme Consideration by Nippon Paint as referred to in Section 6.7.10 below, DuluxGroup will become bound to take the steps required for Nippon Paint to become the holder of all DuluxGroup Shares.

6.7.6. Scheme Record Date

Those DuluxGroup Shareholders on the Share Register on the Scheme Record Date, being 7:00pm 14 August 2019 (the fifth Business Day after the Effective Date), will be entitled to receive the Scheme Consideration in respect of the DuluxGroup Shares they hold on that date. Further information on the payment of the Scheme Consideration is provided in Section 6.7.10 below.

6.7.7. Dealings in DuluxGroup Shares on, or prior to, the Scheme Record Date

To determine who is a Scheme Shareholder (i.e. a DuluxGroup Shareholder on the Scheme Record Date), dealings in DuluxGroup Shares will only be recognised if:

- (a) in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Share Register as a holder of the relevant DuluxGroup Shares at or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the Share Register is kept (in which case, DuluxGroup must register such transfers or transmission applications at or before the Scheme Record Date).

For the purposes of determining entitlements under the Scheme, DuluxGroup will not accept for registration or recognise any transfer or transmission applications regarding DuluxGroup Shares that are not in a registrable form or are received after the Scheme Record Date.

6.7.8. Dealings in DuluxGroup Shares after the Scheme Record Date

For the purposes of determining entitlements to Scheme Consideration, DuluxGroup will maintain the Share Register in accordance with the terms of the Scheme until:

- (a) the Scheme Consideration has been paid to Scheme Shareholders; and
- (b) the name and address of Nippon Paint has been entered in the Share Register as the holder of all the DuluxGroup Shares.

The Share Register in this form will solely determine entitlements to the Scheme Consideration. After the Scheme Record Date:

- (a) all statements of holding for Scheme Shares will cease to have any effect as documents relating to title in respect of such DuluxGroup Shares; and
- (b) each entry in the Share Register will cease to have effect, other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

6.7.9. Implementation Date

If the Scheme becomes Effective, Scheme Shareholders will receive their Scheme Consideration on the Implementation Date (currently anticipated to be 21 August 2019). Immediately after the Scheme Consideration is paid to Scheme Shareholders, all DuluxGroup Shares will be transferred to Nippon Paint.

6.7.10. Deed Poll

Nippon Paint has executed the Deed Poll, pursuant to which Nippon Paint has undertaken to provide the Scheme Consideration to each Scheme Shareholder under the Scheme, subject to the Scheme becoming Effective.

Under the Scheme, each Scheme Shareholder irrevocably appoints DuluxGroup and each of its Directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purposes of:

- (i) enforcing the Deed Poll against Nippon Paint; and
- (ii) executing any document or doing any other act necessary, desirable or expedient to give full effect to the Scheme and the transactions contemplated by it.

This includes executing a proper instrument of transfer in respect of a Scheme Shareholder's Scheme Shares.

Payment of Aggregate Scheme Consideration

The following steps will occur in relation to the payment of the Aggregate Scheme Consideration by Nippon Paint:

- (a) **Nippon Paint deposits the Aggregate Scheme Consideration:** before 12 noon on the date that is two Business Days before the Implementation Date, Nippon Paint is required to pay the Aggregate Scheme Consideration, in cleared funds, into a trust account operated by DuluxGroup for the benefit of the Scheme Shareholders.
- (b) **DuluxGroup pays Scheme Shareholders and transfers of all DuluxGroup Shares to Nippon Paint:** subject to payment of the Aggregate Scheme Consideration by Nippon Paint as referred to in paragraph (a) above, on the Implementation Date:
 - (i) DuluxGroup will pay (or procure the payment) to each Scheme Shareholder the proportion of the Aggregate Scheme Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Scheme Record Date;
 - (ii) DuluxGroup will transfer all DuluxGroup Shares to Nippon Paint; and
 - (iii) DuluxGroup will then enter the name of Nippon Paint in the Share Register in respect of all DuluxGroup Shares.

A copy of the Deed Poll is set out in Appendix E to this Scheme Booklet.

6.8. If the Scheme does not become Effective

If the Scheme does not become Effective, either DuluxGroup or Nippon Paint is able to terminate the Scheme Implementation Deed. If the Scheme Implementation Deed is terminated, the Scheme will not be implemented. Eligible DuluxGroup Shareholders will still receive the Permitted Dividends where the Scheme does not proceed. However, the DuluxGroup Directors will consider ongoing funding and liquidity requirements, as well as the franking account balance, and may decide to not pay a final dividend for the financial year ending 30 September 2019.

6.9. Warranties by DuluxGroup Shareholders

Under the Scheme, each Scheme Shareholder is taken to have warranted to Nippon Paint, and appointed and authorised DuluxGroup as its attorney and agent to warrant to Nippon Paint, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to their Scheme Shares) which are transferred under the Scheme will, at the time of transfer to Nippon Paint, be fully paid and free from all:
 - (i) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (ii) restrictions on transfer of any kind;
- (b) they have full power and capacity to transfer their Scheme Shares to Nippon Paint together with any rights attaching to those Scheme Shares; and
- (c) as at the Scheme Record Date, they have no existing right to be issued any other Scheme Shares or any other form of DuluxGroup securities (including DuluxGroup Shares).

6.10. Delisting of DuluxGroup

If the Scheme becomes Effective, on or after the Implementation Date, DuluxGroup will apply for termination of the official quotation of DuluxGroup Shares on ASX and for DuluxGroup to be removed from the official list of ASX.

7. INFORMATION ABOUT DULUXGROUP

7.1. Overview of DuluxGroup

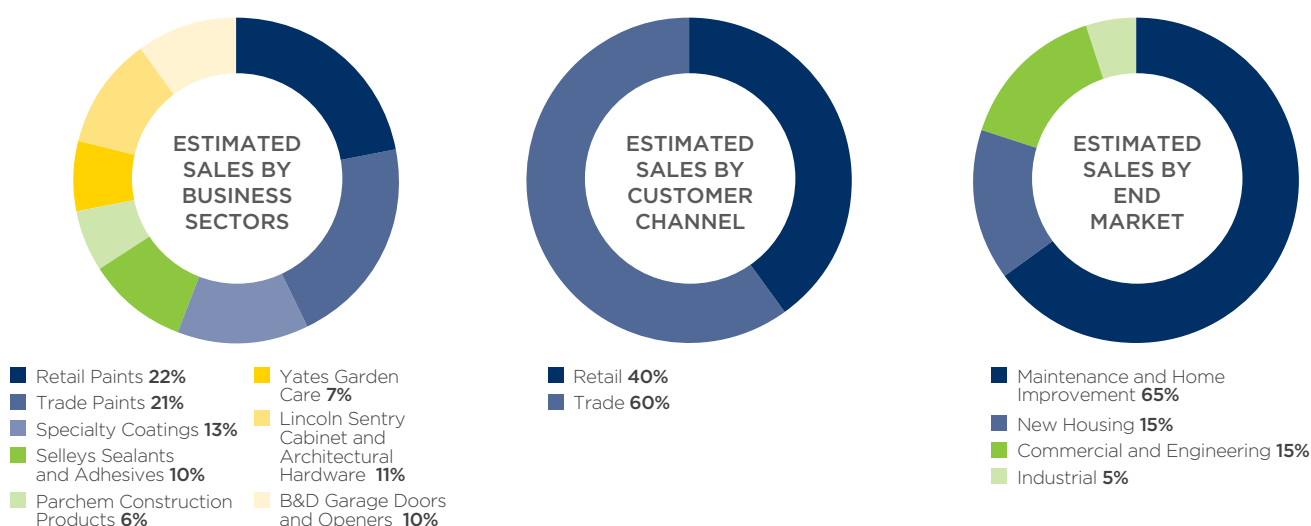
DuluxGroup is a marketer and manufacturer of premium branded products, primarily focussed on the home improvement market in Australia and New Zealand (ANZ).

DuluxGroup's business in ANZ comprises Dulux paint & coatings, Selleys sealants & adhesives, Parchem construction chemicals, Yates garden care, B&D garage doors & openers and Lincoln Sentry cabinet & architectural hardware.⁵ DuluxGroup also owns Dulux Papua New Guinea and has a presence in other offshore markets, including specialty coatings and adhesives businesses in Asia and Craig & Rose paints in the UK.

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

- 24 manufacturing facilities;
- 24 distribution centres; and
- approximately 130 company operated trade outlets.

The following figures outline the estimated split of revenue for the financial year ended 30 September 2018 by business sector, by customer channel and by end market.



For the financial year ended 30 September 2018, DuluxGroup reported revenue of \$1,843.7 million, EBITDA of \$257.7 million, EBIT of \$223.2 million and Net Profit After Tax of \$150.7 million.

7.2. History of DuluxGroup

DuluxGroup had its origins in 1918, when BALM Paints was established. Since that time, the business has grown both organically and through acquisition, largely as part of the global ICI paint business, and from 1997 to 2010 as part of Orica Limited.

'DuluxGroup Limited' was formed in July 2010 when Orica Limited demerged its Consumer Products business. At this time, DuluxGroup comprised the Dulux paints & coatings, Selleys sealants & adhesives and Yates garden care businesses.

Since the demerger from Orica Limited, DuluxGroup has grown organically and through acquisition. In 2012, DuluxGroup diversified its operations through the acquisition of Alesco Limited, which included Parchem construction products & equipment, B&D garage doors & openers and Lincoln Sentry cabinet & architectural hardware.

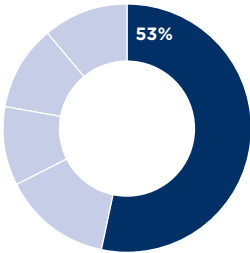
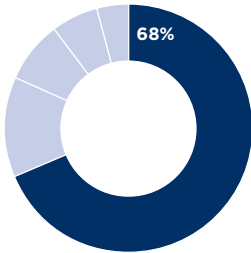
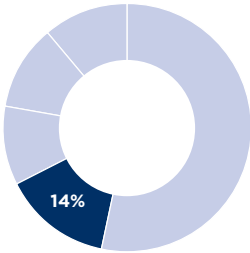
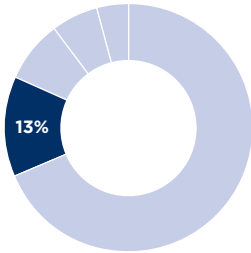
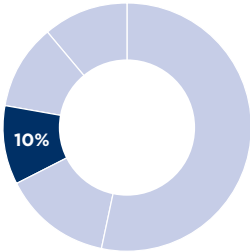
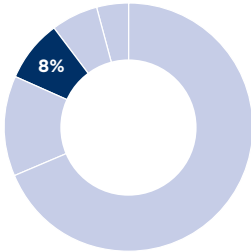
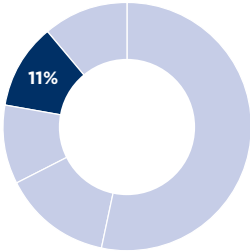
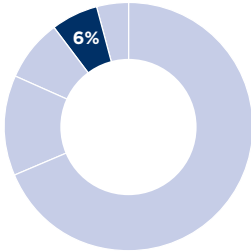
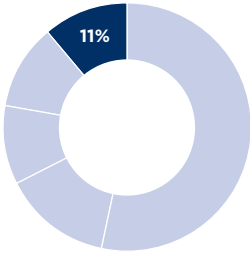
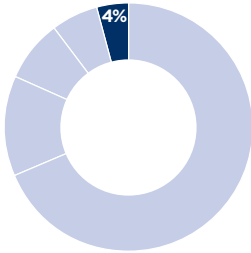
Since that time, DuluxGroup has also:

- made a number of strategic 'bolt on' acquisitions including Porter's Paints in June 2015, Munns lawn products in June 2016, Craig & Rose Paints in August 2016 and Organic Crop Protectants in June 2018;
- divested businesses including the Robinhood business (acquired as part of Alesco) in September 2013, the Opel business in China in January 2014 (50.1% owned by DuluxGroup) and the Camel Coatings business in China and Hong Kong in February 2018 (50.1% owned by DuluxGroup); and
- formed the PT Avian Selleys Joint Venture in Indonesia in August 2017 (50.01% owned by DuluxGroup).

⁵ DuluxGroup is an Australian company that owns the Dulux® trade mark in Australia, New Zealand, Papua New Guinea, Samoa and Fiji only and the Cabot's® trade mark in Australia, New Zealand, Papua New Guinea and Fiji only. DuluxGroup is not associated with, and has no connection to, the owners of the Dulux® and Cabot's® trade marks in any other countries, nor does it sell Dulux® and Cabot's® products in any other countries.

7.3. DuluxGroup operations

DuluxGroup currently operates through five reporting segments. Each of these segments is described below, including relative financial contributions of each for the financial year ended 30 September 2018.

BUSINESS SEGMENT	DESCRIPTION	FY18 REVENUE CONTRIBUTION ⁶	FY18 EBIT CONTRIBUTION ⁷
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 consumer home and garden care products in Australia and New Zealand, Dulux Papua New Guinea coatings and chemical distribution businesses, Craig & Rose decorative paints and Selleys businesses in the United Kingdom, and Acratex decorative coatings and Selleys businesses in China/Hong Kong and South-East Asia		

⁶ Revenue is external revenue (i.e. after elimination of sales between operating businesses). Totals do not add to 100% due to rounding.

⁷ Excludes corporate costs. Totals do not add to 100% due to rounding.

7.3.1. Dulux ANZ

Dulux is a leading Australian marketer and manufacturer of premium branded decorative paints, woodcare coatings and texture coatings, and also markets a range of protective coatings and powder coatings. With a heritage dating back to 1918, Dulux has grown to become a leading brand for retail customers and trade professionals, has industry leading brand recognition and is regularly voted Australia's most trusted paint brand.⁸ Dulux is also one of New Zealand's leading decorative paint brands, and manufactures and markets protective coatings, industrial and powder coatings products for the Australia and New Zealand markets. The Dulux ANZ business also includes other paints and coatings brands including British Paints, Berger, Walpamur, Cabot's, Intergrain, Feast Watson and Porter's.

7.3.2. Selleys & Parchem ANZ

Selleys was established in Sydney in 1939 with a focus on invention and creativity. That legacy has endured, and today Selleys is a leading choice for Australian and New Zealand consumers and tradespeople when it comes to household adhesives, sealants, fillers and paint preparation products. Selleys was acquired in 1988 as part of the Berger and British Paints acquisition.

Parchem's origins date back to 1958 and it has grown to be a leader in construction chemicals, decorative concrete products and related equipment for Australia and New Zealand's civil engineering, industrial, commercial and residential construction markets. Parchem became part of DuluxGroup in 2012 following the acquisition of Alesco Limited.

7.3.3. B&D Group

B&D was founded in Sydney in 1946. Today, B&D Group is a manufacturer and marketer of garage doors and automatic openers for the Australian and New Zealand residential, commercial and industrial markets. B&D became part of DuluxGroup in 2012 following the acquisition of Alesco Limited.

7.3.4. Lincoln Sentry

The Lincoln Sentry cabinet and architectural hardware distribution business was established in Brisbane in 1986. It is a specialist distributor of premium branded cabinet hardware and architectural hardware to the cabinet making industry, and the window, door and glazing industries in Australia. Lincoln Sentry became part of DuluxGroup in 2012 following the acquisition of Alesco Limited.

7.3.5. Other businesses

DuluxGroup's 'other businesses' include:

- **Yates** – 'Australia's Most Trusted Garden Brand',⁹ with home garden products including fertilisers, potting mix, pest and disease control, lawn care, seeds, pots, rodent control and organic gardening products, with origins dating back to 1883. Yates was acquired by Orica in 2003, and in turn became part of DuluxGroup as part of the demerger from Orica in 2010.
- **Dulux Papua New Guinea** – a market leader in decorative paints in Papua New Guinea.
- **DGL Asia** – China, Hong Kong and South East Asian markets including Vietnam, Malaysia and Singapore; and the 50.01% owned PT Avian Selleys joint venture business in Indonesia.
- **DGL UK** – the Craig & Rose paints business and Selleys in the United Kingdom.

7.4. DuluxGroup strategy

DuluxGroup's strategy is focussed on putting its consumers and its customers at the centre of everything it does, in order to drive continued growth and innovation.

With this foundation, DuluxGroup aims to build on its market positions in Australia and New Zealand, both organically and via acquisition, to deliver consistent and sustainable year-on-year growth as it progresses the development of a material offshore business in a measured way.

DuluxGroup aims to do this by:

- leveraging and continuing to invest in its core capabilities across its portfolio of businesses including brands, consumer engagement and marketing, innovation and technology, retail and trade customer service and experience, architectural and engineering specification, and supply chain excellence;
- focussing on markets and market segments that deliver consistent growth and strong returns, with an emphasis on the relatively stable home renovation and maintenance markets, which typically represent approximately 65% of DuluxGroup revenue – noting that Australia has about 10 million existing residential dwellings and approximately 70% are more than 20 years old;
- focussing on categories that are premium, branded, and which leverage innovation, technology and supply chain excellence; and
- continuing to foster DuluxGroup's strong culture, underpinned by its values and behaviours and DuluxGroup's focus on encouraging diversity and developing its talented workforce.

⁸ As published by Australian Reader's Digest (<http://www.homeoftrustedbrands.com.au/brand-showcase/dulux.asp>).

⁹ As published by Australian Reader's Digest (<http://www.homeoftrustedbrands.com.au/brand-showcase/yates.asp>).

Within this overarching strategy there are three core components:

Defend and extend DuluxGroup's market-leading Dulux, Selleys and Parchem businesses in Australia and New Zealand. Together, these businesses represent more than 80% of DuluxGroup's EBIT and are collectively DuluxGroup's most profitable businesses (measured by EBIT/Sales and Return on Net Assets). These businesses aim to further grow revenue and profit via market share gains (supported by marketing strategies, product and service innovation and high levels of customer service) and margin management.

Realise the potential within DuluxGroup's other home improvement businesses – Yates, B&D Group and Lincoln Sentry. Each of these businesses has good growth potential. DuluxGroup continues to seek revenue growth and margin expansion as it broadens product ranges and evolves operating models within these businesses. For example, in 2018, Yates acquired Organic Crop Protectants to further expand into the eco-friendly gardening segment, while B&D Group launched its 'B&D to You' mobile showroom strategy.

Explore pathways to meaningful growth in international markets. While DuluxGroup's offshore businesses are relatively small, it is investing to develop streams of growth for the future to complement its strong ANZ base. DuluxGroup has a well-established market position in Papua New Guinea. In Asian 'do it for me' markets, DuluxGroup is seeding opportunities via 'capital light' initiatives. In western 'do it yourself' markets, initiatives include the expansion of its Craig & Rose specialty paints business in the UK and distribution of Selleys consumer adhesives and sealants products.

DuluxGroup aims to deliver growth through various organic strategies in its businesses as well as pursuing joint ventures and acquisitions where they have strategic merit.

A summary representation of DuluxGroup's core strategic focus areas is represented below.¹⁰



¹⁰ Numbers presented on MAT basis.

7.5. DuluxGroup Board and senior management

7.5.1. DuluxGroup Board

As at the date of this Scheme Booklet, the DuluxGroup Board comprises:

NAME	POSITION
Graeme Liebelt	Non-Executive Chairman
Patrick Houlihan	Managing Director and Chief Executive Officer
Stuart Boxer	Executive Director and Chief Financial Officer
Joanne Crewes	Non-Executive Director
Jane Harvey	Non-Executive Director
Andrew Larke	Non-Executive Director
Judith Swales	Non-Executive Director

Simon Black holds the position of Company Secretary.

7.5.2. Senior management

As at the date of this Scheme Booklet, the senior management team of DuluxGroup comprises:

NAME	POSITION
Patrick Houlihan	Managing Director and Chief Executive Officer
Stuart Boxer	Executive Director and Chief Financial Officer
Patrick Jones	Chief Operating Officer – Dulux Paints and Coatings
Richard Stuckes	Chief Operating Officer – DGL International
Murray Allen	Executive General Manager – B&D Group
Simon Black	Executive General Manager – M&A, Legal and Corporate Affairs
Brad Hordern	Executive General Manager – Supply Chain
Siobhan McHale	Executive General Manager – Human Resources
Ian Rowden	Executive General Manager – Strategic Marketing ¹¹
Jennifer Tucker	Executive General Manager – Yates
Martin Ward	Executive General Manager – Selleys

¹¹ Please note, Ian Rowden performs his role on a part-time consultancy basis.

7.6. DuluxGroup's capital structure

7.6.1. DuluxGroup Shares on issue

As at 13 June 2019 (being the last practicable trading day prior to despatch of this Scheme Booklet), DuluxGroup had 389,250,252 DuluxGroup Shares on issue.

7.6.2. DuluxGroup Incentive Shares

As at 13 June 2019 (being the last practicable trading day prior to despatch of this Scheme Booklet), DuluxGroup's outstanding LTEIP Shares and Incentive Shares on issue are as set out below.

INCENTIVE SHARES

Incentive Shares – LTEIP	6,018,335 unvested LTEIP Shares 1,525,776 vested LTEIP Shares
Incentive Shares – Employee Equity Plan	118,809 vested Incentive Shares
Incentive Shares – Sacrifice Share Acquisition Plan	101,866 vested Incentive Shares
Incentive Shares – Employee Share Investment Plan	410,258 vested Incentive Shares

Additional detail regarding the treatment of DuluxGroup Incentive Shares if the Scheme is implemented is set out in Section 7.16.1.

7.7. DuluxGroup's historical share price

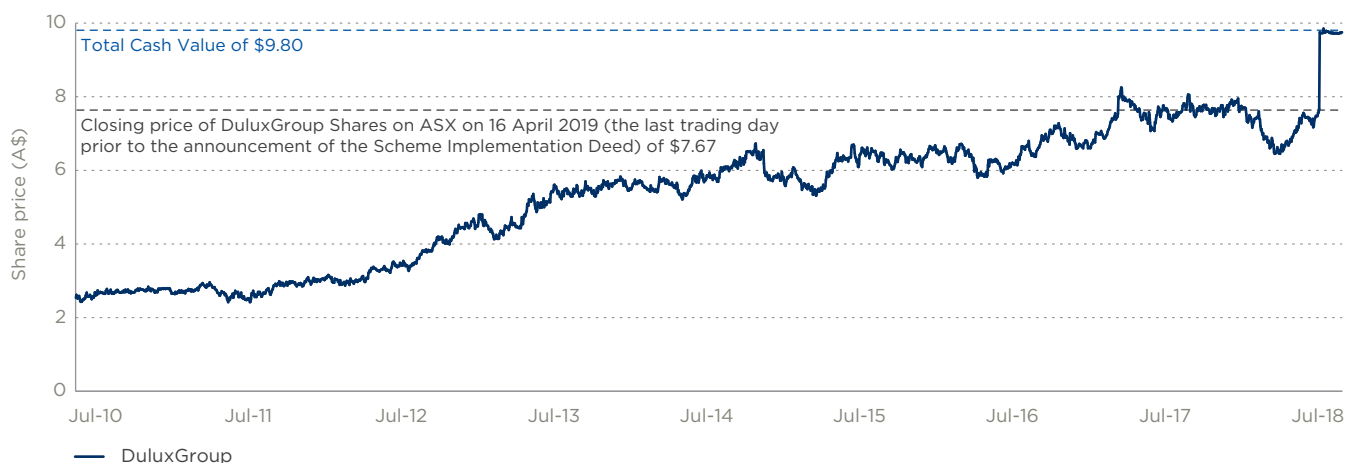
DuluxGroup's Shares are listed on ASX under the trading symbol "DLX".

The closing price of DuluxGroup Shares on ASX on 16 April 2019 (the last trading day prior to the announcement of the Scheme Implementation Deed) was \$7.67. The closing price for DuluxGroup Shares on ASX on 13 June 2019 (being the last practicable trading day prior to despatch of this Scheme Booklet) was \$9.75.

During the three months ending 16 April 2019:

- the highest recorded daily closing price for DuluxGroup Shares was \$7.67 on 16 April 2019; and
- the lowest recorded daily closing price for DuluxGroup Shares was \$6.65 on 17 January 2019.

The chart below shows DuluxGroup's share price performance since listing on ASX on 12 July 2010.



Source: IRESS (as at 13 June 2019, being the last practicable trading day prior to despatch of this Scheme Booklet).

7.8. DuluxGroup's substantial shareholders

Based on publicly available information, as at 13 June 2019 (being the last practicable trading day prior to despatch of this Scheme Booklet), DuluxGroup had received notifications from the following substantial shareholders in accordance with section 671B of the Corporations Act:

NAME	NUMBER OF DULUXGROUP SHARES	PERCENTAGE OF TOTAL ISSUED SHARES
AustralianSuper Pty Ltd	33,493,649	8.60%
The Vanguard Group, Inc	19,652,072	5.05%

7.9. Financial information

This Section 7.9 contains audited financial information relating to DuluxGroup for the financial years ended 30 September 2017 and 30 September 2018, and reviewed interim financial information for the six months ended 31 March 2019.

The financial information in this Section 7.9 is a summary only and has been prepared and extracted for the purposes of this Scheme Booklet only.

Further detail about DuluxGroup's financial performance can be found in the financial statements for the half year ended 31 March 2019. Copies of DuluxGroup's financial reports for the financial year ended 30 September 2018 and half-year ended 31 March 2019 can be obtained, free of charge, from ASX's website (www.asx.com.au), DuluxGroup's website (www.duluxgroup.com.au) or by calling the DuluxGroup Shareholder Information Line on 1300 352 256 (within Australia) or +61 3 9415 4223 (outside Australia) any time between 8:30am and 5:30pm (AEST) on Monday to Friday.

7.9.1. Basis of preparation

The historical financial information of DuluxGroup presented in this Scheme Booklet is in an abbreviated form and does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. DuluxGroup considers that, for the purposes of this Scheme Booklet, the historical financial information presented is more meaningful to DuluxGroup Shareholders. The historical financial information of DuluxGroup has been prepared in accordance with the recognition and measurement principles contained in the Australian Accounting Standards. The historical financial information in this Scheme Booklet is presented on a standalone basis and accordingly does not reflect any impact of the Scheme.

7.9.2. Consolidated Statement of Profit or Loss

The following table presents the historical consolidated statement of profit or loss and other comprehensive income for the six months ended 31 March 2019, and for the financial years ended 30 September 2017 and 30 September 2018.

	1H19 \$'000	FY18 \$'000	FY17 \$'000
Revenue ¹²	892,866	1,843,714	1,784,468
Other income	3,723	21,175	4,227
Expenses			
Changes in inventories of finished goods and work in progress	(18,724)	(7,400)	(6,339)
Raw materials and consumables used and finished goods purchased for resale	392,540	769,900	726,836
Employee benefits	195,420	406,705	389,791
Depreciation and amortisation	17,822	34,467	31,282
Repairs and maintenance	6,810	13,458	13,281
Operating leases	26,007	54,698	53,593
Outgoing freight	38,745	75,927	73,070
Purchased services	49,840	118,116	118,088
Other expenses ¹³	80,088	177,963	176,118
Share of net profit of equity accounted investment	(1,047)	(2,139)	(1,235)
	787,501	1,641,695	1,574,485
Earnings before interest and income tax expense (EBIT)	109,088	223,194	214,210
Finance income	347	504	189
Finance expenses	(10,037)	(17,442)	(17,483)
Net finance costs	(9,690)	(16,938)	(17,294)
Profit before income tax expense	99,398	206,256	196,916
Income tax expense	(30,510)	(57,727)	(57,255)
Profit for the year	68,888	148,529	139,661
Attributable to:			
Ordinary shareholders of DuluxGroup Limited	68,216	150,674	142,941
Non-controlling interest in controlled entities	672	(2,145)	(3,280)
Profit for the year	68,888	148,529	139,661
	Cents	Cents	Cents
Earnings per share			
Attributable to the ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	17.9	39.4	37.3
Diluted earnings per share	17.6	38.9	36.7

¹² Revenue is external revenue (i.e. after elimination of sales between operating businesses). Revenue for the six months ended 31 March 2019 is recognised in accordance with new accounting standard AASB15 (Revenue from Contracts with Customers) which DuluxGroup has adopted from 1 October 2018. Revenue in prior years has not been restated. Adoption of this standard has no impact on profits.

¹³ Largely comprised of commissions, royalties and other fixed and variable costs.

7.9.3. Consolidated Statement of Financial Position

The following table presents the historical consolidated statement of financial position as at 31 March 2019, 30 September 2018 and 30 September 2017.

	31 Mar 19 \$'000	30 Sep 18 \$'000	30 Sep 17 \$'000
Current assets			
Cash and cash equivalents	35,010	55,315	38,974
Trade and other receivables	264,376	288,760	277,677
Inventories	264,215	243,947	229,394
Derivative financial assets	4,624	3,944	3,847
Other assets	14,384	9,777	6,613
Assets held for sale	–	–	6,814
Total current assets	582,609	601,743	563,319
Non-current assets			
Other receivables	29	8	35
Derivative financial assets	56,568	42,536	36,945
Equity accounted investment	10,439	9,892	7,753
Property, plant and equipment	385,838	383,228	371,805
Intangible assets	235,110	231,592	228,670
Deferred tax assets	46,712	50,301	50,436
Other assets	6,078	6,185	3,138
Total non-current assets	740,774	723,742	698,782
Total assets	1,323,383	1,325,485	1,262,101
Current liabilities			
Trade and other payables	217,301	264,699	264,912
Interest-bearing liabilities	45,695	11,395	16,570
Derivative financial liabilities	514	428	619
Current tax payable	5,498	11,093	18,567
Provisions	61,803	74,658	77,369
Total current liabilities	330,811	362,273	378,037
Non-current liabilities			
Other payables	348	363	249
Interest-bearing liabilities	455,369	432,394	398,116
Deferred tax liabilities	30,155	29,518	28,096
Provisions	12,498	11,946	13,339
Defined benefit liability	42,993	48,526	36,964
Total non-current liabilities	541,363	522,747	476,764
Total liabilities	872,174	885,020	854,801
Net assets	451,209	440,465	407,300
Equity			
Share capital	292,802	289,432	277,282
Treasury shares	(54,726)	(41,060)	(22,286)
Reserves	(95,420)	(98,627)	(101,444)
Retained earnings	310,901	293,425	257,101
Total equity attributable to ordinary shareholders of DuluxGroup Limited	453,557	443,170	410,653
Non-controlling interest in controlled entities	(2,348)	(2,705)	(3,353)
Total equity	451,209	440,465	407,300

7.9.4. Consolidated Statement of Cash Flows

The following table presents the historical consolidated statement of cash flows for the six months ended 31 March 2019, and for the financial years ended 30 September 2017 and 30 September 2018.

	1H19 \$'000	FY18 \$'000	FY17 \$'000
Cash flows from operating activities			
Profit before income tax expense	99,398	206,256	196,916
Adjustments for:			
Depreciation and amortisation	17,822	34,467	31,282
Amortisation of prepaid supply agreements	655	1,298	1,296
Share-based payments expense	1,884	4,725	3,330
Defined benefit service cost	2,281	4,215	5,750
Research and development grant income	(148)	(802)	(962)
Share of net profit of equity accounted investment	(1,047)	(2,139)	(1,235)
Profit on disposal of business assets	(1,778)	(11,628)	-
Impairment of inventories, trade and other receivables	2,270	6,372	3,380
(Reversal of impairment)/Impairment of property, plant and equipment and intangible assets	(153)	2,015	-
Net (profit)/loss on sale of property, plant and equipment	63	(5,631)	234
Net foreign exchange losses/(gains) on operating items	(1,641)	713	(1,792)
Net finance cost	9,690	16,938	17,294
	129,296	256,799	255,493
<i>Changes in assets and liabilities:</i>			
Decrease/(Increase) in trade, other receivables and other assets	19,071	(21,154)	(26,740)
Increase in inventories	(18,932)	(18,137)	(13,338)
(Decrease)/increase in trade and other payables and provisions	(66,908)	(3,574)	13,695
Cash generated from operations	62,527	213,934	229,110
Interest received	348	435	189
Interest paid	(8,758)	(14,704)	(13,628)
Income taxes paid	(33,354)	(59,435)	(49,701)
Net cash inflow from operating activities	20,763	140,230	165,970
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets	(20,236)	(55,215)	(96,073)
Payments for purchase of businesses	(31)	(8,047)	(571)
Proceeds from joint venture distribution	500	-	-
Proceeds from disposal of business assets	2,718	20,996	-
Proceeds from disposal of property, plant and equipment and asset held for sale	21	13,297	191
Net cash outflow from investing activities	(17,028)	(28,969)	(96,453)
Cash flows from financing activities			
Proceeds from borrowings	987,316	2,807,204	2,890,779
Repayments of borrowings	(945,327)	(2,786,069)	(2,857,650)
Payments for purchase of treasury shares	(13,666)	(27,756)	(18,002)
Proceeds from sale of treasury shares	-	45	8
Proceeds from employee share plan repayments	1,304	8,420	8,551
Dividends paid (net of shares allocated/issued as part of the DRP)	(54,030)	(97,240)	(92,114)
Contribution from non-controlling interest on establishment of business	-	2,838	-
Other financing activities	(300)	(4,000)	-
Net cash outflow from financing activities	(24,703)	(96,558)	(68,428)
Net (decrease)/increase in cash held	(20,968)	14,703	1,089
Cash at the beginning of the year	55,315	38,974	39,068
Effects of exchange rate changes on cash	663	1,638	(1,183)
Cash at the end of the year	35,010	55,315	38,974

7.10. DuluxGroup Directors' intentions

The Corporations Regulations require a statement by the DuluxGroup Directors of their intentions regarding DuluxGroup's business. If the Scheme Consideration is paid to Scheme Shareholders, DuluxGroup will procure that any DuluxGroup Director nominated by Nippon Paint to resign from the DuluxGroup Board will resign and Nippon Paint will have 100% ownership and control of DuluxGroup. The current intentions of Nippon Paint with respect to these matters are set out in Section 8.

If the Scheme is not implemented, the DuluxGroup Directors intend to continue to operate DuluxGroup in the ordinary course of business and for DuluxGroup to remain listed on ASX.

7.10.1. What if the Scheme is not implemented?

If the Scheme is not implemented, there will no change to DuluxGroup and it will continue to operate on a stand-alone basis. As such, DuluxGroup will remain listed on ASX and you will retain your DuluxGroup Shares. While it is not possible to predict the future performance of DuluxGroup, in deciding whether or not to vote in favour of the Scheme Resolution you should have regard to the prospects of DuluxGroup on a stand-alone basis (that is, if the Scheme is not implemented).

Some possible implications of the Scheme not being implemented are:

- (a) DuluxGroup Shareholders will retain their DuluxGroup Shares and they will not be acquired by Nippon Paint;
- (b) DuluxGroup Shareholders will not receive the Scheme Consideration;
- (c) DuluxGroup will, in the absence of another proposal, continue to operate as a stand-alone company listed on ASX and, as such, DuluxGroup Shareholders will be exposed to the risks relating to DuluxGroup's business (refer to Section 7.12) for a summary of those risks); and
- (d) if no Superior Proposal is received by the DuluxGroup Board, then the DuluxGroup Share price may fall.

The Permitted Dividends are not conditional on the Scheme and will be paid to eligible DuluxGroup Shareholders irrespective of whether the Scheme proceeds.

DuluxGroup estimates that, if the Scheme is not implemented, DuluxGroup will be required to pay one-off Transaction Costs of approximately \$6 million (excluding GST and disbursements and any Break Fee that may be payable to Nippon Paint). This includes the following amounts:

- (a) fees and expenses paid or payable (excluding GST) to DuluxGroup's professional advisers (including its financial, legal, accounting and tax advisers) of approximately \$4 million;
- (b) fees paid or payable to the Independent Expert of \$515,000; and
- (c) Registry costs, fees and expenses associated with the Court proceedings, costs relating to design, printing and dispatch of this Scheme Booklet, expenses associated with convening and holding the Scheme Meeting, fees related to proxy solicitation services, and other general and administrative expenses in connection with the Scheme, of approximately \$1.5 million in aggregate.

The payment of these Transaction Costs would affect the cash balance of the DuluxGroup.

7.10.2. Strategy and intentions for DuluxGroup if the Scheme is not implemented

If the Scheme is not implemented, there will be no change to DuluxGroup's strategy as outlined in Section 7.4.

The Permitted Dividends are not conditional on the Scheme. The Permitted Dividends will be paid on 28 June 2019, irrespective of whether the Scheme proceeds. The DuluxGroup Directors will consider DuluxGroup's ongoing funding and liquidity requirements, as well as its franking account balance, and may decide to not pay a final dividend for the financial year ending 30 September 2019.

7.11. No material changes in DuluxGroup's financial position since 31 March 2019

To the knowledge of the DuluxGroup Directors, other than accumulation of profits in the ordinary course of business, the financial position of DuluxGroup has not changed materially since 31 March 2019, being the date of the last balance sheet prepared before this Scheme Booklet was sent to DuluxGroup Shareholders in accordance with the Corporations Act.

7.12. Risks associated with DuluxGroup if the Scheme is not implemented

The DuluxGroup Board considers that it is appropriate for DuluxGroup Shareholders, in considering the Scheme, to be aware there are a number of risks which could materially and adversely affect the future operating and financial performance, and value, of DuluxGroup.

Section 7.12.1 outlines some general investment risks relating to an investment in DuluxGroup and Section 7.12.2 outlines some specific risks relating to an investment in DuluxGroup. If the Scheme is implemented, you will cease to be a DuluxGroup Shareholder and will also no longer be exposed to the risks set out below. If the Scheme is not implemented, you will continue to hold your DuluxGroup Shares and continue to be exposed to risks associated with that investment and the risks set out below.

You should carefully consider the risks discussed in this Section 7.12, as well as the other information contained in this Scheme Booklet, before voting on the Scheme Resolution. Sections 7.12.1 and 7.12.2 are general in nature only and do not take into account your individual objectives, financial situation, tax position or particular needs.

7.12.1. General risks associated with your investment in DuluxGroup

The market price of DuluxGroup Shares may be influenced by a number of factors, including:

- (a) changes in investor sentiment and overall performance of the Australian securities market;
- (b) changes in general business, industry cycles and economic conditions including inflation, interest rates, exchange rates, employment, credit markets, consumer confidence and demand, housing prices and turnover and other industry specific factors;
- (c) changes in government fiscal, monetary, taxation, employment and regulatory policies;
- (d) changes in laws and regulations including accounting and financial reporting standards;
- (e) government intervention in export and import markets, including sanction controls and import duties; and
- (f) weather conditions, natural disasters, terrorism and international conflicts.

7.12.2. Specific risks associated with your investment in DuluxGroup

Growth	DuluxGroup's domestic ANZ and international growth strategy underpins DuluxGroup's long-term profitability. An inability to identify, fund and execute meaningful and sustainable growth opportunities in local and offshore markets and/or the risks associated with pursuing those opportunities, could negatively impact DuluxGroup's future financial performance.
Consumers	DuluxGroup has a portfolio of strong, premium brands with products that are trusted and relied upon for their quality and premium performance. A significant loss of brand equity through failing to engage with consumers effectively or through events such as product quality failures, product liability claims, failure to innovate or produce market-responsive products and social media activism could have a material adverse impact on DuluxGroup's reputation, revenue and profit.
Customers	DuluxGroup's largest retail customers represent a significant portion of total revenue for DuluxGroup. Loss of revenue from key customers could materially impact DuluxGroup's profitability. Market concentration of retail customer power in ANZ markets, as well as key customers pursuing disruptive opportunities, could also result in downward pressure on margins and/or share loss.
Competitors	DuluxGroup's multinational competitors or new disruptive entrants could bring product, service or other innovation, or lower costs to the ANZ markets which could threaten DuluxGroup's operating margins and/or market share.
Suppliers	Supply disruption including any breakdown of key supplier relationships, decline in the availability of key input materials, changes in regulatory approval or consumer acceptance of key raw materials or packaging, price volatility or foreign exchange fluctuations, could negatively impact revenue or operating margins and may not be able to be fully mitigated.
Property leases	DuluxGroup has a large number of property leases with third parties, covering manufacturing sites, distribution centres, trade outlets and offices. Lease disputes may result in disruptions to operations and/or unanticipated costs if relocation is required.
Manufacturing and distribution operations	DuluxGroup's manufacturing, distribution and other key supply chain operations could be materially disrupted by accidents, natural disasters, cyber-attacks or other catastrophic events. Such events could result in personal injury, loss of life and/or significant financial, reputational and market share loss. It cannot be certain that any financial loss would be fully or partially mitigated by insurance.
Safety	A death or major injury in the workplace would be devastating for employees and families. Any such event, or any breach of relevant safety laws, could result in possible legal action or materially impact DuluxGroup's reputation and culture as well as its operating and financial performance.
Sustainability	Key pillars of DuluxGroup's sustainability strategy include effective product stewardship and efficient operations. A failure by DuluxGroup to effectively manage key risks related to matters such as chemicals of concern, labelling requirements, ethical sourcing, waste management, water and energy use, recycling and site contamination, could have material adverse consequences for DuluxGroup.
Industrial relations	DuluxGroup's product supply could be materially impacted by stoppages, sabotage or prolonged industrial disputes including during the renegotiation of collective agreements.
Culture, conduct and regulatory compliance	DuluxGroup's reputation and 'licence to operate' is dependent upon its employees consistently demonstrating its stated Values and Behaviours as well as complying with DuluxGroup's Code of Conduct. Any failure to comply with relevant environmental regulations, competition and consumer laws, fraud, bribery and anti-corruption requirements or any other relevant legislation, may have material adverse consequences including costly claims, litigation or reputational impacts.

Talent	DuluxGroup's continued success depends in part on its ability to attract and retain highly skilled, experienced and qualified management and personnel. DuluxGroup may find it difficult to hire and retain key personnel at times, and key personnel may be sought and hired by competitors or other industry participants.
Critical IT systems and data protection	Sustained non-availability of critical systems and/or data, including through cyber incidents, unsupported systems, aging hardware or capacity constraints, could have material adverse effects on DuluxGroup. In addition, the loss, exposure or breach of sensitive data relating to DuluxGroup, its employees, suppliers, customers or consumers could result in adverse financial, reputational or regulatory impacts.
Funding	DuluxGroup has available debt facilities to fund its business operations and growth strategies. Additional debt finance has been obtained to fund the Special Dividend announced on 15 May 2019 which has increased DuluxGroup's total debt level. In addition to the higher interest expense, any failure to refinance, repay or renew its debt facilities on favourable terms may adversely impact the financial performance of DuluxGroup.
Intellectual property	DuluxGroup's intellectual property, including trademarks, designs, patents and business names, is critical to its business. This intellectual property may be infringed, or DuluxGroup may infringe the intellectual property of other entities, resulting in loss of competitive advantage as well as loss of revenue and profit.

7.12.3. Unknown risks

Additional risks and uncertainties not currently known to DuluxGroup may also have a material adverse effect on DuluxGroup's financial and operational performance. The information set out in this Section 7.12 does not purport to be, nor should it be construed as representing, an exhaustive list of all the risks affecting DuluxGroup, its business or an investment in DuluxGroup Shares.

7.13. Publicly available information on DuluxGroup

As an ASX listed company and a "disclosing entity" under the Corporations Act, DuluxGroup is subject to regular reporting and disclosure obligations. Among other things, these obligations require DuluxGroup to announce price sensitive information to ASX as soon as DuluxGroup becomes aware of the information, subject to some exceptions.

Pursuant to the Corporations Act, DuluxGroup is required to prepare and lodge with ASIC and ASX both annual and half-year financial statements accompanied by a statement and report from the DuluxGroup Directors and an audit or review report respectively.

Copies of the documents filed with ASX may be obtained from ASX's website (www.asx.com.au) and DuluxGroup's website (www.duluxgroup.com.au). Copies of the documents lodged with ASIC in relation to DuluxGroup may be obtained from, or inspected at, an ASIC office.

7.14. Interests of DuluxGroup Directors in DuluxGroup

DuluxGroup Director	Position	Relevant interest in DuluxGroup Shares (excluding unvested LTEIP Shares)	Unvested LTEIP Shares and other benefits arising in connection with the Scheme	Relevant interest in DuluxGroup Shares (as a percentage of all DuluxGroup Shares and including unvested LTEIP Shares)
Graeme Liebelt	Chairman (since July 2018). Member of the Nominations Committee.	78,337 (direct)	N/A	0.020%
Patrick Houlihan	Managing Director and Chief Executive Officer (since July 2010). Member of the Safety and Sustainability Committee and member of the Nominations Committee.	<ul style="list-style-type: none"> 1,167,018 (direct) 33,533 (direct and held pursuant to the terms of DuluxGroup's Employee Equity Plan) 416,341 (direct, vested and held pursuant to the terms of the DuluxGroup's LTEIP) ** <p>** DuluxGroup provided non-recourse loans to Mr Houlihan to fund the purchase of 1,658,562 LTEIP Shares (comprising 416,341 vested LTEIP Shares and 1,242,221 unvested LTEIP Shares). The balance of such loans at 31 May 2019 was approximately \$10.2 million. If the Scheme becomes Effective, approximately \$2.5 million of the loans will be forgiven and the unvested LTEIP Shares will vest. The remaining loan amount will be repaid by Mr Houlihan out of the Scheme Consideration in respect of his LTEIP Shares. Refer to Section 7.16.1 for further details.</p>	1,242,221 **	0.735%
Stuart Boxer	Chief Financial Officer and Executive Director (since July 2010). Member of the Nominations Committee.	<ul style="list-style-type: none"> 60,500 (indirect) 367,150 (direct) 13,737 (direct and held pursuant to the terms of DuluxGroup's Employee Equity Plan) 159,152 (direct, vested and held pursuant to the terms of DuluxGroup's LTEIP) ** <p>** DuluxGroup provided non-recourse loans to Mr Boxer to fund the purchase of 627,845 LTEIP Shares (comprising 159,152 vested LTEIP Shares and 468,693 unvested LTEIP Shares). The balance of such loans at 31 May 2019 was approximately \$3.9 million. If the Scheme becomes Effective, \$947,697 of the loans will be forgiven and the unvested LTEIP Shares will vest. The remaining loan amount will be repaid by Mr Boxer out of the Scheme Consideration in respect of his LTEIP Shares. Refer to Section 7.16.1 for further details.</p>	468,693 **	0.275%
Andrew Larke	Non-Executive Director (since October 2010). Chair of the Remuneration and Human Resources Committee, member of the Audit and Risk Committee and member of the Nominations Committee.	<ul style="list-style-type: none"> 172,156 (direct) 40,000 (indirect) 	Mr Larke will receive a fee of \$50,000 in recognition of his time commitment and contribution in connection with the consideration of the Nippon Paint proposal and consideration, negotiation and implementation of the Scheme. See Section 7.17.1 for further details.	0.055%

DuluxGroup Director	Position	Relevant interest in DuluxGroup Shares (excluding unvested LTEIP Shares)	Unvested LTEIP Shares and other benefits arising in connection with the Scheme	Relevant interest in DuluxGroup Shares (as a percentage of all DuluxGroup Shares and including unvested LTEIP Shares)
Judith Swales	Non-Executive Director (since April 2011). Chair of the Safety and Sustainability Committee, member of the Audit and Risk Committee and member of the Nominations Committee.	60,000 (indirect)	N/A	0.015%
Joanne Crewes	Non-Executive Director (since February 2018). Member of the Remuneration and Human Resources Committee, member of the Safety and Sustainability Committee and member of the Nominations Committee.	6,011 (direct)	N/A	0.002%
Jane Harvey	Non-Executive Director (since February 2018). Chair of the Audit and Risk Committee, member of the Remuneration and Human Resources Committee and member of the Nominations Committee.	10,998 (direct)	N/A	0.003%

No DuluxGroup Director acquired or disposed of a Relevant Interest in any DuluxGroup Shares in the four-month period ending on the last practicable trading day prior to the date of this Scheme Booklet.

In the absence of a Superior Proposal, each DuluxGroup Director intends to vote, or cause to be voted, all DuluxGroup Shares in which they have a Relevant Interest in favour of the Scheme Resolution.

No DuluxGroup Director has any other interest, whether as a director, member or creditor of DuluxGroup or otherwise, which is material to the Scheme, other than in their capacity as a holder of DuluxGroup Shares or Incentive Shares.

7.15. Interests of DuluxGroup Directors in Nippon Paint

No DuluxGroup Director has a Relevant Interest in any securities of Nippon Paint or any of its Related Bodies Corporate.

7.16. DuluxGroup executive incentive arrangements

7.16.1. Incentive Shares

DuluxGroup currently operates a number of incentive schemes, including the LTEIP, Employee Equity Plan, Sacrifice Share Acquisition Plan and Employee Share Investment Plan (together, the **Incentive Plans**).¹⁴

As at 13 June 2019 (being the last practicable trading day prior to despatch of this Scheme Booklet), the following securities were on issue under the Incentive Plans:

- (a) LTEIP – 6,018,335 unvested DuluxGroup Shares and 1,525,776 vested DuluxGroup Shares (all such DuluxGroup Shares were acquired using non-recourse loans advanced to LTEIP participants by DuluxGroup);
- (b) Employee Equity Plan – 118,809 vested DuluxGroup Shares;
- (c) Sacrifice Share Acquisition Plan – 101,866 vested DuluxGroup Shares; and
- (d) Employee Share Investment Plan – 410,258 vested DuluxGroup Shares.

Consistent with the rules of the Incentive Plans and the discretions conferred upon the DuluxGroup Board under such rules, the outstanding DuluxGroup Shares granted under the Incentive Plans will be treated as follows in connection with the Scheme, should the Scheme become Effective:

- (e) all unvested DuluxGroup Shares granted under the LTEIP will vest;
- (f) 30% of the original amount of the loans in respect of all unvested DuluxGroup Shares granted under the LTEIP will be forgiven (noting that the level of loan forgiveness in respect of the vested DuluxGroup Shares granted under the LTEIP was previously determined in accordance with the terms on which such DuluxGroup Shares were granted). Accordingly, approximately \$12.2 million (from an original loan amount of approximately \$40.7 million) will be forgiven if the Scheme becomes Effective;
- (g) the transfer restrictions in respect of all outstanding DuluxGroup Shares granted under the Incentive Plans will be lifted to the extent necessary to permit the transfer of such DuluxGroup Shares to Nippon Paint under the terms of the Scheme; and
- (h) the Scheme Consideration in respect of all DuluxGroup Shares granted under the LTEIP will be paid by Nippon Paint in accordance with the Scheme and first be applied to the repayment of the outstanding loan balance in respect of those DuluxGroup Shares, with the remaining amount to then be distributed to the relevant employees of the DuluxGroup Group in accordance with their entitlements.

The DuluxGroup Board (excluding the executive directors, Patrick Houlihan and Stuart Boxer)¹⁵ has exercised the relevant discretions to give effect to the steps in paragraphs (e), (f), (g) and (h) above, in each case subject to the Scheme becoming Effective. The DuluxGroup Board made this determination having regard to a range of factors including:

- the DuluxGroup Board's view that the Scheme Consideration is attractive;
- the contribution by management to the overall performance of DuluxGroup, which the DuluxGroup Board believes has been a key factor in making DuluxGroup attractive to an acquirer such as Nippon Paint at the Scheme Consideration offered; and
- the outcomes of previous LTEIP grants. Due to the strong past performance of DuluxGroup, 30% loan forgiveness has been achieved in 3 of the 6 previous LTEIP grants, and the average loan forgiveness across all 6 grants has been 24.6%.

Prior to the Scheme becoming Effective, the outstanding DuluxGroup Shares granted under the Incentive Plans will remain subject to the rules of the Incentive Plans.

7.16.2. Short term incentives

DuluxGroup and Nippon Paint agreed under the Scheme Implementation Deed that DuluxGroup may make certain short term incentive and other payments for the financial year ending 30 September 2019. The DuluxGroup Board has absolute discretion to determine individual payments subject to aggregate caps as agreed with Nippon Paint. The DuluxGroup Board considers that the aggregate caps are sufficient to enable the relevant payments to be made in accordance with employee entitlements and in the ordinary course of business.

These payments relate to (among other things) entitlements of DuluxGroup employees as part of their remuneration packages and other bonus payments made in the ordinary course of DuluxGroup's business. As at 13 June 2019 (being the last practicable trading day prior to despatch of this Scheme Booklet), final decisions have not been made about the recipients, quantum or timing of these payments, however some of the payments may be made on or before the Implementation Date.

¹⁴ Summaries of the Incentive Plans are set out in section 4.8 of the Independent Expert's Report.

¹⁵ The exercise of discretion by the DuluxGroup Board was approved by the non-executive DuluxGroup Directors. Patrick Houlihan and Stuart Boxer did not vote on the resolution given their interest in the subject matter of the resolution.

7.17. Benefits and agreements

7.17.1. DuluxGroup Director special exertion fees

In accordance with DuluxGroup's constitution and the Scheme Implementation Deed, non-executive director Andrew Larke, will receive a \$50,000 special exertion fee (or an equivalent fee for being a member of a sub-committee in relation to the Scheme) in recognition of his time commitment and contribution in connection with the consideration of the Nippon Paint proposal and consideration, negotiation and implementation of the Scheme. Such fee will be payable whether or not the Scheme becomes Effective. The amount of this fee assumes the Scheme will be implemented on the current timetable (as set out in Section 2). If this is not the case and Mr Larke (and/or other non-executive directors) undertake significant additional work as a result, then those directors may receive additional amounts subject to an aggregate cap of \$150,000.

7.17.2. Indemnity deed

DuluxGroup has executed an Indemnity Deed under which it has agreed to indemnify certain DuluxGroup Directors, officers and employees (**Indemnified Persons**) against liability incurred by the Indemnified Persons arising from, among other things, a failure of this Scheme Booklet to comply with applicable law except to the extent that such liability arises out of conduct of the Indemnified Persons involving a lack of good faith.

7.17.3. Other payments

No payment or other benefit is proposed to be made or given to a director, secretary or executive officer of DuluxGroup or any member of the DuluxGroup Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in DuluxGroup or any member of DuluxGroup Group as a result of the Scheme. Other than any payments or benefits disclosed in the table in Section 7.14 or in Section 7.16.1 or this Section 7.17, no payment or other benefit is proposed to be made or given to a director, secretary or executive officer of DuluxGroup or any member of the DuluxGroup Group as a result of the Scheme.

8.

INFORMATION ABOUT NIPPON PAINT

8.1. Introduction

The information contained in this Section 8 of this Scheme Booklet has been prepared by Nippon Paint. The information concerning Nippon Paint and its group companies and the intentions, views and opinions contained in this Section 8 are the responsibility of Nippon Paint.

DuluxGroup and its Directors, employees, officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

8.2. Overview of Nippon Paint

8.2.1. Overview

Nippon Paint, founded in 1881, is a global leader in the paints and coating industry, developing and providing a wide variety of advanced, innovative products and value-added services to customers across the globe.

Headquartered in Osaka, Japan, Nippon Paint has operations in 26 countries and territories with approximately 20,400 employees globally. It generated reported net sales of approximately JPY628 billion (approximately A\$8.3 billion¹⁶) for the financial year ended 31 December 2018. Proportions of Nippon Paint's sales by region for that financial year are: Asia (excluding Japan) 57%, Japan 29%, the Americas 12% and Europe 2%.

Nippon Paint globally offers a comprehensive portfolio of paints and coatings products, such as decorative, automotive, industrial and marine applications, as well as an array of surface treatment agents and paint/coatings-related services.

Nippon Paint is listed on the Tokyo Stock Exchange (TYO:4612) with a market capitalisation of approximately JPY1.4 trillion, which equates to approximately A\$18.5 billion, as of 11 June 2019.¹⁷

8.2.2. Business operations by region

8.2.2.1. Japan

Nippon Paint develops, manufactures and sells automotive coatings products, trade use paint products (e.g. paint products for buildings and bridges), and industrial and marine paint products as well as fine chemical products with a leading market share in Japan. Nippon Paint also provides high level technology and high value-added services (e.g. eco-friendly products and systems). Nippon Paint's research and development activities mainly take place, and its facilities are located, in Japan.

8.2.2.2. Asia (excluding Japan)

Nippon Paint has operations in Singapore, China, Hong Kong, Taiwan, Malaysia, Thailand, South Korea, India and smaller operations in South-East Asia. Through joint ventures with Wuthelam Holdings and other partners in South Korea and India, Nippon Paint operates trade use paint products (e.g. paint products for buildings and bridges), automotive coatings, industrial and marine paint businesses. Nippon Paint has a significant presence in these regions and considers these markets to have a promising future. Along with the leading position in each of these markets, Nippon Paint has established a high brand recognition in decorative paint, especially DIY paint business.

8.2.2.3. The Americas

Nippon Paint operates automotive coatings businesses in the United States, Canada, Mexico, and Brazil. In the United States, Nippon Paint also operates the decorative paint business through Dunn Edwards, which Nippon Paint acquired in 2017, with a focus on the country's Southwest.

8.2.2.4. Europe

Nippon Paint operates automotive coatings businesses in several European countries, including the United Kingdom, France, Germany and Turkey. In Germany, Nippon Paint acquired Bollig and Kemper, an automotive coatings manufacturer based in Cologne in 2016, which strengthened its auto OEM businesses in Europe.

On 26 April 2019, Nippon Paint announced that it will acquire Betek Boya ve Kimya Sanayi A.Ş., a manufacturer of decorative paint, industrial coating and insulation materials based in Istanbul, with completion expected to take place towards the end of June 2019. This transaction will be financed by external loans from financial institutions.

More information about Nippon Paint's business can be sourced from the website of Nippon Paint (www.nipponpaint-holdings.com/en/).

¹⁶ Based on the exchange rate of 1AUD : 75.60JPY as at 11 June 2019.

¹⁷ Based on the exchange rate of 1AUD : 75.60JPY as at 11 June 2019.

8.3. Nippon Paint's board of directors

The Nippon Paint Board as at the date of this Scheme Booklet is comprised of the following members:

Masaaki Tanaka

Executive Chairman of the Board, Representative Director

Mr Masaaki Tanaka was appointed as the Chairman of the Nippon Paint Board and Representative Director in March 2019. Mr Tanaka has extensive international experience as a business manager. He was involved in the management of Mitsubishi UFJ Financial Group, Inc., spent time as a director of Morgan Stanley, was an International Senior Global Advisor for PwC and CEO of the Japanese Investment Corporation. As at the date of this Scheme Booklet, Mr Tanaka is also a non-executive director of Money Forward, Inc.

Tetsushi Tado

Representative Director, President & Chief Executive Officer

Mr Tetsushi Tado started his career in business in sales at a Nippon Paint subsidiary, Nippon Bee Chemical Co., Ltd. (currently Nippon Paint Automotive Coatings Co., Ltd.) which fabricates and sells paints used on automotive plastic parts, in April 1983. He was appointed as the President and Representative Director of Nippon Bee Chemical in 2009 and accelerated the development of its overseas operations. In April 2015, he was appointed as the President & CEO, Representative Director of Nippon Paint and has held these positions since then. Since the appointment of these positions, Mr Tado implemented Nippon Paint's overseas strategies including the acquisition of a U.S. manufacturer of decorative paints which is now a wholly owned subsidiary, expanding a joint venture for automotive paint in India and carrying out other projects. As at the date of this Scheme Booklet, Mr Tado is also a director of Nipsea Management Company Pte. Ltd.

Manabu Minami

Managing Executive Officer, Representative Director

Mr Manabu Minami has worked in the finance and accounting department since joining Nippon Paint in April 1982. In June 2013, he was appointed as a Director of Nippon Paint. He also served as the Chief Financial Officer of Nippon Paint. In January 2017, he was appointed as Managing Executive Officer and Representative Director. Mr Minami's responsibilities include overseeing the Nippon Paint group's IT, corporate administration, purchasing and procurement and technical departments. As at the date of this Scheme Booklet, Mr Minami is also a director of Nipsea Management Company Pte. Ltd.

Seiichiro Shirahata

Managing Executive Officer, Director

Mr Seiichiro Shirahata has worked in the technical field of the surface treatment business since joining Nippon Paint in April 1983. He was assigned to a U.S. subsidiary of Nippon Paint as an engineer from 1990 to 1996, and was appointed as Division Director of the Surface Treatment Business in 2009. In 2013, he was appointed as Executive Officer and headed the domestic business organisational restructuring project, which was completed in April 2015. In April 2015, he was appointed as President and Representative Director of Nippon Paint Surf Chemicals Co., Ltd., and in January 2018, took office as President and Representative Director of Nippon Paint Marine Coatings Co., Ltd. He contributed to the growth and enhancement of the Surface Treatment and Marine Coating Businesses. Mr Shirahata was appointed as a Director of Nippon Paint in March 2018, and has played a core role in the group's management in charge of technology.

Atsushi Nagasaka

Managing Executive Officer, Director

Mr Atsushi Nagasaka has worked in the fields of procurement of raw materials and sales both in Japan and overseas since joining Nippon Paint in April 1984. During the structural reforms implemented to restore deteriorated performance due to the global financial crisis, Mr Nagasaka promoted reforms in raw material costs, and played a leading role in increasing the group's price competitiveness. In April 2016, he was appointed Managing Director of Nippon Paint's German subsidiary and strengthened the group's business in Europe. In March 2017, Mr Nagasaka was appointed as a Director of Nippon Paint, and concurrently serves as Division Director of Human Resources with a central role in the promotion of the group's work-life balance and CSR management. As at the date of this Scheme Booklet, Mr Nagasaka is also a director of Nipsea Management Company Pte. Ltd.

Hup Jin Goh*Director*

Mr Hup Jin Goh became a director of Nipsea Holdings International Ltd (**Nipsea**) in 1985. Mr. Goh has many years of experience in the paint industry. Under his leadership, Nippon Paint's joint venture with Nipsea in the Asian region, which entered the Chinese market ahead of other major paint manufacturers in 1992, has grown to become the Nippon Paint group's core business. Mr Goh became a Director of Nippon Paint in December 2014 and was appointed as Chairman of the Nippon Paint Board in March 2018. In March 2019, Mr Goh stood down as Chairman and was replaced by the current Chairman, Mr Masaaki Tanaka. Under his leadership, the Nippon Paint brand has earned a high level of recognition in the trade-use paints industry throughout Asia, contributing to Nippon Paint's market penetration in the Asian countries in which it operates. As at the date of this Scheme Booklet, Mr Goh is also a director of Nipsea Holdings International Ltd., managing director of Wuthelam Holdings, Ltd., managing director of Nipsea Pte. Ltd., a director of Nipsea Management Company Pte. Ltd., and a director of Nipsea International Limited.

Hisashi Hara*Independent Director*

Mr Hisashi Hara was appointed as an Independent Director of Nippon Paint in March 2018. With a career of over 40 years as an attorney, Mr Hara has been involved in numerous cross-border M&A transactions and has assisted in various corporate legal matters. He also served as an Outside Audit & Supervisory Board Member of JPMorgan Securities Japan Co., Ltd. and Chugai Pharmaceutical Co., Ltd. In 2011, he received the Chambers Asia-Pacific Lifetime Achievement Award from Chambers Partners.

Takashi Tsutsui*Independent Director*

Mr Takashi Tsutsui was appointed as an Independent Director of Nippon Paint in March 2018. Mr Tsutsui has vast experience in global business operations, having worked for many years at Nomura Securities Co., Ltd., and having served as Representative Director of Jsdag Securities Exchange, Inc. and Vice President Executive Officer responsible for M&A, investor relations, etc. at LIXIL Group Corporation.

Toshio Morohoshi*Independent Director*

Mr Toshio Morohoshi was appointed as an Independent Director of Nippon Paint in March 2018. Mr Morohoshi has over 40 years of experience as an IT specialist. He was formerly involved in the management of Fujitsu, Japan's leading global electronics company. After serving as a Japan representative for multiple global enterprises, he managed Yaskawa Information Systems Corporation as its President & CEO until May 2018. As at the date of this Scheme Booklet, Mr Morohoshi is also an outside director of WingArc 1st Inc.

Yasunori Kaneko*Independent Director*

Mr Yasunori Kaneko was appointed as an Independent Director of Nippon Paint in March 2018. Mr Kaneko has a long record of service in medical and pharmaceutical companies. He has spent time as a member of the Advisory Committee of Stanford University Graduate School of Business in the U.S., from which he graduated. He was also the Deputy President of the Japanese Investment Corporation. Mr Kaneko has specialist knowledge and experience in business management, finance and accounting. As at the date of this Scheme Booklet, Mr Kaneko is also a non-executive independent director of Arcus Biosciences, Inc., and managing director of Kaneko Investments LLC.

Masayoshi Nakamura*Independent Director*

Mr Masayoshi Nakamura was appointed as an Independent Director of Nippon Paint in March 2018. Since 1984, Mr Nakamura has built up over 30 years of hands-on experience as a specialist in M&A advisory and capital market financing at Lehman Brothers and Morgan Stanley, as well as at Mitsubishi UFJ Securities Co., Ltd. During this time, he took a lead role in multiple major cross-border M&A deals as financial advisor, and also helped globalise Japanese companies and their businesses through involvement in M&A deals. As at the date of this Scheme Booklet, Mr Nakamura is also the representative director of Octahedron Inc.

8.4. Rationale for Nippon Paint's proposed acquisition of DuluxGroup

Nippon Paint aims to become a leading company that continues to create new value by advocating the goal of establishing a leading position in Asia and accelerating global growth.

Nippon Paint considers DuluxGroup to be a high quality business with strong growth prospects in the relevant markets. Nippon Paint recognises Asia-Pacific as the key to its global strategy and views DuluxGroup as an attractive acquisition due to its profitability, future earnings growth and the culture of innovation.

Further, it strengthens Nippon Paint's position in the paints and coatings market, particularly in the decorative paints segment. This segment is expected to grow steadily supported by attractive macro factors such as population and GDP growth and sustainable demand for home renovation.

Nippon Paint also views the combination of DuluxGroup's business and its own business as highly synergistic for the following reasons:

- (a) it allows Nippon Paint to immediately establish a significant footprint in Australia and New Zealand to grow its existing business, with few overlaps in geographical footprint – Nippon Paint does not currently have any operations in Australia or New Zealand;
- (b) Nippon Paint and DuluxGroup have complementary technical expertise and capabilities;
- (c) it provides Nippon Paint with the ability to penetrate new customers globally with the new capabilities and recognitions contributed by DuluxGroup;
- (d) it provides DuluxGroup with the ability to penetrate and grow new customers in the Nippon Paint's existing market; and
- (e) Nippon Paint's and DuluxGroup's growth objectives are aligned.

8.5. Funding arrangements for the Scheme Consideration

8.5.1. Scheme consideration

Once the Scheme becomes Effective, Nippon Paint will pay the Aggregate Scheme Consideration which is equal to A\$3,647,274,861.24. The Aggregate Scheme Consideration will be paid wholly in cash.

8.5.2. Funding source

The Aggregate Scheme Consideration will be entirely funded by a new unsecured debt facility with SMBC. On 4 June 2019, Nippon Paint entered into a term facility agreement with SMBC (**SMBC Facility Agreement**) under which SMBC commits to provide Nippon Paint with a loan facility (**SMBC Facility**) to fund Nippon Paint's payment of the Aggregate Scheme Consideration.

Under the SMBC Facility, Nippon Paint will have access to funds up to an amount in Japanese yen which is equivalent to A\$3,756,265,000, which is sufficient to pay the Aggregate Scheme Consideration.

The provision of the SMBC Facility and drawdown of the funds under the SMBC Facility are subject to certain conditions which are customary for debt facilities of this kind and include:

- delivery to SMBC of copies of certain documents including copies of this Scheme Booklet and of the Court orders approving the Scheme; and
- there being no breach by Nippon Paint of certain obligations under the SMBC Facility Agreement, including a breach of certain warranties or undertakings given by Nippon Paint.

As at the date of this Scheme Booklet, Nippon Paint is not aware of any reason why the conditions of the drawdown of the funds under the SMBC Facility Agreement will not be satisfied.

8.6. Nippon Paint's intentions if the Scheme is implemented

Set out below are Nippon Paint's present intentions if the Scheme is implemented.

These statements of intention are based on information concerning DuluxGroup, its business and the general business environment that are known to Nippon Paint as at the date of this Scheme Booklet.

Nippon Paint does not currently have full knowledge of all material information, facts and circumstances that are necessary to assess the operational, commercial, tax and financial implications of its current intentions. Decisions regarding these matters will only be made by Nippon Paint in light of all material information and circumstances at the relevant time. Accordingly, the statements set out in this Section 8.6 are statements of current intention only, which may change as new information becomes available to Nippon Paint or as circumstances change.

8.6.1. DuluxGroup Board

If the Scheme is implemented, Nippon Paint intends to reconstitute the DuluxGroup Board. The final composition of the DuluxGroup Board after implementation of the Scheme has not been determined as at the date of this Scheme Booklet. Final decisions on the composition of the DuluxGroup Board after implementation of the Scheme will be made in light of the circumstances at the relevant time.

8.6.2. DuluxGroup's operations

Nippon Paint does not contemplate any change of direction of DuluxGroup's existing business strategies in any material respect. Nor does Nippon Paint have any plans to materially alter DuluxGroup's business fundamentals. Nippon Paint intends that the combined entity will be competitive in the international decorative paint industry and that DuluxGroup will be run as a separate division within the Nippon Paint group and the DuluxGroup name will be retained.

Following implementation of the Scheme, Nippon Paint intends to conduct a general review of DuluxGroup's strategic, financial and commercial operations to:

- evaluate DuluxGroup's performance, profitability and prospects; and
- determine the optimum manner of operating and managing the DuluxGroup business.

Based on its current understanding and evaluation of the DuluxGroup business, Nippon Paint intends that:

- the business of DuluxGroup will be conducted in substantially the same manner in which it currently operates as part of the larger combined group;
- no major changes will be made to the DuluxGroup business; and
- there will be no redeployment of the fixed assets of DuluxGroup.

In view of the above, it is not Nippon Paint's present intention to make any material divestments of assets or to make any material redundancies if the Scheme is implemented.

8.6.3. Management team

Nippon Paint recognises the experience and knowledge of DuluxGroup's senior management team.

It is Nippon Paint's current intention to retain key executives in their current positions, and Nippon Paint does not currently intend that there will be any change to DuluxGroup's management team if the Scheme is implemented.

8.6.4. Employees and business locations

Nippon Paint does not intend to alter DuluxGroup's business bases and locations, nor does it intend to undertake any downsizing or outsourcing of operations to overseas if the Scheme is implemented.

The detailed review of DuluxGroup's operations noted in Section 8.6.2 will include specific consideration of staffing and organisational structure. Accordingly, final decisions on these matters (including any changes to the employment of the present employees of DuluxGroup) will, if necessary, only be made by Nippon Paint following the completion of the post-acquisition review process described above and will be based on all material facts and circumstances at the relevant time.

8.6.5. Delisting

If the Scheme is implemented, Nippon Paint has agreed with DuluxGroup that DuluxGroup will request ASX remove DuluxGroup from the official list of ASX.

8.7. Nippon Paint's interests in DuluxGroup

8.7.1. Interest in DuluxGroup Shares

As at the date of this Scheme Booklet, none of Nippon Paint or any of its Associates has any Relevant Interest or voting power in any DuluxGroup Shares.

8.7.2. Dealing in DuluxGroup Shares in previous four months

Apart from Nippon Paint's offer to acquire all DuluxGroup Shares under the Scheme, none of Nippon Paint or any of its Associates has provided or agreed to provide consideration for any DuluxGroup Shares under any other transaction during the period of four months before the date of this Scheme Booklet.

8.7.3. Benefits to holders of DuluxGroup Shares

During the four months before the date of this Scheme Booklet, none of Nippon Paint or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

- vote in favour of the Scheme Resolution; or
- dispose of DuluxGroup Shares,

where the benefit was not offered to all DuluxGroup Shareholders.

8.7.4. Benefits to DuluxGroup officers

None of Nippon Paint or any of its Associates will be making any payment or giving any benefit to any current officers of DuluxGroup as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

8.8. Nippon Paint's substantial shareholders

Based on publicly available information, as at 11 June 2019, the substantial shareholders in Nippon Paint were as follows:

NAME	PERCENTAGE OF TOTAL NIPPON PAINT SHARES
Nipsea International Limited	39.57%

8.9. Other material information

Except as set out in this Section 8, so far as the directors of Nippon Paint are aware, there is no other information regarding Nippon Paint, or its intentions regarding DuluxGroup, that is material to the making of a decision by a DuluxGroup Shareholder on whether or not to vote in favour of the Scheme Resolution, being information that is within the knowledge of any director of Nippon Paint as at the date of this Scheme Booklet, which has not been previously disclosed to DuluxGroup Shareholders.

9.

TAX IMPLICATIONS FOR DULUXGROUP SHAREHOLDERS

9.1. Introduction

This Section 9 is a general outline of the Australian tax consequences for certain DuluxGroup Shareholders that should arise as a result of the receipt of the Permitted Dividends and the disposal of their DuluxGroup Shares under the Scheme (assuming it becomes Effective). The tax consequences arising to DuluxGroup Shareholders will vary depending on their specific profile, characteristics and circumstances. Accordingly, DuluxGroup Shareholders should obtain professional tax advice having regard to their own particular circumstances.

This Section 9 is relevant to DuluxGroup Shareholders who are Australian resident individuals (but not temporary residents), companies (other than life insurance companies), trusts and complying superannuation entities that hold their DuluxGroup Shares on capital account for Australian tax purposes. This outline does not apply to persons who are subject to the taxation of financial arrangements rules in Division 230 of the ITAA 1997 in relation to gains and losses on their DuluxGroup Shares or to persons who are subject to the investment manager regime in subdivision 842-I of the ITAA 1997 in relation to their DuluxGroup Shares.

This outline is based on the current provisions of the ITAA 1936, the ITAA 1997, the *A New Tax System (Goods and Services Tax) Act 1999* (Cth), the regulations made under those pieces of legislation, current tax rulings issued by the ATO and current administrative practices of the ATO. This outline does not:

- consider or anticipate changes in the law, unless otherwise stated, whether by way of judicial decision or legislative action;
- purport to be a complete analysis or to identify all potential related tax consequences; or
- constitute tax advice and should not be relied upon as such.

9.2. Disposal of DuluxGroup Shares

9.2.1. Residents

A CGT event will happen to DuluxGroup Shareholders when they dispose of their DuluxGroup Shares under the Scheme on the Implementation Date.

The capital proceeds received by DuluxGroup Shareholders for the disposal of their DuluxGroup Shares to Nippon Paint under the Scheme should be \$9.37 per share.

DuluxGroup Shareholders should make a capital gain from the CGT event happening if the capital proceeds from the disposal of their DuluxGroup Shares are more than the cost base of their DuluxGroup Shares. DuluxGroup Shareholders should make a capital loss if the capital proceeds are less than the reduced cost base of their DuluxGroup Shares. The cost base and reduced cost base of a DuluxGroup Shareholder's DuluxGroup Shares will depend on that DuluxGroup Shareholder's specific circumstances. However, the cost base of the DuluxGroup Shares generally includes the cost of acquisition and certain non-deductible incidental costs of their acquisition and disposal. The reduced cost base of the DuluxGroup Shares is usually determined in a similar, but not identical, manner.

If a DuluxGroup Shareholder is an individual, complying superannuation entity or trust and acquired their DuluxGroup Shares at least 12 months before the Implementation Date, the amount of the capital gain (after being reduced for current year capital losses and prior year capital losses, if any) is reduced by the relevant CGT discount percentage. The CGT discount percentage for individuals and trusts is 50% and the CGT discount percentage for complying superannuation entities is 33⅓%. For individuals, broadly, the CGT discount percentage is reduced to the extent that the capital gain accrued whilst the individual was a foreign resident or temporary resident.

No CGT discount is available for DuluxGroup Shareholders that are companies.

9.2.2. Non-residents

Generally, any gain or loss that arises to a DuluxGroup Shareholder that is a non-resident at the Implementation Date should be disregarded where the DuluxGroup Shares are not "taxable Australian property". However, any gain that arises to a non-resident DuluxGroup Shareholder, who at any time held their DuluxGroup Shares in carrying on a business through a permanent establishment in Australia, may be taxable in Australia.

Generally, foreign resident capital gains withholding at a rate of 12.5% of the capital proceeds applies to a transaction involving the acquisition of an asset that is an indirect Australian real property interest (i.e. the asset is "taxable Australian property") from a "relevant foreign resident". Where applicable, the withholding obligation would be with Nippon Paint as the acquirer of DuluxGroup Shares. Nippon Paint is currently engaging with the ATO to obtain guidance that Nippon Paint should not have to withhold any amount under the foreign resident capital gains withholding provisions.

9.3. Permitted Dividends

9.3.1. Residents

DuluxGroup Shareholders who are Australian residents are required to include the Permitted Dividends in their assessable income. The franking credits attached to the Permitted Dividends should also be included in the assessable income of DuluxGroup Shareholders and a corresponding tax offset should be available to DuluxGroup Shareholders provided they satisfy the “45 day rule” discussed below. DuluxGroup Shareholders that are individuals or complying superannuation entities may be entitled to a refund of excess franking credits where the tax offset exceeds their tax liability for the income year. DuluxGroup Shareholders that are companies will not be entitled to a refund of any excess tax offset but instead, may convert any excess tax offset to a tax loss for the income year.

For an Australian resident DuluxGroup Shareholder to satisfy the “45 day rule”, they must hold their DuluxGroup Shares at risk for a continuous 45 day period within the qualification period (excluding the date of acquisition and disposal of their DuluxGroup Shares). The qualification period for the Permitted Dividends is from 11 May 2019 to 9 August 2019 (inclusive).¹⁸

9.3.2. Non-residents

The fully franked Permitted Dividends should be non-assessable non-exempt income for non-resident DuluxGroup Shareholders (other than those who receive the Permitted Dividends in carrying on business in Australia at or through a permanent establishment in Australia) and therefore not included in their assessable income. DuluxGroup Shareholders that are non-residents should not be liable for Australian dividend withholding tax.

9.4. ATO class ruling

DuluxGroup has applied for a class ruling from the ATO on behalf of DuluxGroup Shareholders to confirm the key matters discussed above. DuluxGroup will make an ASX announcement when the class ruling has been issued in final form. The class ruling will be available on the ATO website (www.ato.gov.au).

DuluxGroup anticipates that the ATO will provide a draft of the class ruling prior to the Effective Date, with the final ruling being released following the Implementation Date. It is also anticipated that the ATO's views to be expressed in the class ruling will be generally consistent with the income tax information in this summary. However, it is possible that the ATO may reach different conclusions in the final class ruling. Accordingly, it is important that this outline be read on the understanding that the ATO will issue a final class ruling after the date of this Scheme Booklet.

9.5. GST

DuluxGroup Shareholders should not be liable to GST in respect of a disposal of the DuluxGroup Shares.

DuluxGroup Shareholders may be charged GST on costs (such as adviser fees relating to their participation in the Scheme) that relate to the Scheme. DuluxGroup Shareholders may be entitled to input tax credits or reduced input tax credits for such costs but should seek independent advice in relation to their own specific circumstances.

¹⁸ This period is based on the ex dividend date for the Permitted Dividends under applicable tax laws, being 25 June 2019.

10.

ADDITIONAL INFORMATION

This Section 10 sets out the statutory information required under section 412(1) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations, but only to the extent that this information is not otherwise disclosed in other Sections of this Scheme Booklet. This Section 10 also includes additional information that the DuluxGroup Directors consider may be material to a decision on how to vote on the Scheme Resolution, but only to the extent that such information is not otherwise disclosed in other sections of this Scheme Booklet.

An electronic version of this Scheme Booklet, including the Independent Expert's Report and the Scheme Implementation Deed, are available for viewing and downloading online at DuluxGroup's website (www.duluxgroup.com.au).

10.1. Status of regulatory conditions

The Scheme is subject to approval from FIRB and OIO. The FIRB Approval was received on 7 June 2019. An update on the status of the OIO Approval will be provided at the Scheme Meeting.

10.2. ASIC relief and ASX waivers

10.2.1. ASIC relief

Regulation 5.1.01 of the Corporations Regulations requires that, unless ASIC allows otherwise, this Scheme Booklet must contain all matters set out in Part 3 of Schedule 8 of the Corporations Regulations. As some of these requirements are not applicable or appropriate in respect of the Scheme, ASIC has allowed the following variations in this Scheme Booklet.

Clause 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires this Scheme Booklet to set out whether, within the knowledge of the DuluxGroup Directors, the financial position of DuluxGroup has materially changed since the date of the last balance sheet laid before DuluxGroup in general meeting (being its financial statements for the financial year ended 30 September 2018) or sent to DuluxGroup Shareholders in accordance with section 314 or 317 of the Corporations Act, and, if so, full particulars of any change.

ASIC has granted DuluxGroup relief from this requirement so that this Scheme Booklet only needs to set out whether, within the knowledge of the DuluxGroup Directors, the financial position of DuluxGroup has materially changed since 31 March 2019 (being the balance date of the half-year financial results and accounts lodged with ASX) and the date of this Scheme Booklet, on the basis that:

- (a) DuluxGroup has complied with Division 2 of Part 2M.3 of the Act in respect of the half-year ended 31 March 2019;
- (b) DuluxGroup discloses all material changes in its financial position occurring after the half-year ended 31 March 2019, and prior to the date of this Scheme Booklet, in this Scheme Booklet;
- (c) DuluxGroup discloses, in announcements to the market operated by ASX, any material changes to its financial position that occur after the date of lodgement of this Scheme Booklet for registration with ASIC but prior to the Scheme being approved by the Court;
- (d) this Scheme Booklet states that DuluxGroup will give a copy of the financial reports for the financial year ended 30 September 2018 and half-year ended 31 March 2019 to anyone, free of charge, who requests a copy before the Scheme to which this Scheme Booklet relates is approved by order of the Court; and
- (e) the explanatory statement sent to DuluxGroup Shareholders is substantially in the form given to ASIC on 11 and 12 June 2019.

10.2.2. ASX waivers

No ASX waivers were sought for the purposes of the Scheme or the issuance of this Scheme Booklet.

10.3. Consents and disclosures

- (a) The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to be named in this Scheme Booklet in the form and context in which they are named:
 - (i) Macquarie, as financial adviser to DuluxGroup;
 - (ii) Computershare Investor Services Pty Limited, as the manager of the Share Register; and
 - (iii) Gilbert + Tobin, as legal and tax adviser to DuluxGroup in relation to the Scheme.
- (b) The Independent Expert has given and has not withdrawn its consent to be named in this Scheme Booklet and to the inclusion of the Independent Expert's Report in Appendix B to this Scheme Booklet and to the references to the Independent Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is included.
- (c) Nippon Paint has given and has not withdrawn its consent to be named in this Scheme Booklet and in relation to the inclusion of the Nippon Paint Information in this Scheme Booklet in the form and context in which that information is included.
- (d) Each person named in this Section 10.3:
 - (i) has not authorised or caused the issue of this Scheme Booklet;
 - (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this Section 10.3; and
 - (iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this Section 10.3.

10.4. No unacceptable circumstances

The DuluxGroup Directors believe that the Scheme does not involve any circumstances in relation to the affairs of DuluxGroup that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

10.5. Other information material to the making of a decision in relation to the Scheme

10.5.1. Continuous disclosure

DuluxGroup is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. DuluxGroup has an obligation (subject to limited exceptions) to notify ASX immediately upon becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of DuluxGroup Shares.

Copies of documents filed with ASX may be obtained from ASX's website (www.asx.com.au).

In addition, DuluxGroup is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation DuluxGroup may be obtained from, or inspected at, an ASIC office.

10.5.2. Other material information

Other than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the Appendices to this Scheme Booklet, so far as the DuluxGroup Directors are aware, there is no information material to the making of a decision by DuluxGroup Shareholders in relation to the Scheme, being information that is within the knowledge of any DuluxGroup Director or director of the DuluxGroup Group, as at the date of this Scheme Booklet, which has not been previously disclosed to DuluxGroup Shareholders.

10.5.3. Fees and expenses

If the Scheme is implemented, DuluxGroup expects to pay (in aggregate) approximately \$27 million (excluding GST and disbursements) in Transaction Costs. This includes advisory fees for DuluxGroup's financial, legal, accounting and tax advisers, the Independent Expert's fees, general administrative fees, Scheme Booklet design, printing and distribution costs, expenses associated with convening and holding the Scheme Meeting, and Registry and other expenses.

In aggregate, if the Scheme is not implemented, DuluxGroup expects to pay approximately \$6 million (excluding GST and disbursements) in Transaction Costs, excluding any Break Fee that may be payable to Nippon Paint.

11.

GLOSSARY

Aggregate Scheme Consideration means the Scheme Consideration multiplied by the total number of Scheme Shares.

ANZ means Australia and New Zealand.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it.

ASX Listing Rules means the official listing rules of ASX.

ATO means the Australian Taxation Office.

Break Fee means \$38,146,525.

Business Day means a day that is not a Saturday, Sunday or public holiday in Melbourne, Australia or Tokyo, Japan.

CGT means capital gains tax.

Competing Proposal means any proposal, offer, agreement, arrangement or transaction which, if entered into or completed substantially in accordance with its terms, would result in a Third Party (either alone or together with one or more Associates) directly or indirectly:

- (a) acquiring a Relevant Interest or economic interest in 15% or more of all DuluxGroup Shares, other than in the ordinary course of trading on ASX;
- (b) acquiring, or acquiring an economic interest in, all or a material part of the assets or business of the DuluxGroup Group (where a material part means assets representing 15% or more of the value of the DuluxGroup Group's total assets); or
- (c) acquiring Control of, or merging with, DuluxGroup, whether by takeover bid, scheme of arrangement or shareholder approved acquisition, or would otherwise result in the Scheme not being able to be implemented.

Condition means each condition set out in clause 3.1 of the Scheme Implementation Deed.

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia (Victoria Registry).

Deed Poll means the deed poll to be entered into by Nippon Paint as set out in Appendix E to this Scheme Booklet.

Dividend Payment Date means the date on which the Permitted Dividends will be paid to those DuluxGroup Shareholders who hold DuluxGroup Shares on the Dividend Record Date, being 28 June 2019.

Dividend Record Date means the record date for determining entitlements to the Permitted Dividends, being 24 June 2019.

DuluxGroup means DuluxGroup Limited (ACN 133 404 065).

DuluxGroup Board means the board of directors of DuluxGroup.

DuluxGroup Director or Director means a director of DuluxGroup.

DuluxGroup Group means DuluxGroup and its Related Bodies Corporate.

DuluxGroup Information means all the information in this Scheme Booklet other than the Nippon Paint Information and the Independent Expert's Report.

DuluxGroup Share means a fully paid ordinary share in the capital of DuluxGroup.

DuluxGroup Shareholder means a holder of one or more DuluxGroup Shares, as shown in the Share Register.

DuluxGroup Warranties means the representations and warranties of DuluxGroup set out in Schedule 2 of the Scheme Implementation Deed.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

End Date means 17 September 2019 or a later date as Nippon Paint and DuluxGroup agree in writing.

Exclusivity Period means the period from 17 April 2019 being the date of the Scheme Implementation Deed until the earlier of:

- (a) the termination of the Scheme Implementation Deed in accordance with clause 12 of the Scheme Implementation Deed; and
- (b) the End Date.

FIRB means the Foreign Investment Review Board.

FIRB Approval means the approval Nippon Paint requires from the Federal Treasurer (or the Federal Treasurer's delegate) pursuant to clause 3.1(a) of the Scheme Implementation Deed.

First Court Date means the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act directing DuluxGroup to convene the Scheme Meeting is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **First Court Hearing**.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).

Implementation Date means 21 August 2019 or such other day as Nippon Paint and DuluxGroup agree in writing.

Incentive Plans has the meaning given in Section 7.16.1.

Incentive Shares means DuluxGroup Shares granted under any Share Plan, including LTEIP Shares and DuluxGroup Shares granted upon the exercise of Share Rights.

Indemnified Persons has the meaning given in Section 7.17.2.

Indemnity Deed means the deed poll of indemnity executed by DuluxGroup, on or around 11 June 2019, for the benefit of the Indemnified Persons.

Independent Expert means Grant Samuel & Associates Pty Limited (ACN 050 036 372).

Independent Expert's Report means the report prepared and issued by the Independent Expert in connection with the Scheme in the form of Appendix B to this Scheme Booklet.

Interim Dividend means a fully franked cash dividend of \$0.15 for each DuluxGroup Share held by a DuluxGroup Shareholder on the Dividend Record Date (payable by DuluxGroup).

ITAA 1936 means *Income Tax Assessment Act 1936* (Cth)

ITAA 1997 means *Income Tax Assessment Act 1997* (Cth)

LTEIP means the DuluxGroup Long Term Equity Incentive Plan.

LTEIP Shares means DuluxGroup Shares granted under the LTEIP.

Material Adverse Change has the meaning given in Schedule 1 of the Scheme Implementation Deed.

Nippon Paint means Nippon Paint Holdings Co., Ltd. (1200-01-072994).

Nippon Paint Board means the board of directors of Nippon Paint.

Nippon Paint Information means:

- (a) the information contained in Section 8;
- (b) the answer to the question "Who is Nippon Paint?" in Section 4;
- (c) the last sentence in Section 9.2.2 "Non-residents"; and
- (d) the information contained in the Section titled "Forward-looking statements – Nippon Paint Information" on page 2 of this Scheme Booklet.

Nippon Paint Warranties means the representations and warranties of Nippon Paint set out in Schedule 3 of the Scheme Implementation Deed.

Notice of Scheme Meeting means the DuluxGroup notice of scheme meeting as set out in Appendix A to this Scheme Booklet.

OIO means the New Zealand Overseas Investment Office which administers New Zealand's overseas investment laws.

OIO Approval means the approval Nippon Paint requires from OIO pursuant to clause 3.1(b) of the Scheme Implementation Deed.

Permitted Dividends means the Interim Dividend and the Special Dividend.

Prescribed Occurrence means the occurrence of any of the matters set out in Schedule 4 of the Scheme Implementation Deed.

Registry means Computershare Investor Services Pty Limited (ACN 078 279 277).

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Relevant Interest has the meaning given in sections 608 and 609 of the Corporations Act.

Requisite Majorities means:

- (a) a majority in number (i.e. more than 50%) of DuluxGroup Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate DuluxGroup Shareholders, by a corporate representative); and
- (b) at least 75% of the total number of votes cast on the Scheme Resolution.

Reverse Break Fee means \$38,146,525.

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between DuluxGroup and the Scheme Shareholders, in the form of Appendix D to this Scheme Booklet or such other form as agreed in writing between Nippon Paint and DuluxGroup.

Scheme Booklet means this explanatory statement in respect of the Scheme and prepared by DuluxGroup in accordance with section 412 of the Corporations Act.

Scheme Consideration means, in respect of each Scheme Share, \$9.37 cash (being \$9.80, less the Interim Dividend of \$0.15 and the Special Dividend of \$0.28).

Scheme Implementation Deed means the scheme implementation deed entered into by DuluxGroup and Nippon Paint on 17 April 2019 as set out in Appendix C to this Scheme Booklet.

Scheme Meeting means the meeting of DuluxGroup Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

Scheme Record Date means 7:00pm on 14 August 2019, or such other time and date as Nippon Paint and DuluxGroup agree in writing.

Scheme Resolution means a resolution of DuluxGroup Shareholders to approve the Scheme, the form of which is set out in the Notice of Scheme Meeting in Appendix A to this Scheme Booklet.

Scheme Share means a DuluxGroup Share held by a Scheme Shareholder as at the Scheme Record Date.

Scheme Shareholder means a DuluxGroup Shareholder as at the Scheme Record Date.

Second Court Date means the first day on which an application made to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Share Plan means an Incentive Plan operated by DuluxGroup under which DuluxGroup may grant DuluxGroup Shares and/or Share Rights (or other securities), including the LTEIP, Employee Equity Plan, Sacrifice Share Acquisition Plan and Employee Share Investment Plan.

Share Register means the register of DuluxGroup Shareholders maintained in accordance with the Corporations Act.

Share Right means a right to acquire a DuluxGroup Share granted under any Share Plan.

SMBC means Sumitomo Mitsui Banking Corporation.

SMBC Facility has the meaning given in Section 8.5.

SMBC Facility Agreement has the meaning given in Section 8.5.

Special Dividend means a fully franked cash dividend of \$0.28 for each DuluxGroup Share held by a DuluxGroup Shareholder on the Dividend Record Date (payable by DuluxGroup).

Superior Proposal means a bona fide Competing Proposal which the DuluxGroup Board, acting in good faith and after taking written advice from its legal and financial advisers, determines:

- (a) is reasonably capable of being completed substantially in accordance with its terms; and
- (b) would be more favourable to DuluxGroup Shareholders than the Scheme (as modified by any counterproposal from Nippon Paint) if completed substantially in accordance with its terms.

Takeovers Panel means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

Third Party means a person other than DuluxGroup, Nippon Paint and their respective Associates.

Total Cash Value means, in respect of each DuluxGroup Share, the sum of the Scheme Consideration and the Permitted Dividends.

Transaction Costs means costs and expenses incurred by DuluxGroup in connection with the Scheme, being fees payable to external advisers of DuluxGroup, the Independent Expert and costs such as share registry, printing, postage and meeting costs involved in implementing the Scheme (but excluding costs relating to a directors' and officers' run-off insurance policy as contemplated by clause 6.10 of the Scheme Implementation Deed and excluding certain payments to employees and officers of the DuluxGroup Group such as those referred to in Sections 7.16 and 7.17.1).

VWAP means volume weighted average price.

APPENDIX A - NOTICE OF SCHEME MEETING

DuluxGroup Limited (ACN 133 404 065)

Notice is hereby given that, by an order of the Federal Court of Australia (**Court**) made on 14 June 2019 pursuant to section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), a meeting of the holders of fully paid ordinary shares in DuluxGroup Limited (ACN 133 404 065) (**DuluxGroup**) will be held at 2:00pm (Melbourne time) on 31 July 2019 at The Clarendon Auditorium, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia.

Business of the meeting

The purpose of the meeting is to consider and, if thought fit, agree to a scheme of arrangement proposed to be entered into between DuluxGroup and its shareholders (with or without alterations or conditions as approved by the Court).

Scheme Resolution

To consider and, if thought fit, pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

"That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed to be entered into between DuluxGroup Limited and the holders of its fully paid ordinary shares as contained and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part is approved (with or without alterations or conditions as approved by the Federal Court of Australia) and, subject to approval of the scheme of arrangement by the Federal Court of Australia, the board of directors of DuluxGroup Limited is authorised to implement the scheme of arrangement subject to any such alterations or conditions."

Chairman

The Court has directed that Mr Graeme Liebelt is to act as chairman of the meeting (and that, if Mr Liebelt is unable or unwilling to attend, Mr Andrew Larke is to act as chairman of the meeting) and has directed the chairman to report the result of the resolution to the Court.

By Order of the Court and the DuluxGroup Board



Simon Black
Company Secretary and General Counsel

DuluxGroup Limited
17 June 2019

Explanatory Notes

This Notice of Scheme Meeting should be read in conjunction with the Scheme Booklet of which this notice forms part.

Unless the context requires otherwise, terms used in this Notice of Scheme Meeting have the meanings given in Section 11 of the Scheme Booklet.

Requisite Majorities

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be approved by:

- a majority in number (i.e. more than 50%) of DuluxGroup Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of corporate DuluxGroup Shareholders, by a corporate representative) at the Scheme Meeting; and
- at least 75% of the total number of votes cast on the Scheme Resolution.

Entitlement to vote

The Court has ordered that, for the purposes of the Scheme Meeting, the time for determining eligibility to vote at the Scheme Meeting is 7:00pm (Melbourne time) on 29 July 2019. Only those DuluxGroup Shareholders entered on the Share Register at that time will be entitled to attend and vote at the Scheme Meeting.

How to vote

If you are eligible to vote at the Scheme Meeting, you may:

- (a) vote in person at the Scheme Meeting;
- (b) appoint one or two proxies to attend and vote at the Scheme Meeting on your behalf;
- (c) appoint an attorney to attend and vote at the Scheme Meeting on your behalf; or
- (d) if you are a body corporate, appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf.

If you hold DuluxGroup Shares jointly with one or more other persons, only one of you may vote. If more than one DuluxGroup Shareholder votes in respect of jointly held DuluxGroup Shares, only the vote of the DuluxGroup Shareholder whose name appears first in the Share Register will be counted.

Voting will be conducted by poll.

Voting in person

To vote in person, you must attend the Scheme Meeting on the date and at the place set out in this Notice of Scheme Meeting.

Voting by proxy

You may appoint one or two proxies to attend and vote at the Scheme Meeting on your behalf.

The proxy form is enclosed with the Scheme Booklet. A proxy does not need to hold DuluxGroup Shares. If you do not instruct your proxy how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting.

If you appoint two proxies, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half your votes. Please refer to the enclosed proxy form for instructions on completion and lodgement.

Proxy forms must be received by the Registry by no later than 2:00pm (Melbourne time) on 29 July 2019. If the Scheme Meeting is adjourned, proxy forms must be received by the Registry at least 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting.

You must deliver the signed and completed proxy form in one of the following ways:

- online at www.investorvote.com.au;
- by post in the reply-paid envelope provided to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, Australia;
- by hand delivery during business hours (Monday to Friday, 8:30am to 5:30pm (Melbourne time)) to the Registry at Computershare Investor Services, Yarra Falls, 456 Johnston Street, Abbotsford VIC 3067, Australia; or
- by fax to the Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

If a proxy form is completed under power of attorney or other authority, the original or a certified copy of the power of attorney or other authority must accompany the completed proxy form unless the power of attorney or other authority has previously been given to the Registry.

If you return your proxy form:

- without identifying a proxy on it, you will be taken to have appointed the chairman of the Scheme Meeting as your proxy to vote on your behalf; or
- with a proxy identified on it but your proxy does not attend the Scheme Meeting, the chairman of the Scheme Meeting will act in place of your nominated proxy and vote in accordance with any directions on your proxy form.

The chairman of the Scheme Meeting intends to vote all valid undirected proxies which appoint (or are taken to appoint) the chairman in favour of the Scheme Resolution.

The appointment of a proxy does not preclude you from attending the Scheme Meeting in person, revoking the proxy and voting at the meeting.

Voting by power of attorney

You may appoint an attorney to attend and vote at the Scheme Meeting on your behalf.

Powers of attorney must be received by the Registry by no later than 2:00pm (Melbourne time) on 29 July 2019. Persons attending the Scheme Meeting as an attorney should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

The appointment of an attorney does not preclude you from attending the Scheme Meeting in person and voting at the meeting.

Voting by corporate representative (in the case of a body corporate)

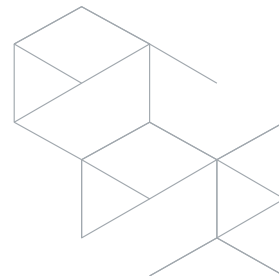
If you are a body corporate, you may appoint an individual to act as your body corporate representative. The appointment must be in accordance with section 250D of the Corporations Act. The representative must bring evidence of his or her appointment to the Scheme Meeting, including any authority under which it is signed, their name and address and the identity of their appointer.

Court approval

If the Scheme Resolution is approved at the Scheme Meeting by the Requisite Majorities and the other Conditions are satisfied or waived in accordance with the Scheme Implementation Deed, DuluxGroup intends to apply to the Court on 6 August 2019 for approval of the Scheme.

APPENDIX B – INDEPENDENT EXPERT’S REPORT

GRANT SAMUEL



14 June 2019

The Directors
DuluxGroup Limited
1956 Dandenong Road
Clayton VIC 3168

Dear Directors

Proposal by Nippon Paint Holdings Co., Ltd

1 Introduction

On 17 April 2019, DuluxGroup Limited (“DuluxGroup”) announced that it had entered into a Scheme Implementation Deed with Nippon Paint Holdings Co., Ltd. (“Nippon Paint”) under which Nippon Paint will acquire all of the issued shares in DuluxGroup by way of a scheme of arrangement (“the Scheme”). If the Scheme is implemented, DuluxGroup shareholders will receive total cash value of \$9.80 per share, inclusive of a fully franked interim dividend of \$0.15 per share and a fully franked special dividend of \$0.28 per share. The dividends were declared on 15 May 2019 and will be paid on 28 June 2019 irrespective of the Scheme. Accordingly, the consideration to be paid on implementation of the Scheme will be \$9.37 cash per share.

The Scheme is subject to a number of conditions which are set out in full in the Notice of Meeting and Explanatory Statement (“Scheme Booklet”) to be sent by DuluxGroup to shareholders. Other elements of the Scheme include certain exclusivity and matching rights, break fees and arrangements in relation to employee incentive schemes.

Subject to an independent expert determining that the Scheme is in the best interests of shareholders and in the absence of a superior proposal, each director of DuluxGroup has recommended the Scheme and intends to vote shares held or controlled by them in favour of the Scheme.

The directors of DuluxGroup have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Scheme is in the best interests of DuluxGroup shareholders. A copy of the report (including this letter) will accompany Scheme Booklet to be sent to shareholders by DuluxGroup. This letter contains a summary of Grant Samuel’s opinion and main conclusions.

2 Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of DuluxGroup shareholders, in the absence of a superior proposal.

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3 Key Conclusions

- The equity in DuluxGroup has been valued in the range \$3.3-3.9 billion, equivalent to \$8.53-9.93 per share

Grant Samuel's valuation of DuluxGroup is summarised below:

DULUXGROUP - VALUATION SUMMARY (\$ MILLIONS)

	FULL REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Business Operations			
Dulux ANZ	5.4	2,800.0	3,200.0
Selleys & Parchem ANZ	5.5	475.0	525.0
Building Products, Yates and DuluxGroup International	5.6	560.0	665.0
Corporate costs (net of savings and reallocations)	5.9	(200.0)	(220.0)
Enterprise value		3,635.0	4,170.0
Other assets and liabilities	5.10	55.8	65.8
Net borrowings	5.11	(372.0)	(372.0)
Value of equity		3,318.8	3,863.8
Shares on issue (millions)	4.7	389.3	
Value per share		\$8.53	\$9.93

The valuation represents the estimated full underlying value of DuluxGroup assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect DuluxGroup shares to trade on the Australian Securities Exchange in the absence of a change of control proposal.

The value attributed to the business operations of \$3,635-4,170 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA¹ and EBITA²) and discounted cash flow ("DCF") analysis.

Grant Samuel has placed more emphasis on earnings multiple analysis than DCF analysis in forming its views on value. The results of the DCF analysis for DuluxGroup needs to be treated with caution given the simplified analysis, the wide range of credible assumptions that can be adopted and the very broad range of net present values than can be calculated.

The valuation allows for:

- the capitalised value of unallocated corporate overheads, net of cost savings that could be achieved by any acquirer of DuluxGroup and after reallocation of certain costs (see Section 5.9 of the full report);
- other assets and liabilities, including equity accounted investments, loans, surplus properties and pension liabilities (see Section 5.10 of the full report).

¹ EBITDA is earnings before net interest, tax, depreciation and amortisation, share of profits of equity accounted associates and non-recurring items.

² EBITA is earnings before net interest, tax, amortisation of acquired intangibles, share of profits of equity accounted associates and non-recurring items.

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- **Dulux ANZ has been valued at \$2,800-3,200 million**

The multiples implied by the valuation of Dulux ANZ are summarised below:

DULUX ANZ – IMPLIED VALUATION PARAMETERS

DATE	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS)	
		LOW	HIGH
Value range (\$ millions)		2,800	3,200
Multiple of EBITDA (times)			
FY18 ³ (actual)	191.7	14.6	16.7
FY19 (broker median forecast)	199.0	14.1	16.1
FY20 (broker median forecast)	205.0	13.7	15.6
Multiple of EBITA (times)			
FY18 (actual)	172.9	16.2	18.5
FY19 (broker median forecast)	177.4	15.8	18.0
FY20 (broker median forecast)	182.0	15.4	17.6

The implied multiples are relatively high and well above those seen in most transactions in the global paint industry.

In a mature industry where existing participants enjoy high barriers to entry, DuluxGroup can reasonably be regarded as a “prize asset” in the global paint industry and, in an open, competitive sale process (e.g. assuming PPG Industries, Inc. (“PPG”) and The Sherwin-Williams Company (“Sherwin-Williams”) were also in a position to acquire it), would be highly sought after.

There are, of course, challenges for the Dulux ANZ business including:

- the softening of the Australian housing market. The home improvement and maintenance segment to which Dulux ANZ is primarily exposed is much more resilient but is not immune from the effects of low wages growth, weak consumer confidence and falling house prices and sale volumes;
- long term market volume growth that has been limited to around 1-1.5% per annum, in line with Australian population growth;
- two primary competitors that are owned by the world’s two largest paint companies (PPG and Sherwin-Williams, respectively); and
- a market where gains in share are “hard won” and incremental, requiring continued success in innovation, marketing and disciplined management.

In addition:

- market share in the retail channel that has benefited from the very strong growth of Wesfarmers Limited’s Bunnings Warehouse home improvement business (“Bunnings”). Any significant slowdown in Bunnings’ growth will make it harder for Dulux ANZ to gain further retail market share (although Dulux ANZ also has a strong position in other retail outlets);
- given the nature of the likely acquirers (international operators not already in Australia), there is relatively limited opportunity to generate cost savings or other operating synergies; and
- as a high performing business there is less scope for an acquirer to improve the performance by adding its skills and expertise.

³ FYXX = financial year end 30 September 20XX (i.e. FY18 is the year ending 30 September 2018).

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On the other hand, the business has a number of highly attractive attributes including:

- an outstanding track record of steady and consistent (albeit moderate) revenue growth coupled with margin improvement;
- world class EBITDA/EBITA margins of around 20% and 18% respectively;
- clear market leadership in major categories (decorative paint, woodcare and texture coatings) in Australia across both retail and trade distribution channels and unrivalled brand strength, particularly for premium products;
- a demonstrated ability to compete effectively against *Taubmans* and *Wattyl*;
- a deep and long standing relationship with Bunnings;
- a high level of exposure to the home improvement and maintenance segment (~65% of revenue);
- very strong research and development capacity (80+ chemists) and a proven capability to execute on innovation. It has a substantial pipeline of new product development in place;
- a highly experienced management team with long tenure in the business;
- the recently commissioned, world class Merrifield water-based paint factory;
- low capital expenditure requirements for the business going forward (<10% of EBITDA); and
- meaningful opportunities for further market share gains, margin improvements and product extensions.

Taking all of these factors into account, it is Grant Samuel's opinion that the implied multiples are reasonable (compared to key transactions). While the short term outlook over the next two years is subdued, Dulux ANZ is well positioned to continue to develop the business and to generate consistent solid growth over the medium to longer term. Dulux ANZ represents a unique opportunity for an acquirer to secure the clear market leader across Australasia.

■ Selleys & Parchem ANZ has been valued at \$475-525 million

The multiples implied the valuation of Selleys & Parchem ANZ are summarised below:

SELLEYS & PARCHEM ANZ – IMPLIED VALUATION PARAMETERS

DATE	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS)	
		LOW	HIGH
Value range (\$ millions)		475	525
Multiple of EBITDA (times)			
FY18 (actual)	36.7	12.9	14.3
FY19 (broker median forecast)	40.7	11.7	12.9
FY20 (broker median forecast)	42.0	11.3	12.5
Multiple of EBITA (times)			
FY18 (actual)	34.4	13.8	15.3
FY19 (broker median forecast)	38.4	12.4	13.7
FY20 (broker median forecast)	39.2	12.1	13.4

The market evidence on comparable transactions consistently indicates multiples around 11 times forecast EBITDA as being a benchmark for the sector. However, most of the acquisitions have had strong industrial logic with substantial levels of cost savings and other synergies expected. Allowing for these synergies, typically reduced the effective multiples to between 8 and 9, depending on individual circumstances (albeit that some of these multiples are based on earnings 3-4 years out including

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underlying business growth and development). Nevertheless, it would appear reasonable to conclude that effective multiples (net of synergies) for larger businesses in the sealants, adhesives, fillers and paint preparation market are typically less than 10 times.

In this context, there is likely to be limited opportunities for operational synergies for an acquirer as any existing participant in the Australian market (including those that are part of multinationals) would likely face significant competition regulatory issues in acquiring Selleys & Parchem ANZ (given its market share).

Several of the acquisitions involve businesses that are direct competitors of Selleys (e.g. Sika, Bostik) and Parchem (e.g. Parex, now part of Sika). However, they are much larger businesses with, in a number of instances, sales of more than €1 billion and operations spread across numerous countries or regions. In contrast, Selleys has sales of <\$200 million and Parchem <\$100 million and the business is limited to Australia and New Zealand. Other things being equal, larger businesses usually warrant higher multiples because the scale and diversity adds to the robustness of the business and its market position.

At the same time, Selleys & Parchem ANZ has a number of attractive features including:

- a market leading brand (*Selleys*) with over 65% share in the retail channel and very high brand awareness;
- comprehensive coverage across individual product categories and price points;
- a proven track record in product innovation (e.g. *Selleys Storm*);
- the scope for significant growth in the more fragmented trade channel; and
- market leadership in concrete repair and rehabilitation (Fosroc).

In addition, there are features that distinguish the Selleys & Parchem ANZ business from others and mean a higher multiple can be justified:

- Selleys is a 95% retail business with very high brand recognition and clear market leadership. The companies involved in the comparable transactions largely served commercial/industrial customers. As a retail focussed business with by far the largest market share, Selleys:
 - can generate premium pricing and more attractive margins than a trade orientated business;
 - has a high level of influence over pricing across its product range; and
 - is able to entrench brand recognition amongst customers;
- it has a minimal exposure to the new housing market (<10% of sales); and
- the business is far less capital intensive than the comparable companies. Capital expenditure generally fluctuates between 5% and 8% of EBITDA. In contrast, capital expenditure for many of the comparable companies is more in the order of 20-30% of EBITDA. As a result, Selleys & Parchem ANZ generates a materially higher level of cash flow for every dollar of EBITDA.

Taking all of these factors into account, it is Grant Samuel's opinion that multiples slightly above the comparable transactions are reasonable.

■ **Building Products, Yates and DuluxGroup International have been valued at \$560-665 million**

DuluxGroup's other businesses comprise B&D Group (garage doors), Lincoln Sentry (cabinet and architectural hardware distribution), Yates (garden care products) and DuluxGroup International.

Building Products and Yates

These businesses are relatively small scale, niche businesses operating within the broader home improvement and maintenance sector with a focus on building products (except for Yates). There is little or no market evidence available in relation to the individual sectors (garage doors, architectural

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hardware distribution, garden care products). Accordingly, the market evidence is largely based on the general building products industry in Australia with selected other evidence where relevant.

The values attributed to each of the individual businesses imply the following multiples:

BUILDING PRODUCTS – IMPLIED VALUATION PARAMETERS

DATE	B&D GROUP		LINCOLN SENTRY		YATES	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
Multiple of EBITDA (times)						
FY18 (actual)	8.4	9.5	8.9	10.1	8.3	9.4
FY19 (broker median forecast)	8.3	9.4	8.8	9.9	na ⁴	na ⁴
Multiple of EBITA (times)						
FY18 (actual)	10.0	11.4	9.4	10.6	9.2	10.4
FY19 (broker median forecast)	9.9	11.3	9.3	10.6	na ⁴	na ⁴

DuluxGroup International

DuluxGroup International is a grouping of all of DuluxGroup's businesses and initiatives outside of its core Australian and New Zealand markets. As such, it includes a long standing business in Papua New Guinea (*Dulux* and *Selleys*) which makes a consistent trading profit as well as a number of new ventures in markets such as Indonesia and the United Kingdom.

Overall, DuluxGroup International is currently loss making and is expected to make only a small profit over the next couple of years. Given this mix, it is not possible to establish a value benchmarked to other transactions.

Any kind of long term DCF analysis, even if risk weighted, would give a misleading impression of precision. Fundamentally, it is a question of judgement and is more in the nature of option value.

Grant Samuel has attributed a value of \$80-120 million to DuluxGroup International. At the low end, the value largely comprises value for the existing operations in Papua New Guinea and South East Asia. The higher end recognises:

- the potential of the Indonesian joint venture where DuluxGroup International has teamed with a partner that contributes strong distribution capabilities; and
- the inroads made in the United Kingdom market.

■ DCF Analysis

Grant Samuel has prepared a DCF analysis of DuluxGroup as a cross check on value. The analysis is based on a simplified high level model that focuses on sales growth and EBITDA margins as the primary drivers of value. The model forecasts nominal after tax cash flows for the period from 1 April 2019 to 30 September 2028 (9.5 years). The analysis assumes a weighted average cost of capital of 8.5-9.5% and calculates a terminal value based on a perpetual growth rate of 3%.

The following scenarios were examined:

⁴ Implied multiples for FY19 for Yates are distorted by one-off items (unfavourable weather conditions and stock realignment in retail channels).

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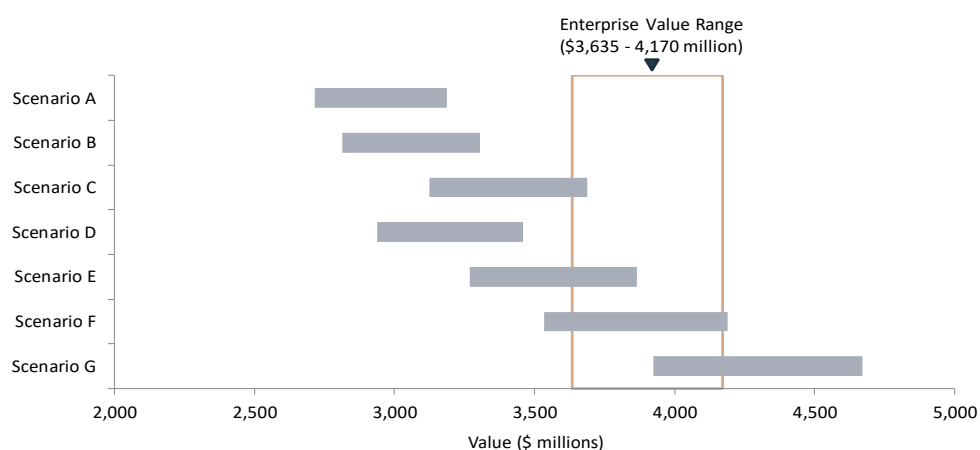


DULUXGROUP – DCF SCENARIOS

SCENARIO	KEY ASSUMPTIONS	
	REVENUE GROWTH (PER ANNUM)	EBITDA MARGIN
A	3% from FY20	Flat at FY19 levels
B	3% in FY20 and FY21, 4% thereafter	Flat at FY19 levels
C	3% in FY20 and FY21, 4% thereafter	Steps up 20 basis points each year
D	4.5% from FY20	Flat at FY19 levels
E	4.5% from FY20	Steps up 20 basis points each year
F	5% from FY20	Steps up 30 basis points each year
G	6% from FY20	Steps up 40 basis points each year

The net present value (“NPV”) outcomes were as follows:

DULUXGROUP – NPV OUTCOMES (AT 8.5-9.5% DISCOUNT RATES)



DCF analyses are subject to significant limitations and should always be treated with considerable caution. The following factors are relevant to consideration of the NPV outcomes:

- Scenarios A to C are arguably unrealistically conservative. Notwithstanding a reasonable expectation of a subdued trading environment over the short term, they reflect performance levels below that achieved by DuluxGroup over the past few years;
- Scenario G is clearly an optimistic upside case that reflects parameters well above historical performance. EBITDA margins increase from 14.8% to 18.4% over the forecast period (9.5 years);
- Scenarios D to F are arguably more realistic reflecting sales growth of between 4.5% and 5% and a steady but still meaningful increase in EBITDA margins (± 2 -3% over the 10 year period); and
- Scenario F corresponds with the Grant Samuel valuation range but is probably still optimistic. Nevertheless, it provides a useful indicator of the performance level that would need to be achieved to generate a value that exceeded the offer price (at an 8.5% discount rate).

In Grant Samuel’s view, Scenario E represents the most realistic of the scenarios for the businesses. The NPV outcome for this scenario is below the estimated value range of \$3,635-4,170 million based on earnings multiples. This outcome is because for businesses such as DuluxGroup, a purely standalone financial analysis does not necessarily capture the broader strategic value (which may be reflected in transaction multiples of businesses in a similar situation) of a “once in a lifetime” opportunity to acquire a business with:

- entrenched market leadership positions in a (relatively) high performing advanced economy;
- iconic brands; and
- offshore expansion potential.

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- **The Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of DuluxGroup shareholders, in the absence of a superior proposal.**

Grant Samuel has estimated the full underlying value in DuluxGroup, including a premium for control, to be in the range \$3.3-3.9 billion which corresponds to \$8.53-9.93 per share⁵. The total cash value to be received by DuluxGroup shareholders of \$9.80 per share⁶ falls within the value range of \$8.53-9.93 per share. Accordingly, the Scheme is fair. The bottom of the value range represents the relevant threshold for fairness. In this case, the total cash value is close to the top of the value range and is therefore demonstrably fair.

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme:

- the total cash value of \$9.80 per share represents a substantial premium over the prices at which DuluxGroup shares traded prior to the announcement of the Scheme. The premium is a 27.8% premium to the closing price on 16 April 2019 and is higher (circa 33-38%) when compared to prices over the preceding 12 months:

DULUXGROUP – PREMIUM OVER PRE-ANNOUNCEMENT PRICES

PERIOD	DULUXGROUP PRICE/VWAP	PREMIUM
16 April 2019 – Pre-announcement price	\$7.67	27.8%
1 month prior to 16 April 2019 – VWAP ⁷	\$7.39	32.7%
3 months prior to 16 April 2019 – VWAP	\$7.24	35.4%
6 months prior to 16 April 2019 – VWAP	\$7.10	38.0%
12 months prior to 16 April 2019 – VWAP	\$7.37	33.0%

The implied premiums are above the level usually associated with takeovers of 20-35%. There are reasons why DuluxGroup shareholders could reasonably expect high premiums in a change of control transaction given its leading market positions (market share and brand recognition) and its track record of consistent revenue, profit and dividend growth. A substantial premium is necessary to convince shareholders to forgo DuluxGroup's future returns and to find alternative reinvestment opportunities;

- it is likely that DuluxGroup shares, under current market conditions, would trade at prices well below \$9.80 and quite possibly back towards the prices prevailing prior to announcement of the Scheme of circa \$7.25-7.50 (before allowing for the special dividend of \$0.28 per share). The special dividend (along with the ordinary dividend of \$0.15 per share) will be paid on 28 June 2019 irrespective of the implementation of the Scheme. Accordingly, any trading subsequent to the ex date for this dividend will reflect the payment of the dividend (i.e. share prices can be expected to be \$0.28 less than they would otherwise have been). However, shareholders will have received the cash payment; and
- it is conceivable that a third party could make a higher offer DuluxGroup:
 - DuluxGroup has a number of strategic attractions for international paint companies including its leading market positions across its business operations and its well established brands with strong consumer awareness; and
 - there are no structural or absolute impediments to an alternative acquirer. No shareholder owns more than 10% of DuluxGroup and Nippon Paint has no shareholding in DuluxGroup. DuluxGroup has agreed to usual exclusivity provisions, there is a fiduciary carve out and DuluxGroup can respond to unsolicited proposals from other parties (subject to a notification obligation).

⁵ On a cum dividend basis (i.e. prior to payment of the interim and special dividends on 28 June 2019).

⁶ Comprising the consideration under the Scheme of \$9.37 per share together with the interim dividend of \$0.15 per share and the special dividend of \$0.28 per share.

⁷ VWAP is volume weighted average price.

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However, it should be noted that:

- two of the top three global paint companies, PPG (*Taubmans*) and Sherwin-Williams (*Wattyl*) already operate in Australia. Given its previous rulings, it is almost certain that the Australian Competition & Consumer Commission would prevent either of them from acquiring DuluxGroup unless they divested their existing operations; and
- the price offered by Nippon Paint, which reflects very high implied multiples of earnings and premiums over pre announcement share price trading, will act as a disincentive to alternative acquirers.

The meeting at which DuluxGroup shareholders will vote on the Scheme is scheduled for 31 July 2019. This should be ample time for an alternative offerer to come forward. If this does not occur, it would be imprudent for shareholders to vote against the Scheme in anticipation of a higher offer from Nippon Paint or a third party.

As the Scheme is fair and reasonable, it is therefore in the best interests of DuluxGroup shareholders.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual DuluxGroup shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by DuluxGroup in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of DuluxGroup. In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders, based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED



FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE ACQUISITION PROPOSAL FROM
NIPPON PAINT HOLDINGS CO., LTD

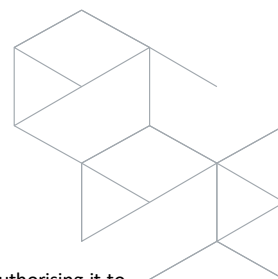
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14 JUNE 2019

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FINANCIAL SERVICES GUIDE



Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for DuluxGroup Limited in relation to the acquisition proposal from Nippon Paint Holdings Co., Ltd. ("the DuluxGroup Report"), Grant Samuel will receive a fixed fee of \$515,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the DuluxGroup Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the DuluxGroup Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the DuluxGroup Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with DuluxGroup or Nippon Paint or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that was engaged by Orica Limited and prepared an independent expert's report dated 24 May 2010 in relation to the proposed demerger of DuluxGroup.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$515,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Australian Financial Complaints Authority, No. 11929. If you have any concerns regarding the DuluxGroup Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Australian Financial Complaints Authority at GPO Box 3 Melbourne VIC 3001 or 1800 931 678. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the DuluxGroup Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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- 1 Adjusted Historical Financial Performance by Business
- 2 Broker Consensus Forecasts

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1 Details of the Scheme

On 17 April 2019, DuluxGroup Limited (“DuluxGroup”) announced that it had entered into a Scheme Implementation Deed with Nippon Paint Holdings Co., Ltd. (“Nippon Paint”) under which Nippon Paint will acquire all of the issued shares in DuluxGroup by way of a scheme of arrangement (“the Scheme”). If the Scheme is implemented, DuluxGroup shareholders will receive total cash value of \$9.80 per share, inclusive of a fully franked interim dividend of \$0.15 per share and a fully franked special dividend of \$0.28 per share both declared on 15 May 2019¹.

Nippon Paint is a global paint and coatings company headquartered in Osaka, Japan. It offers a portfolio of paint and coatings products for architectural, automotive, industrial and marine applications as well as a range of surface treatment agents and generated net sales of ¥628 billion (~\$7.8 billion) in 2018. Nippon Paint is listed on the Tokyo Stock Exchange and has a market capitalisation of around ¥1,352 billion (~\$17 billion).

The Scheme is subject to a number of conditions which are set out in full in the Notice of Meeting and Explanatory Statement (“Scheme Booklet”) to be sent by DuluxGroup to shareholders including approval under the Foreign Acquisitions and Takeovers Act, 1975 (Cth), approval under the Overseas Investment Act 2005 (NZ) and the Overseas Investment Regulations 2005 (NZ) and DuluxGroup shareholder approval under Section 411 of the Corporations Act, 2001 (“Corporations Act”). Other elements of the Scheme include the following:

- DuluxGroup has agreed to certain exclusivity arrangements (including no-shop, no-talk and no-due diligence restrictions and a notification obligation) that apply during the exclusivity period². The no-talk, no-due diligence and notification provisions are subject to a carve out in respect of the fiduciary and statutory obligations of DuluxGroup directors;
- Nippon Paint has been granted the right to match a competing proposal³;
- a break fee of \$38,146,525 is payable by DuluxGroup to Nippon Paint in certain circumstances⁴. A reverse break fee of \$38,146,525 is payable by Nippon Paint to DuluxGroup if DuluxGroup terminates the Scheme Implementation Deed (in accordance with its terms) for a material breach of the deed by Nippon Paint;
- subject to the Scheme becoming effective:
 - all DuluxGroup share rights, LTEIP⁵ shares and incentive shares at the date of the Scheme Implementation Deed will be exercised or vest (as applicable) and be subject to the terms of the Scheme;

¹ Payment date for both dividends is 28 June 2019. The dividends are not conditional on the Scheme and will be paid irrespective of whether the Scheme proceeds. Accordingly, the consideration to be paid on implementation of the Scheme will be \$9.37 cash per share.

² The period from 17 April 2019 to the earlier of the date the Scheme Implementation Deed is terminated (in accordance with its terms) and 17 September 2019 (or such later date as may be agreed in writing by the parties).

³ A competing proposal means any proposal, offer, agreement, arrangement or transaction which, if entered into or completed substantially in accordance with its terms, would result in a third party (either or alone or with associates) directly or indirectly:

- acquiring a relevant interest or economic interest in 15% or more of DuluxGroup shares (other than in the ordinary course of trading on the ASX);
- acquiring, or acquiring an economic interest in, all or a material part of the assets or business of DuluxGroup (where a material part means assets representing 15% or more of the value of DuluxGroup’s total assets); or
- acquiring control of, or merging with, DuluxGroup,

or would otherwise result in the Scheme not being able to be implemented on the basis set out in the Scheme Implementation Deed.

⁴ If a DuluxGroup director changes, withdraws or adversely modifies their recommendation that shareholders vote in favour of the Scheme or publicly recommends a competing proposal (other than where the independent expert has concluded that the Scheme is not or is no longer in the best interests of shareholders except where the expert states that this conclusion is due to the existence of a competing proposal); if Nippon Paint validly terminates the Scheme Implementation Deed for a material breach by DuluxGroup; if a competing proposal is publicly announced by a third party before the second court date and, within six months of announcement, the third party acquires all or a majority of DuluxGroup shares or otherwise acquires control of DuluxGroup; or DuluxGroup enters into any arrangement, agreement or understanding (in writing or otherwise) to implement a competing proposal.

⁵ LTEIP is Long Term Equity Incentive Plan.

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- 30% of each LTEIP loan will be forgiven (other than loans in respect of the 2015 LTEIP, the level of forgiveness having already been determined) and each LTEIP loan will be repaid in full from the consideration under the Scheme; and
- DuluxGroup may pay, in the absolute discretion of the DuluxGroup Board, short term incentives and other payments for the financial year ending 30 September 2019; and
- a sunset date of 17 September 2019 or such later date as may be agreed in writing by the parties.

Subject to an independent expert determining that the Scheme is in the best interests of shareholders and in the absence of a superior proposal⁶, each director of DuluxGroup has recommended the Scheme and intends to vote shares held or controlled by them in favour of the Scheme.

⁶ Superior proposal means a bona fide competing proposal transaction which the DuluxGroup Board, acting in good faith and after taking written advice from its legal and financial advisers determines:

- is reasonably capable of being substantially completed in accordance with its terms; and
- would be more favourable to DuluxGroup shareholders than the Scheme (as modified by any Nippon Paint counterproposal) if completed substantially in accordance with its terms.

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2 Scope of the Report

2.1 Purpose of the Report

Under Section 411 of the Corporations Act, the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by DuluxGroup shareholders, the Scheme will then be subject to approval by the Supreme Court of Victoria.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert’s report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert’s report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert’s report pursuant to the Corporations Act or the Australian Securities Exchange (“ASX”) Listing Rules, the directors of DuluxGroup have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Scheme is in the best interests of DuluxGroup shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by DuluxGroup.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual DuluxGroup shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by DuluxGroup in relation to the Scheme.

Voting for or against the Scheme is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. However, the Australian Securities & Investments Commission (“ASIC”) has issued Regulatory Guide 111 (“RG111”) which establishes guidelines in respect of independent expert’s reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair” and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8). For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Scheme is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Scheme as a control transaction and formed a judgement as to whether the proposal is “fair and reasonable”.

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison,



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value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Scheme is fair by comparing the estimated underlying value range of DuluxGroup with the offer price. The Scheme will be fair if it falls within the estimated underlying value range. In considering whether the Scheme is reasonable, the factors that have been considered include:

- the existing shareholding structure of DuluxGroup;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of DuluxGroup shares in the absence of the Scheme; and
- other advantages and disadvantages for DuluxGroup shareholders of approving the Scheme.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

- the Scheme Booklet (including earlier drafts);
- annual reports of DuluxGroup for the six years ended 30 September 2018;
- half year results announcement of DuluxGroup for the six months ended 31 March 2019;
- press releases, public announcements, media and analyst presentation material and other public filings by DuluxGroup including information available on its website;
- brokers' reports and recent press articles on DuluxGroup and the paint and coatings sector and the broader building products industry;
- sharemarket data and related information on Australian and international listed companies engaged in paint and coatings sector and the broader the building products industry and on acquisitions of companies and businesses in this industry; and
- other confidential documents, board papers, presentations and working papers provided by DuluxGroup including the forecast for FY19⁷ and longer terms projections prepared by DuluxGroup management.

In preparing this report, Grant Samuel has held discussions with, and obtained information from, senior management of DuluxGroup and its advisers.

⁷ FYXX is financial year end 30 September 20XX (e.g. FY19 is the year ending 30 September 2019).

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2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by DuluxGroup and its advisers. Grant Samuel has considered and relied upon this information. DuluxGroup has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Scheme is in the best interests of DuluxGroup shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of DuluxGroup. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the latest forecast for DuluxGroup for the year ending 30 September 2019 ("FY19 Forecast") prepared by management and reviewed by the Directors of DuluxGroup; and
- projections for DuluxGroup for the four years ending 30 September 2022 ("Four Year Plan") (incorporating the FY19 Forecast) prepared by management and reviewed by the Directors of DuluxGroup.

DuluxGroup is responsible for the information contained in the FY19 Forecast and the Four Year Plan ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions and having regard to the underlying objectives of the forward looking information. It

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should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- DuluxGroup has sophisticated management and financial reporting processes. Annual financial budgets are prepared through a detailed process involving preparation of "ground up" forecasts by the management of each business and are subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance. The Four Year Plan is the output of a formal strategic planning process undertaken annually by each business (separate to the formal annual budgeting process) and reviewed by senior management;
- the FY19 Forecast is based on actual operating results for DuluxGroup for HY19⁸ and has been reviewed by the Directors of DuluxGroup;
- the Four Year Plan was reviewed by the Directors of DuluxGroup; and
- while the residential construction sector is subject to volatility, the buildings products categories in which DuluxGroup operates are mature markets with a small number of large players and generate steady growth and DuluxGroup has well established positions in each of its markets. Furthermore, DuluxGroup's business is biased to home improvement and maintenance activity which is less sensitive to economic and housing market conditions than new dwelling activity.

While DuluxGroup has made guidance statements about NPAT⁹ for FY19, the Directors of DuluxGroup have decided not to include the FY19 Forecast or Four Year Plan in the Scheme Booklet and therefore the FY19 Forecast and Four Year Plan have not been disclosed in this report.

In order to provide an indication of the expected financial performance of DuluxGroup, Grant Samuel has considered brokers' forecasts for DuluxGroup (see Appendix 2). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of DuluxGroup. These forecasts are sufficiently close to DuluxGroup's FY19 Forecast and FY20 projection (taking the purpose of projection into account) to be useful for analytical purposes.

Grant Samuel has not relied on the Four Year Plan for the purposes of its report but has considered this information in its review of DuluxGroup's future business strategy and prospects and used this information in developing a financial model for DuluxGroup's business operations as discussed in Section 5.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and

⁸ HY19 is six months ended 31 March 2019.

⁹ NPAT is net profit after tax.

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- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by DuluxGroup and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Scheme are accurate and complete;
- the information set out in the Scheme Booklet sent by DuluxGroup to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Scheme will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



3 Economic Drivers in the Building Products Sector

3.1 Construction Industry Sectors

Construction is one of the largest areas of economic activity across Australia. It represents approximately 8% of gross domestic product ("GDP"), similar in size to the mining industry and larger than any service based industry. The industry has three primary sectors:

- **Residential construction** which comprises new buildings as well as alterations and additions. It covers all residential dwellings including detached houses, multiple family dwellings, medium and high-density housing (such as apartment buildings), conversions of commercial premises to residential premises and renovation of existing dwellings;
- **Non-residential construction** which covers commercial, industrial, social and institutional buildings. The commercial and industrial sector includes offices, retail shops, hotels, other business premises and factories, while the social and institutional sector includes buildings for educational, health, religious and recreational purposes; and
- **Civil (engineering) construction** including public infrastructure construction and urban development such as highways, tunnels and bridges, railways, airports, ports, large industrial developments and major utilities (power and water).

3.2 Building Products

Construction materials and building products are the two primary inputs for the construction industry. Construction materials includes "heavy" commodities such as aggregates, cement, sand, clay and asphalt.

In contrast, building products is an extremely broad and diverse sector that encompasses all materials, fittings and fixtures and coatings that form part of the structure of buildings. Categories include roofing (tiles, shingles, steel and aluminium); structural support (steel, aluminium and timber framing, beams); external cladding (blocks, bricks, fibre cement sheets, steel and timber); windows and doors; flooring, paving and decking; internal cladding (plasterboard and timber) and insulation; plumbing and drainage; electrical, lighting and security; paint and coatings; sealants, adhesives and fillers; cabinetry and decorative products as well as the necessary tools and equipment.

Building products are most intensely used in residential construction and, to a lesser extent, in non-residential construction. Demand across the industry is largely driven by activity levels in these two sectors but it can vary significantly between states and regions in an uncorrelated manner. Cyclical impacts are largely back ended in that most building products are typically used towards the end of a project. Accordingly, the impact of changes in market conditions (both positive and negative) on operating performance of building products businesses, emerge more slowly than in construction materials businesses. The demand profile for individual categories of building products also vary widely depending on the type of product:

- structural products will be impacted by market factors sooner in the cycle than finishing products;
- some categories have more exposure to new construction (e.g. framing, bricks) while other categories are much more dependent on renovation activity (e.g. paint). In this context, new construction is more volatile than renovation activity; and
- apartments have a different mix of product requirements compared to houses (e.g. roofing requirements are far less than in an equivalent number of houses).

Within a category of building products, demand for specific materials/products will be affected by:

- the mix of apartments compared to houses (e.g. apartments rarely use timber window frames);
- trends in construction techniques (e.g. timber versus steel framing);

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- changes in consumer taste (e.g. tiles versus metal roofing);
- location and climatic conditions (e.g. less brick and tile usage in northern Australia); and
- competitive forces (including input costs, price relativities, promotional activity).

Channels to market also vary depending on product category. Categories such as roofing and cladding are largely distributed through trade channels whereas later stage products such as paint have a much greater presence in retail channels.

3.3 Australian Residential Construction

Residential construction is the key driver of demand for building products. The sector has two key segments:

- construction of new dwellings; and
- improvement and maintenance of existing dwellings (i.e. renovations, alterations, additions and repairs).

3.3.1 New Dwellings

Introduction

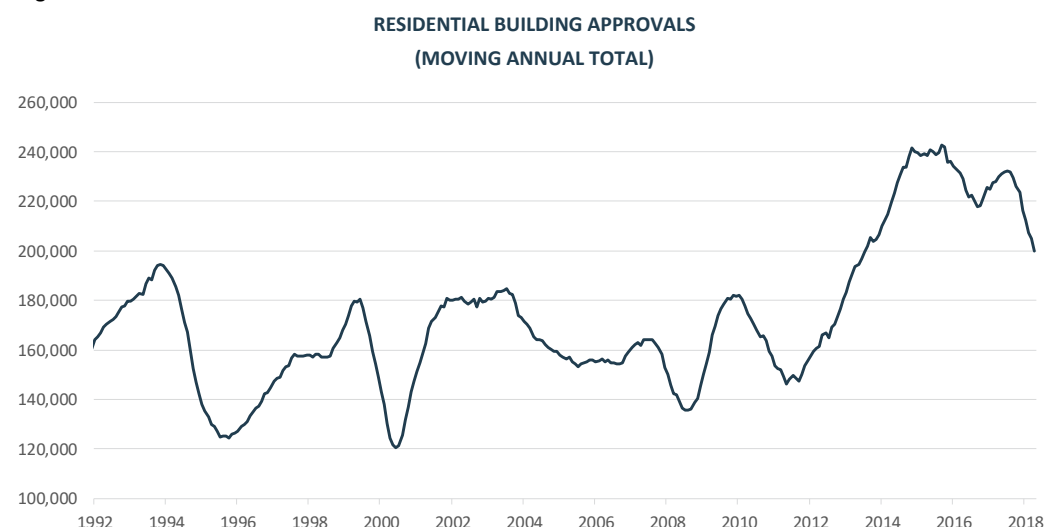
New residential construction is cyclical and activity levels are principally affected by housing affordability, labour market conditions (wages growth, unemployment levels), interest rates, credit availability, supply constraints (land availability), demographic factors (such as population growth, household formation and changing age structure) and the supply of existing housing.

Activity in new residential construction can be measured across various parameters and statistics including building approvals, housing starts and completions and value of residential building work done. Housing approvals is a useful lead indicator but is not a highly reliable measure as many approvals do not proceed to commencement. Commencements and completions will obviously lag approvals but are more representative of activity volumes.

Recent Activity Levels in Australia

BUILDING APPROVALS

Australian building approvals have started to show signs of declining activity after reaching a record high in August 2016:



Source: Australian Bureau of Statistics ("ABS"), Building Approvals, 8731.0.

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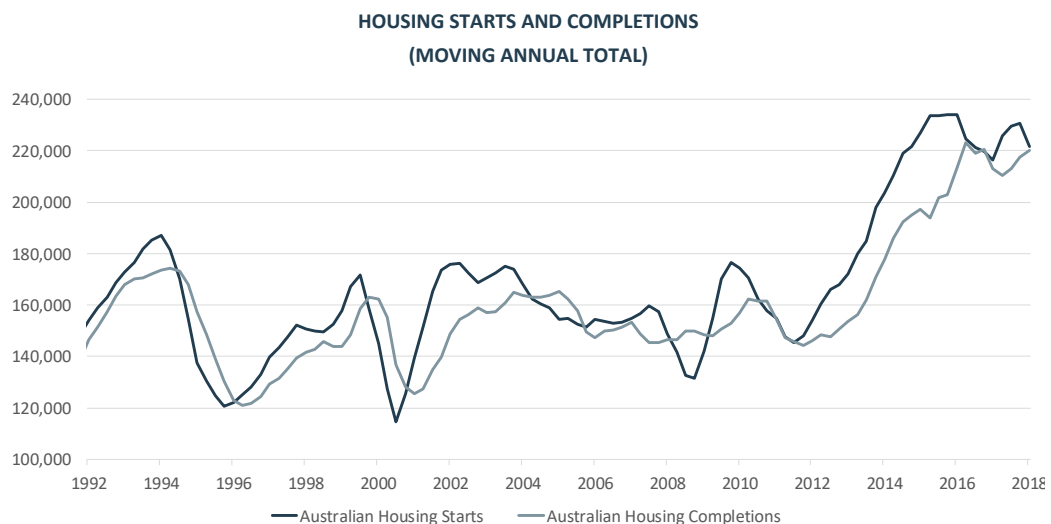
Approvals exhibited a protracted and significant increase between 2012 and 2016, rising 66% from trough to peak. Historically, approvals had largely fluctuated between 140,000 and 160,000 but over 2012-2016 stepped up to around 220,000. The longer and larger than usual increase in activity was arguably driven by the ready availability of credit during this period and a gradual decline in the cash rate from 4.50% in November 2011 to 1.50% in August 2016.

The latest data point of 199,714 approvals in the year to March 2019 represents a 14% decline relative to the last peak of 232,144 approvals in the year to June 2018. Nevertheless, current levels are still 17% above the 30 year average of 170,280 approvals.

The downturn can be attributed to tighter credit conditions, a fall in investor participation (for various structural reasons), weaker consumer sentiment due to relatively high household debt to income and declining house prices as well as an oversupply in housing stock (particularly apartments) in several capital cities.

HOUSING STARTS AND COMPLETIONS

Housing starts typically lag building approvals by 3-6 months and completions by a further 6-18 months. Accordingly, the decline in housing starts and completions is currently less progressed than building approvals as can be seen in the following chart:



Source: ABS, Building Activity, 8752.0.

After stepping up by more than 25% over 2012-2014, commencements have plateaued at around 50,000-60,000 per quarter. However, quarterly numbers have been declining since March 2018 and the downward trend has accelerated in the latest quarter. The trend in housing completions closely follows that of housing starts (and currently reflects the earlier peaks in approvals and starts). Both are yet to reflect the latest downturn in approvals.

VALUE OF RESIDENTIAL BUILDING WORK DONE

The value of residential construction work done has largely tracked the number of housing starts and completions, particularly the uplift over 2012-2016. However, the data is yet to reflect the impact of the downturn in approvals and starts:

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VALUE OF RESIDENTIAL BUILDING WORK DONE (\$ BILLIONS, CONSTANT PRICES)
(MOVING ANNUAL TOTAL TURNOVER)



Source: ABS, Construction Work Done, 8755.0 (Chain Volume Measure)

Short to Medium Term Outlook

The short to medium outlook for new residential construction is weak with the recent decline in approvals expected to flow through to house starts and, subsequently, completions. Most commentators expect the current downturn to continue for at least the next couple of years as falling house prices, waning confidence, tight credit conditions and changes to the rules for domestic and offshore investors (tax, lending constraints, charges) feed through to demand, notwithstanding extremely low interest rates, population growth (off an increasingly higher base) and government initiatives to improve housing affordability.

However, the volatile nature of the new residential construction sector makes reliable forecasting difficult. As an indication, the following table sets out current forecasts for dwelling commencements from the Housing Industry Association, Master Builders Australia and the broking research arms of two global investment banks:

FORECAST ANNUAL CHANGE IN AUSTRALIAN HOUSING STARTS (%)

	FISCAL YEAR				CALENDAR YEAR		
	2019	2020	2021	2022	2019	2020	2021
Housing Industry Association	-11.4%	-9.6%	-1.9%		-15.4%	-5.7%	2.1%
Master Builders Association	-7.9%	-6.1%	-4.7%	-4.0%			
Broker 1 ¹⁰	-12.9%	-8.6%	-2.1%				
Broker 3 ¹⁰					-9.6%	-9.3%	

Nevertheless, the general pattern of a material decline over the next 2-3 years is relatively clear. These declines can be expected to impact on demand for building products over the following 12 months.

Similarly, in 2018 BIS Oxford Economics published research¹¹ forecasting a decline in Australian housing starts of 23% across the following two years with a modest recovery starting in 2020/21 (through to the mid 2020s).

Within the anticipated overall decline, there is a sharp drop in multi dwelling construction (i.e. apartments) while the fall in single dwelling starts is much more moderate. A number of commentators expect housing starts to settle back at around 180,000 per annum, still well above previous historical norms.

¹⁰ Broker numbers aligned with brokers referred to in Appendix 2.

¹¹ Reported in "Business Insider Australia", 23 July 2018.



3.3.2 Home Improvement and Maintenance

Introduction

Home improvement and maintenance activity is less sensitive to economic and housing market conditions than new dwelling activity but is nevertheless impacted by a variety of factors including:

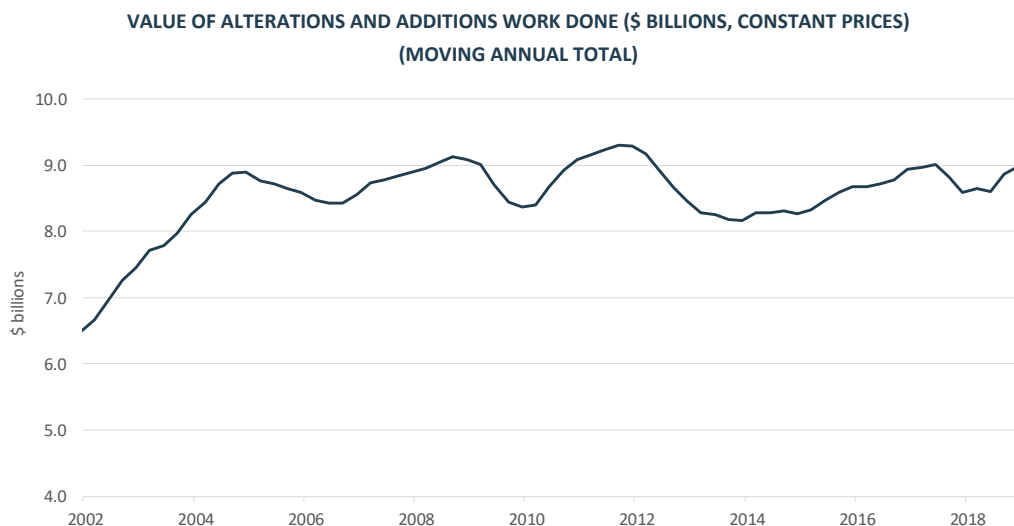
- the total number and average age of dwellings. Total dwellings are growing at approximately 1.5-2.0% on a base of around 10 million;
- housing turnover (as work is often undertaken before and after sales) which, in turn, is a function of house price trends and general market conditions;
- housing mix. Apartment dwellers are generally viewed as less inclined to undertake renovations and have no scope to extend. The proportion of apartments is steadily increasing throughout Australia which may dilute future growth; and
- wages growth and consumer confidence levels.

Recent Activity Levels

Given the heterogenous nature of this activity, there is limited statistical data available (at least for the volume of activity). However, there are a number of lenses through which this part of the residential construction sector can be examined including value of work done and value of investment in renovations. Other data includes housing turnover and lending to households for alterations and additions.

VALUE OF WORK DONE

Under current ABS methodology, only building jobs valued in excess of \$10,000 and requiring approval or permitting are included in collating value of work done. This type of work generally represents substantial discretionary expenditure for households and is consequently driven by economic conditions and consumer sentiment. As such, the global financial crisis can in part explain a dip in work done between 2005 to 2007, in contrast with the mining boom driving growth between 2010 and 2012. The increasing volume of transactions of established homes has also increased the level of renovation expenditure (particularly over 2012-2017):



Source: ABS, Building Activity, 8752.0 (Chain Volume Measure)

Following a steep 30% increase from 2002 to 2004, the value of approved alterations and additions work done worth over \$10,000 has largely remained in the \$8.5-9.0 billion (constant prices) range over the past decade.

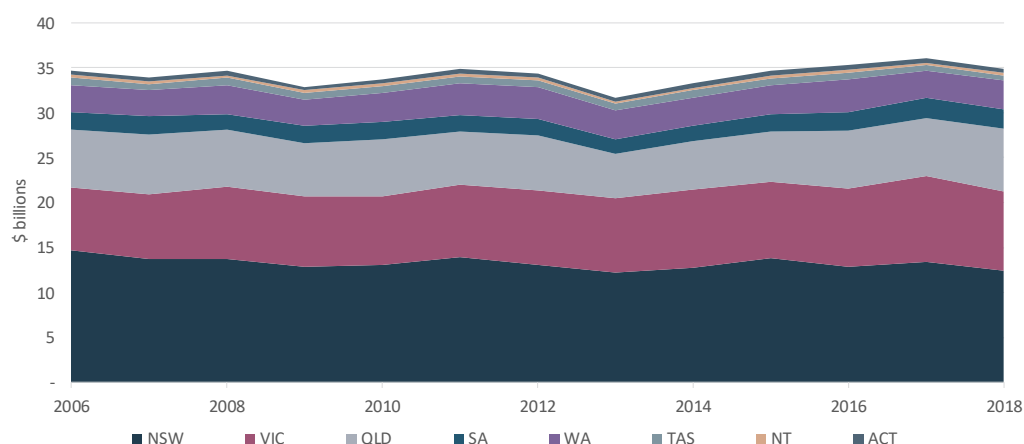
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VALUE OF INVESTMENT

Housing Industry Association statistics aggregate renovation work to include smaller projects not requiring permits or approvals, such as kitchen renovations which do not involve structural changes to a building. Spend on general maintenance and home upkeep, characterised by a large number of low value jobs, is the largest contributor to value of investment. This data, split by state and territory, is provided below:

VALUE OF INVESTMENT IN RENOVATIONS (\$ BILLION, CONSTANT PRICES)



Source: Housing Industry Association, New Housing Outlook (Chain Volume Measure)

The value of investment in housing renovations shows a fluctuating but overall relatively stable level of expenditure of around \$35 billion (constant prices) over the past decade. The top three states (New South Wales, Victoria and Queensland) collectively contribute 80% of total value.

Short to Medium Term Outlook

Reflecting its more stable base of activity, forecasts for alterations and additions over the next three years are broadly flat to marginally positive rather than declining:

FORECAST ANNUAL CHANGE IN ALTERATION & ADDITIONS EXPENDITURE (%)

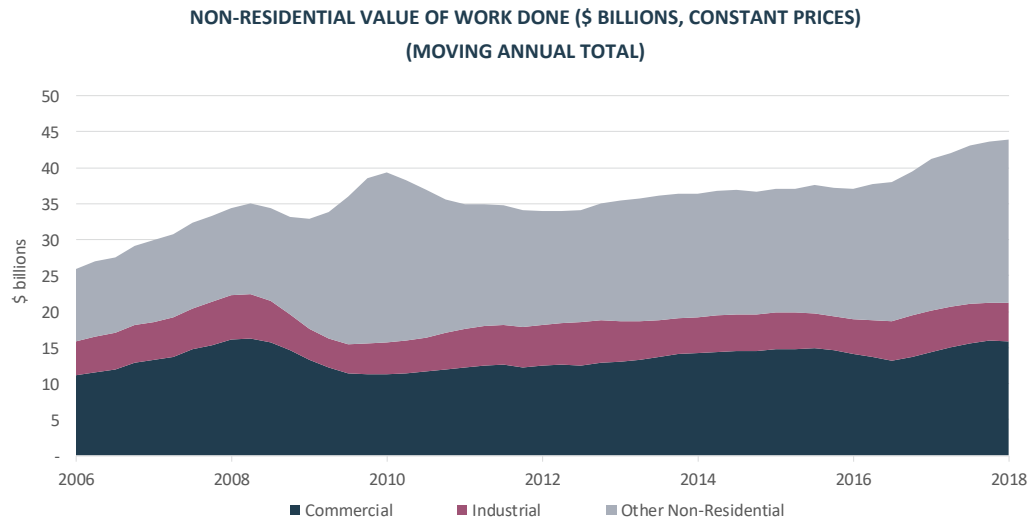
	YEAR END 30 JUNE			
	2019	2020	2021	2022
Housing Industry Association	4.8%	-0.4%	3.4%	-1.9%
Master Builders Australia	-0.2%	0.5%	0.8%	0.2%

3.4 Australian Non-Residential Construction

The non-residential construction sector encompasses construction of buildings with disparate purposes and activity levels are dependent on a variety of factors. Social and institutional construction is principally determined by public spending at the national, state and local government levels. Commercial and industrial construction is impacted by general economic conditions such as economic growth and investment, and specific factors such as vacancy rates and employment growth. Cycles in the non-residential sector tend to be longer in duration than the residential sector (up to 10 years). Nevertheless, activity can be relatively volatile in the short term given the size of projects.

Non-residential construction activity in Australia has shown recent improvement, with a sharp uptick since late 2016/early 2017 and the value of activity remaining above \$40 billion on a rolling 12-month basis since December 2017:

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Source: ABS, Construction Work Done, 8755.0 (Chain Volume Measure)

The recent strength in activity has been driven by commercial and other non-residential work, which has offset declines in industrial activity. Public sector education buildings, a key component of the “other non-residential” category, has grown since September 2016.

There are highly divergent views amongst commentators and analysts as to the short to medium term outlook for the sector. Master Builder Australia forecasts a meaningful downturn in the value of work done (-5% per annum over 2018/19 to 2022/23). On the other hand:

- the two broker analysts referenced in Section 3.3 forecast moderate growth of 1.5% and 2-3% respectively over the next 2-3 years; and
- BCI Economics, an information service for the construction industry, expects an uplift in commencements in 2019/20 for non-residential building largely due to improvements in the industrial, recreation and health categories.

Over the longer run, commercial activity is anticipated to be constrained as a result of structural changes (online impacting retail and work patterns impacting office) while the social and institutional sector (e.g. education and health) are expected to remain relatively strong, in part fuelled by population growth and government commitments to improve services/outcomes.

3.5 Australian Civil Construction

Civil construction activity is largely dependent on government funding levels for infrastructure projects and general economic conditions, particularly those that affect economic growth and investment spending. Civil construction also experiences cycles and the activity level is heavily influenced by individual projects in the short term.

Australian engineering construction activity by both the public and private sectors reached a peak in 2013, after which a decline in mining activity significantly impacted overall spend. While a pick-up in activity was seen from September 2017 to June 2018, activity declined in the second half of 2018. Total spend of \$92 billion was recorded in 2018 compared to peak spend of \$144 billion in March 2013:

Following the current dip, the outlook is for generally steady growth over the short to medium term underpinned by various major infrastructure projects, particularly road and rail transport projects in Sydney and Melbourne coupled with continuation of the National Broadband Network and a couple of major resource projects.

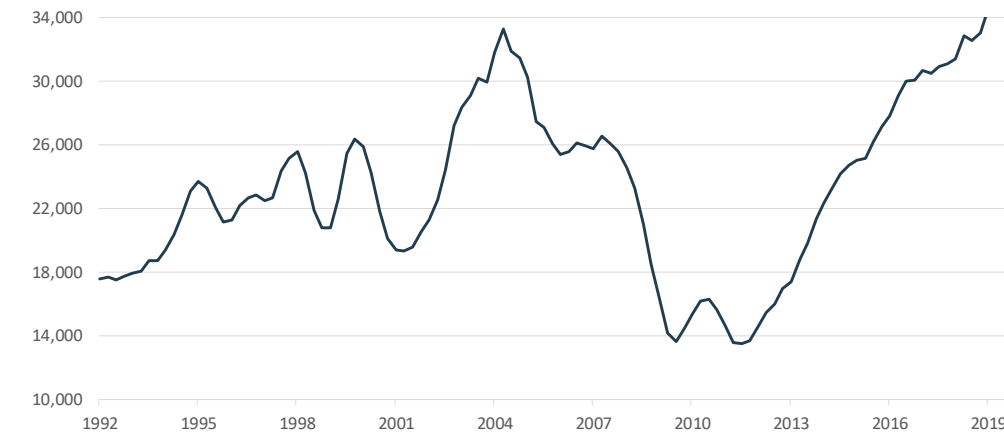
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3.6 New Zealand

The New Zealand residential property market has followed a broadly similar pattern to Australia, with a strong uplift in approvals (and commencements/completions) since around 2012 (following an all time low in 2010):

**NEW ZEALAND RESIDENTIAL CONSTRUCTION CONSENTS
(MOVING ANNUAL TOTAL)**



Source: Statistics New Zealand, Infoshare, Building Consents

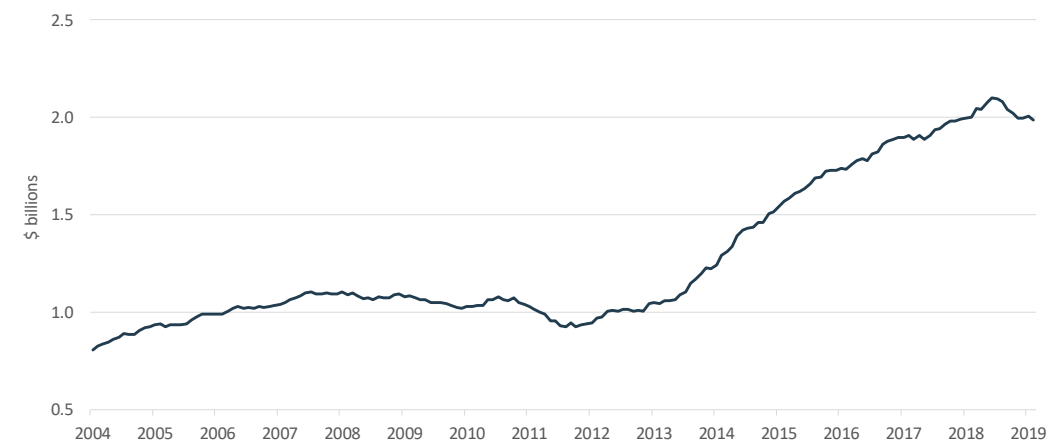
This growth has occurred on the back of low interest rates, a favourable tax regime (no capital gains tax) and very high immigration levels (resulting in a housing shortage in the key market of Auckland).

The latest figures for March 2019 show a slight drop in consent levels (seasonally adjusted) but, unlike Australia, the generally upward trend is yet to turn down. However, it is widely expected that there will be a correction over the next 2-3 years as immigration moderates and house prices soften, notwithstanding continuing low interest rates and the dropping of capital gains tax reform proposals.

At the same time, the recent levels of consents will underpin expenditure for some time. The New Zealand Treasury forecasts residential investment to grow 6% in 2019/20 easing (but remaining positive) thereafter.

As in Australia, alterations and additions activity has been stable and growing consistently. This pattern is expected to continue going forward notwithstanding any downturn in new building activity, particularly given the increasing base of existing houses.

**NEW ZEALAND RESIDENTIAL ALTERATIONS AND ADDITIONS CONSENTS (\$ BILLIONS, NOMINAL PRICES)
(MOVING ANNUAL TOTAL)**



Source: Statistics New Zealand, Building Consents Issued.



4 Profile of DuluxGroup

4.1 Background

DuluxGroup's origins date back to 1918 when the BALM paint business was established in Sydney. The business acquired the Dulux® trademark in Australia in 1933. The stock exchange listed Australasian business of United Kingdom based Imperial Chemicals Industries plc ("ICI plc"), later known as "ICI Australia", acquired a 57% interest in BALM in 1946. In 1964, BALM became a public company and in 1971 changed its name to Dulux Australia Ltd ("Dulux Australia"). In 1986, ICI Australia acquired the 30% of Dulux Australia that it did not already own and in 1996 combined Dulux Australia and its Selleys business to form a Consumer Products Division.

In 1997, ICI plc divested its majority interest in ICI Australia by way of a sell-down to investors and a selective buyback. In 1998, ICI Australia was renamed Orica Limited ("Orica") and acquired part of the explosives business of ICI plc beginning its transformation into a global explosives business. In July 2010, Orica demerged its Consumer Products Division as DuluxGroup Limited. At this time, DuluxGroup comprised the Dulux Paint and Coatings, Selleys Sealants and Adhesives and Yates Garden Care businesses.

Since the demerger, DuluxGroup has grown both organically and through acquisition. The key transaction in the period has been the acquisition of ASX listed Alesco Corporation Limited ("Alesco") in December 2012. Alesco operated a number of building products businesses: Garage Doors & Openers (including B&D Garage Doors), Cabinets, Windows & Appliances (including Lincoln Sentry) and Construction Products & Equipment (including Parchem). DuluxGroup has also:

- made a number of strategic "bolt on" acquisitions including Porter's Paints in June 2015, Gliderol WA in November 2015, Craig & Rose Paints in August 2016 and Organic Crop Protectants in June 2018;
- divested non core businesses including the Robinhood business in September 2013, the Opel business in China in January 2014 and the Camel Coatings business in China and Hong Kong in February 2018;
- formed the PT Avian Selleys Joint Venture in Indonesia in August 2017 (50.01% owned by DuluxGroup); and
- invested \$165 million in a new water based paint factory at Merrifield in Melbourne which was commissioned in May 2018.

Today, DuluxGroup is a marketer and manufacturer of premium branded products, primarily focused on the home improvement and maintenance market in Australia and New Zealand, employing around 4,000 people. It is an ASX 100 company and, prior to the announcement of the Scheme on 17 April 2019, had a market capitalisation of approximately \$3.0 billion.

4.2 Business Overview and Strategy

DuluxGroup operates a portfolio of building product businesses in Australia and New Zealand, primarily focused on residential homes with a bias towards the maintenance and improvement of existing homes. It has market leading positions in most of its businesses. In summary, DuluxGroup's key businesses are:

DULUXGROUP – KEY BUSINESSES

		DESCRIPTION
Dulux ANZ		Marketer and manufacturer of premium branded decorative paints, woodcare coatings and texture coatings. It also manufactures and markets protective coatings, industrial and powder coatings
Selleys & Parchem ANZ	 	Marketer and manufacturer of premium branded household sealants, adhesives, fillers and paint preparation products as well as construction chemicals, decorative concrete products and related equipment
B&D Group		Manufacturer and marketer of garage doors and automatic openers
Lincoln Sentry		Distributor of architectural hardware and components to the cabinet making, window, door and glazing industries
Yates Garden Care		Marketer and manufacturer of consumer home and garden care products

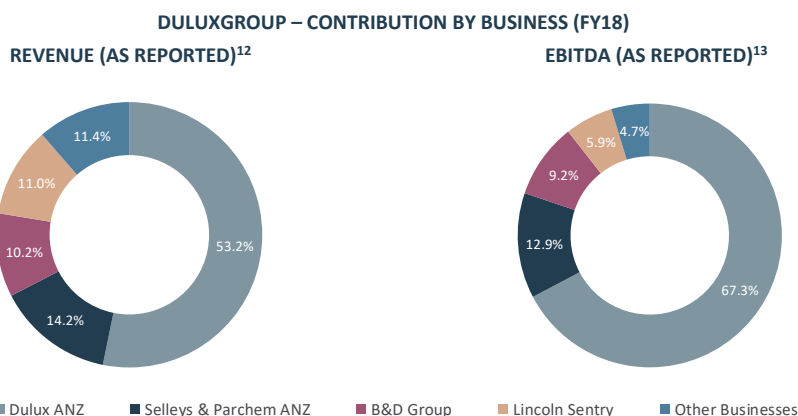
Source: DuluxGroup

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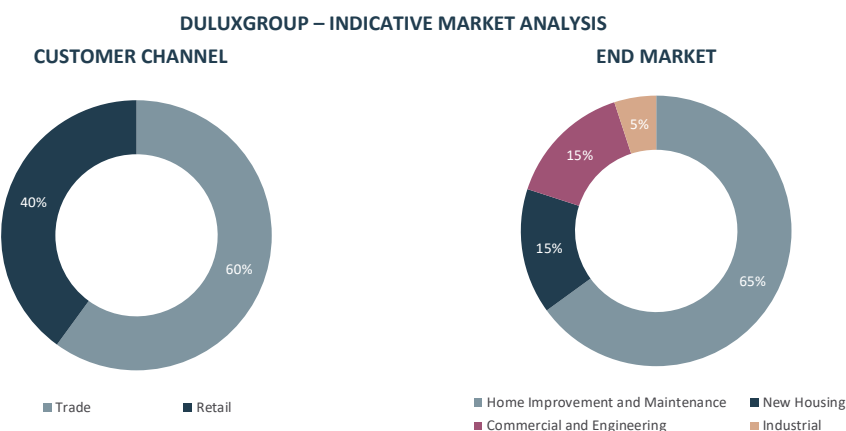


DuluxGroup also has a portfolio of offshore businesses. It has established operating businesses in Papua New Guinea, South East Asia and Hong Kong/China and two businesses which are in the “invest and build” phase in the United Kingdom and Indonesia.

During FY18, DuluxGroup generated \$1.8 billion of revenue. The majority of revenue (as reported)¹² and EBITDA (as reported)¹³ is generated by the Dulux ANZ business (53% and 67% respectively in FY18) with Australia contributing 84% of revenue in FY18:



Around 60% of DuluxGroup’s revenue is generated through the trade customer channel and 65% of sales are made to the home improvement and maintenance market:



DuluxGroup’s objective is to build on its market leadership positions in Australia and New Zealand to deliver consistent and sustainable growth while developing an offshore business in selected product lines and geographies. It aims to achieve this by:

- leveraging and continuing to invest in its core capabilities including brands, consumer engagement and marketing, innovation and technology, retail and trade customer service and experience and supply chain excellence;
- focusing on markets and market segments that deliver consistent growth and strong returns (with an emphasis on the existing home and maintenance markets); and
- focusing on categories that involve premium branded products where innovation, technology and supply chain excellence can be leveraged.

¹² Revenue (as reported) is external revenue (i.e. after elimination of sales between operating businesses).

¹³ EBITDA (as reported) is earnings before net interest, tax and depreciation and amortisation (i.e. after share of profits of equity accounted associates and non-recurring items).

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DuluxGroup aims to deliver growth through a combination of organic development as well as joint ventures and acquisitions. Its strategy has three specific components:

- defending and extending its market leading Dulux, Selleys and Parchem businesses in Australia, New Zealand and Papua New Guinea;
- growing its home improvement businesses (B&D Group, Lincoln Sentry and Yates Garden Care); and
- exploring and developing pathways to build a meaningful offshore business by extending its coatings and Selleys' capabilities to new markets.

DuluxGroup's business operations are described, and their financial performance discussed, in Section 4.10 of this report.

4.3 Financial Performance

Historical Financial Performance

Set out below is a summary of the financial performance of DuluxGroup for the five and a half years ended 31 March 2019:

DULUXGROUP – FINANCIAL PERFORMANCE (STATUTORY) (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (as reported)^{12, 14}	1,611.5	1,687.8	1,716.3	1,784.5	1,843.7	892.9
EBITDA (as reported)¹³	210.3	210.2	233.4	245.5	257.7	126.9
Depreciation and amortisation ¹⁵	(35.2)	(34.9)	(32.3)	(31.3)	(34.5)	(17.8)
EBIT (as reported)¹⁶	175.1	175.3	201.1	214.2	223.2	109.1
Net interest expense	(26.2)	(21.2)	(19.9)	(17.3)	(16.9)	(9.7)
Operating profit before tax	148.9	154.1	181.2	196.9	206.3	99.4
Income tax expense	(46.1)	(42.8)	(52.2)	(57.3)	(57.7)	(30.5)
Operating profit after tax	102.8	111.3	129.0	139.6	148.6	68.9
Outside equity interests ¹⁷	1.7	1.5	1.4	3.3	2.1	(0.7)
NPAT attributable to DuluxGroup shareholders	104.5	112.8	130.4	142.9	150.7	68.2
STATISTICS						
<i>Basic EPS¹⁸</i>	28.1¢	29.2¢	34.1¢	37.3¢	39.4¢	17.9¢
<i>Dividends per share</i>	20.5¢	22.5¢	24.0¢	26.5¢	28.0¢	15.0¢
<i>Special dividends per share</i>	-	-	-	-	-	28.0¢
<i>Dividend payout ratio</i>	70.2%	70.2%	71.6%	72.2%	72.3%	nmf ¹⁹
<i>Amount of dividend franked</i>	100%	100%	100%	100%	100%	100%
<i>Interest cover²⁰</i>	7.0x	9.0x	10.1x	12.4x	13.2x	nmf

Source: DuluxGroup and Grant Samuel analysis

¹⁴ Revenue for the six months ended 31 March 2019 is recognised in accordance with new accounting standard AASB15 (Revenue from Contracts with Customers) which DuluxGroup has adopted from 1 October 2018. Revenue in prior years has not been restated. Adoption of this standard has no impact on profits.

¹⁵ Including amortisation of software and acquired intangible (such as patents, trademarks and rights, brand names and customer contracts).

¹⁶ EBIT (as reported) is earnings before net interest and tax (i.e. after share of profits of equity accounted associates and non-recurring items).

¹⁷ Relating to a 49% interest in the DGL Camel International joint venture across the period and a 49.99% interest in the PT Avian Selleys Joint Venture from formation in August 2017.

¹⁸ EPS is earnings per share.

¹⁹ nmf = not meaningful

²⁰ Interest cover is EBIT (as reported) divided by net interest expense.

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Over the five years to 30 September 2018, DuluxGroup generated average revenue growth of 4.4% per annum and average growth in EBITDA and NPAT of 10.4% and 15% per annum, respectively. This analysis is distorted as FY14 reflects the first full year of contribution from the Alesco businesses acquired in December 2012 and over the four years to 30 September 2018 average growth is lower at 3.4% for revenue, 5.2% for EBITDA and 9.6% for NPAT. The growth rate for earnings is higher than for revenue reflecting integration and redesign of the Alesco businesses, an ongoing focus on cost management and efficiency improvements across the businesses (e.g. the supply chain for the key Dulux ANZ and Selleys & Parchem ANZ businesses) as well as strong cash generation and reduced debt servicing costs. As a result, with a payout ratio of around 70%, DuluxGroup shareholders have experienced dividend growth of 10% per annum since FY13 (8% per annum since FY14).

Analysis of DuluxGroup's operating performance on a statutory basis is impacted by non-recurring items and share of profits of associates included in earnings across the period. In order to better analyse DuluxGroup's operating performance, Grant Samuel has adjusted EBITDA, EBITA and EBIT to remove the impact of these items as follows:

DULUXGROUP – ADJUSTED FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (as reported) ¹⁴	1,611.5	1,687.8	1,716.3	1,784.5	1,843.7	892.9
EBITDA (as reported) ¹³	210.3	210.2	233.4	245.5	257.7	126.9
Less: Share of profits of associate ²¹	(1.0)	(0.9)	(0.7)	(1.2)	(2.1)	(1.0)
Add/(Less): Non-recurring items ²²	8.7	17.0	-	-	(0.4)	0.6
Adjusted EBITDA ²³	218.0	226.3	232.7	244.3	255.2	126.5
Depreciation and other amortisation	(30.8)	(30.8)	(28.0)	(27.0)	(31.4)	(16.4)
Adjusted EBITA ²⁴	187.2	195.5	204.7	217.3	223.8	110.1
Amortisation of acquired intangibles	(4.4)	(4.1)	(4.2)	(4.3)	(3.1)	(1.4)
Adjusted EBIT ²⁵	182.8	191.4	200.5	213.0	220.7	108.7
STATISTICS						
Revenue growth	3.6% ²⁶	4.7%	1.7%	4.0%	3.3%	nmf
Adjusted EBITDA growth		3.8%	2.8%	5.0%	4.5%	nmf
Adjusted EBITA growth		4.4%	4.7%	6.2%	3.0%	nmf
Adjusted EBIT growth	12.3% ²⁶	4.7%	4.7%	6.3%	3.6%	nmf
Adjusted EBITDA margin	13.5%	13.4%	13.6%	13.7%	13.8%	14.2%
Adjusted EBITA margin	11.6%	11.6%	11.9%	12.2%	12.1%	12.3%
Adjusted EBIT margin	11.3%	11.3%	11.7%	11.9%	12.0%	12.2%

Source: DuluxGroup and Grant Samuel analysis

²¹ Represents a 50% interest in the NPAT of Pinegro Products Pty Limited. Value is attributed to this interest in Section 5.10.

²² Non-recurring items comprise:

- FY14: impairment charges in relation to the DGL Camel International joint venture (\$9.2 million), Alesco integration costs (\$5.4 million) and reversal of a provision for a New Zealand tax matter (\$5.9 million);
- FY15: a restructuring provision in relation to the Rocklea paint factory (\$8.7 million) and a provision for closure of distribution centres (\$8.3 million);
- FY18: the profit on sale of the Glen Waverley property (\$6.1 million), Merrifield paint factory start up costs and other one-off projects (\$6.1 million), profit on sale of the Camel coatings business (\$11.6 million) and further restructuring costs (\$11.2 million); and
- HY19: costs incurred in relation to the Scheme.

²³ Adjusted EBITDA is earnings before net interest, tax, depreciation and amortisation, share of profits of equity accounted associates and non-recurring items.

²⁴ Adjusted EBITA is earnings before net interest, tax, amortisation of acquired intangibles, share of profits of equity accounted associates and non-recurring items.

²⁵ Adjusted EBIT is earnings before net interest, tax, share of profits of equity accounted associates and non-recurring items.

²⁶ FY14 was the first full year contribution from the Alesco businesses following acquisition in December 2012 and, therefore, the standard growth statistics are not meaningful. Growth rates presented are based on proforma financial information released by DuluxGroup with its FY14 results on 12 November 2014.

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Revenue growth since FY14 reflects organic growth as well a number of small but strategic “bolt on” acquisitions. The reduction in the rate of growth in revenue and EBITDA in FY16 reflects a number of factors including the impact of the winding up of the Masters Home Improvement business (“Masters”)²⁷, weak resources infrastructure markets, one-off costs in B&D Group and weaker economic conditions in Papua New Guinea. EBITDA growth has exceeded revenue growth across the period but EBITA growth slowed in FY18 as a result of an increase in depreciation following commissioning of the Merrifield paint factory in May 2018. Across the period, DuluxGroup experienced a steady increase in profit margins on a consolidated basis.

DuluxGroup’s operating performance is better understood by examining the performance of each of its key businesses. In Appendix 1, Grant Samuel has reconciled the operating performance of each business to the adjusted consolidated performance analysis set out above. The operating performance of each of DuluxGroup’s businesses is summarised and discussed in Section 4.10 of this report.

Forecast Financial Performance

DuluxGroup has not publicly released detailed earnings forecasts for FY19 or beyond. However, on 14 November 2018, in conjunction with the release of its FY18 results, DuluxGroup provided guidance that, subject to economic conditions and excluding non-recurring items, NPAT in FY19 is expected to be higher than the \$150.7 million reported in FY18. This guidance was reiterated at DuluxGroup’s annual general meeting on 20 December 2018 and again on release of its HY19 results on 15 May 2019.

On 14 November 2018, DuluxGroup also provided comments on market conditions and estimates for key financial metrics relating to its FY19 NPAT guidance. On 15 May 2019, DuluxGroup updated its market commentary and estimates to be as follows:

- lead indicators in its key markets in Australia and New Zealand remain generally positive supported by GDP growth and low interest rates. Specifically:
 - maintenance and renovation of existing homes is expected to provide resilient and profitable growth;
 - new housing approvals are declining but completions are expected to remain at FY18 levels; and
 - commercial and engineering markets are stable;
- depreciation of ~\$37 million;
- corporate costs of ~\$28 million (before costs associated with the Scheme);
- net finance costs of ~\$19 million (excluding interest rate movements and impacts of the Scheme);
- an effective tax rate of ~30.5% for the second half of FY19; and
- capital expenditure of ~\$35-40 million (including ~\$5 million relating to the Merrifield paint factory).

DuluxGroup has also provided additional guidance for Dulux ANZ. Specifically, it has advised that Dulux ANZ is targeting revenue and EBIT growth for FY19 and growth is expected to be biased to the second half. Dulux ANZ is targeting full year EBIT margin to be in line with the prior year.

In the absence of publicly released detailed earnings forecasts for FY19, Grant Samuel has considered brokers’ forecasts to provide an indication of the expected future operating performance of DuluxGroup:

²⁷ A joint venture between ASX listed Woolworths Limited (66.7%) and Lowe’s Companies, Inc. (33.3%).

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DULUXGROUP – BROKER FORECAST OPERATING PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER		
	FY18 ACTUAL/ADJUSTED	BROKER MEDIAN	
		FY19	FY20
Revenue	1,843.7	1,856.4	1,915.0
Adjusted EBITDA	255.2	266.5	272.0
Adjusted EBITA	223.8	232.7	236.0
Adjusted EBIT	220.7	230.0	234.0

Source: Grant Samuel analysis (see Appendix 2)

The forecast operating performance can be further analysed by business. While not all brokers provide a breakdown of earnings forecasts for DuluxGroup by business, in Grant Samuel's view, the available median brokers' forecasts are useful for analytical purposes and are set out in the table below:

DULUXGROUP – BROKER FORECAST OPERATING PERFORMANCE BY BUSINESS (\$ MILLIONS)

	YEAR END 30 SEPTEMBER		
	FY18 REPORTED/ADJUSTED	BROKER MEDIAN	
		FY19	FY20
Dulux ANZ			
Revenue	982.2	1,005.8	1,040.0
EBITDA	191.7	199.0	205.0
EBITA	172.9	177.4	182.0
EBIT	172.8	177.3	182.0
Selleys & Parchem ANZ			
Revenue	269.2	275.0	284.0
EBITDA	36.7	40.7	42.0
EBITA	34.4	38.4	39.2
EBIT	34.0	38.0	39.0
Building Products, Yates and DuluxGroup International²⁸			
Revenue	606.4	588.7	598.2
EBITDA	54.0	53.5	56.9
EBITA	46.2	45.4	46.9
EBIT	43.6	43.1	45.0
Corporate and Unallocated			
EBITDA	(27.2)	(25.6)	(25.8)
EBITA	(29.7)	(28.0)	(28.5)
EBIT	(29.7)	(28.0)	(28.5)

Source: Grant Samuel analysis (see Appendix 2)

²⁸ "Building Products, Yates and DuluxGroup International" is the aggregate of broker forecasts for B&D Group, Lincoln Sentry and Other Businesses.

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4.4 Financial Position

The financial position of DuluxGroup as at 30 September 2018 (audited) and 31 March 2019 (reviewed) is summarised below:

DULUXGROUP – FINANCIAL POSITION (\$ MILLIONS)

	AS AT	
	30 SEPTEMBER 2018	31 MARCH 2019
Trade and other receivables	298.5	278.8
Inventories	243.9	264.2
Trade and other payables and provisions	(343.9)	(280.9)
Net working capital	198.5	262.1
Property, plant and equipment (net)	383.2	385.8
Goodwill	152.0	152.2
Other intangible assets (net)	79.6	83.0
50% interest in Pinegro Products Pty Limited (equity accounted)	9.9	10.4
Loan receivable	4.0	4.3
Deferred tax assets (net)	20.8	16.6
Defined benefit liability (net)	(48.5)	(43.0)
Restructuring provision (current)	(6.6)	(3.7)
Provisions (non current)	(11.9)	(12.5)
Other assets and payables (non current) (net)	1.9	1.4
Total funds employed	782.9	856.6
Cash and cash equivalents	55.3	35.0
Derivative financial instruments (net)	46.1	60.7 ²⁹
Interest bearing liabilities	(443.8)	(501.1)
Net borrowings	(342.4)	(405.4)
Net assets	440.5	451.2
Outside equity interests ¹⁷	2.7	2.4
Equity attributable to DuluxGroup shareholders	443.2	453.6
STATISTICS		
Shares on issue at period end (million)	389.3	389.3
Net assets per share	\$1.13	\$1.16
NTA ³⁰ per share	\$0.54	\$0.56
Gearing ³¹	43.7%	47.3%

Source: DuluxGroup and Grant Samuel analysis

Property, plant and equipment (net) comprises land, buildings and leasehold improvements and machinery, plant and equipment. DuluxGroup has a small number of property assets that are not currently utilised but held for future expansion.

Goodwill reflects acquisitions made by DuluxGroup over time including Alesco and Yates Garden Care. Other intangible assets comprise capitalised software and acquired intangibles such as patents, trademarks and rights, brand names and customer contracts. Other intangible assets, except than those with indefinite lives, are amortised on a straight line basis over their estimated useful lives.

DuluxGroup's 50% interest in Pinegro Pty Limited (recognised as part of the Yates Garden Care business) is accounted as an equity accounted investment. The loan receivable is an interest bearing receivable.

²⁹ Comprising a derivative asset of \$60.3 million relating to the USPP notes plus a derivative asset of \$0.4 million relating to other borrowings.

³⁰ NTA is net tangible assets, which is calculated as net assets less goodwill and intangible assets.

³¹ Gearing is net borrowings divided by net assets plus net borrowings.

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DuluxGroup operates a defined benefit superannuation plan in Australia. The fund is closed to new members. The defined benefit liability (\$43 million at 31 March 2019) represents the excess of the present value of defined benefit plan obligations over the fair value of plan assets. This liability is recognised in accordance with recent actuarial advice received by DuluxGroup.

The restructuring provision (\$3.7 million) primarily comprises the balance of the provision associated with the sale of the coatings business in China.

DuluxGroup's borrowings are unsecured and comprise notes issued in the US private placement market and bank facilities as follows:

DULUXGROUP – NET BORROWINGS AT 31 MARCH 2019 (\$ MILLIONS)

FACILITY	FACILITY SIZE	AMOUNT DRAWN	TERM/MATURITY
Syndicated bank loan facility (multi-currency unsecured)	250.0	92.2	Nov 2019 – Nov 2023
Bank loan facility (unsecured)	100.0	100.0	Aug 2020
Bank overdraft facility (unsecured)	50.0	38.9	Aug 2019
USPP ³² notes (unsecured)	201.1	263.2	Sep 2021, Sep 2024, Sep 2026
Working capital facilities ³³ (unsecured)	13.9	8.4	Various
Capitalised borrowing costs (USPP and other)		(1.6)	
Total interest bearing liabilities	615.0	501.1	
Cash and cash equivalents		(35.0)	
Derivative financial instruments (net)		(60.7) ²⁹	
Net borrowings		405.4	

Source: DuluxGroup

In relation to the USPP notes, DuluxGroup has entered into cross currency interest rate swaps and interest rate swaps to manage its exposure to the US dollar exchange rate (on both the principal and interest rate payments) and to convert the interest rate basis for the total borrowing from a fixed rate basis to floating.

Net borrowings are generally higher at half year ended (31 March) than at year end (30 September) reflecting the seasonality of DuluxGroup's working capital (cash flows are generally stronger in the second half than the first). Nevertheless, net borrowings at 31 March 2019 (\$405.4 million) are considered to be elevated due to higher than usual working capital.

4.5 Cash Flow

DuluxGroup's cash flow for the five and a half years ended 31 March 2019 is summarised below:

³² USPP is US private placement

³³ These working capital facilities are offshore and denominated in a range of currencies.

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DULUXGROUP – CASH FLOW (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
EBITDA (as reported)	210.3	210.2	233.4	245.5	257.7	126.9
Share of associates and non-recurring items	7.7	16.1	(0.7)	(1.2)	(2.5)	(0.4)
Adjusted EBITDA	218.0	226.3	232.7	244.3	255.2	126.5
Changes in working capital	(8.3)	(18.6)	(8.7)	(26.4)	(35.1)	(66.7)
Other adjustments	(27.0)	2.4	(17.3)	14.6	(6.6)	2.7
Major capital expenditure (paint factory)	-	(4.8)	(41.4)	(77.9)	(33.3)	(1.6)
Minor capital expenditure	(30.6)	(24.7)	(19.5)	(18.1)	(21.9)	(18.6)
Capital expenditure³⁴	(30.6)	(29.5)	(60.9)	(96.0)	(55.2)	(20.2)
Operating cash flow	152.1	180.6	145.8	136.5	158.3	42.3
Income tax paid	(48.0)	(39.5)	(52.5)	(49.7)	(59.4)	(33.4)
Net interest paid	(25.3)	(16.9)	(15.5)	(13.4)	(14.3)	(8.4)
Dividends paid	(48.9)	(61.8)	(81.1)	(92.1)	(97.2)	(54.0)
Acquisitions/(disposals) (net)	11.0	(11.2)	(12.7)	(0.4)	26.2	2.7
Equity and associated movements ³⁵	6.8	4.9	(12.5)	(11.0)	(20.5)	(12.7)
Dividends received	0.3	-	0.5	-	-	0.5
Net cash generated (used)	48.0	56.1	(28.0)	(30.1)	(6.9)	(63.0)
<i>Net cash (borrowings) – opening</i>	<i>(381.5)</i>	<i>(333.5)</i>	<i>(277.4)</i>	<i>(305.4)</i>	<i>(335.5)</i>	<i>(342.4)</i>
<i>Net cash (borrowings) – closing</i>	<i>(333.5)</i>	<i>(277.4)</i>	<i>(305.4)</i>	<i>(335.5)</i>	<i>(342.4)</i>	<i>(405.4)</i>

Source: DuluxGroup and Grant Samuel analysis

DuluxGroup's businesses generate strong operating cash flow with cash conversion³⁶ in excess of 80%. As a result, the new \$165 million Merrifield paint factory has been funded primarily from operating cash flow albeit during the construction period other capital expenditure for Dulux ANZ was reduced such that total minor capital expenditure for DuluxGroup was held at around \$20 million per annum. Future minor capital expenditure for DuluxGroup is expected to be in the order of \$30-35 million per annum.

4.6 Other Financial Items

(i) Taxation

Under the Australian tax consolidation regime, DuluxGroup and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 31 March 2019, DuluxGroup had no Australian carried forward income tax or capital losses and approximately \$16 million of other carried forward income tax losses, primarily in China (71% of balance and which expire between 2018 and 2023), none of which were recognised in the balance sheet. At 31 March 2019, DuluxGroup had approximately \$50 million in accumulated franking credits (i.e. prior to the interim and special dividends declared on 15 May 2019).

(ii) Contingencies

DuluxGroup has not disclosed any contingent assets or liabilities outside the normal course of business.

³⁴ Capital expenditure is acquisitions of property, plant and equipment and intangible assets (as disclosed by DuluxGroup). Major capital expenditure is projects greater than \$5 million and minor capital expenditure is projects less than \$5 million.

³⁵ In recent years, DuluxGroup has acquired shares on market to meet obligations under its dividend reinvestment plan and employee incentive schemes (refer Section 4.7 and Section 4.8).

³⁶ 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 (projects less than \$5 million) as a percentage of EBITDA.

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4.7 Capital Structure and Ownership

DuluxGroup has 389,250,252 ordinary shares on issue including shares³⁷ held by a trust formed by DuluxGroup to administer its employee share schemes (see Section 4.8).

At 1 May 2019 there were 37,060 registered shareholders in DuluxGroup. The top twenty registered shareholders accounted for approximately 71% of shares on issue and are principally institutional nominee or custodian companies and DuluxGroup senior management. DuluxGroup has a significant retail investor base with around 96% of registered shareholders holding 10,000 shares or less although this represents around 16% of shares on issue.

DuluxGroup has received substantial shareholder notices as follows:

DULUXGROUP – SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE
AustralianSuper Pty Ltd	8 January 2019	33,493,649	8.60%
The Vanguard Group, Inc.	17 December 2018	19,652,072	5.05%

Source: DuluxGroup

DuluxGroup operates a dividend reinvestment plan which enables shareholders to reinvest some or all of their distributions in new ordinary shares or shares purchased on market by DuluxGroup. The plan is currently suspended.

4.8 Employee Share Schemes

DuluxGroup operates a number of employee share schemes as follows:

- **Long Term Equity Incentive Plan (LTEIP):** eligible executives are provided with an interest free, non-recourse loan to acquire shares in DuluxGroup. Executives have voting rights but may not deal with the shares while the loan remains outstanding. Dividends paid are applied (on an after tax basis) to repay the loan. If the executive leaves within the vesting period the shares are returned to DuluxGroup, subject to discretion retained by the Directors. Vesting of the shares is subject to a minimum compound annual EPS growth performance over a three year period and, if the EPS level is met, a relative total shareholder return performance hurdle is used to determine a level of loan forgiveness which may apply;
- **Employee Equity Plan (EEP):** eligible executives may be entitled to a cash amount under short term incentive ("STI") arrangements. 15% of any STI awarded to these executives is deferred into rights to DuluxGroup shares. These rights are subject to forfeiture on leaving employment within a two year deferral period in certain circumstances. During the deferral period, the executive receives dividends and has voting rights;
- **Sacrifice Share Acquisition Scheme (SSAP):** Australian based non-executive directors, executive directors and other members of the DuluxGroup Executive may sacrifice pre-tax fees, salaries or earned cash short term incentives towards the purchase of shares in DuluxGroup. Shares provided are subject to trade restriction for a period chosen by the participant (from two to 15 years) or until they leave DuluxGroup (if earlier); and
- **Employee Share Investment Plan (ESIP):** eligible employees may be invited to acquire shares in DuluxGroup to a set value through salary sacrifice (with a discretion retained by the Board to allow DuluxGroup to match the amount). Shares are subject to trade restriction until the earlier of three years after allocation and the time the participant ceases to be employed by DuluxGroup.

³⁷ Shares held by the trust are recognised as treasury shares if they were purchased on market or ordinary shares if new shares have been issued to the trust.

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Share rights and incentive shares currently on issue and loans outstanding (as applicable) are as follows:

DULUXGROUP – SHARE RIGHTS AND INCENTIVE SHARES

PLAN/SECURITY	NUMBER OF SHARE RIGHTS / INCENTIVE SHARES			LOANS OUTSTANDING (\$ MILLIONS)
	ON ISSUE	VESTED	UNVESTED	
Employee Equity Plan				
Incentive shares	118,809	118,809	-	-
LTEIP				
LTEIP shares	7,544,111	1,525,776	6,018,335	47.3
Sacrifice Share Acquisition Plan				
Incentive shares	101,866	101,866	-	-
Employee Share Investment Plan				
Incentive shares	410,553	410,553	-	-
Total	8,175,339	2,157,004	6,018,335	47.3

Source: DuluxGroup

4.9 Share Price Performance

Shares in DuluxGroup commenced trading on the ASX on 12 July 2010 following the demerger from Orica and traded broadly in the range \$2.50-3.00 until mid 2012. Following announcement of the offer for Alesco in May 2012 and on the back of improving building market conditions, the share price gradually increased to around \$5.30 by the end of September 2013. The following graph illustrates the movement in the DuluxGroup share price and trading volumes since 1 October 2013:

DULUXGROUP – SHARE PRICE AND TRADING VOLUME (OCTOBER 2013 – JUNE 2019)



Source: IRESS

Over the four years to September 2017, the DuluxGroup share price rose steadily to around \$7.50 based on consistent earnings and dividend growth in positive trading conditions. The share price hit a record high of \$8.28 in intraday trade on 23 November 2017 following the release of the FY17 results as some investors realised profits. Subsequently, the DuluxGroup share price dropped back to around \$7.00 before recovering to trade in the range \$7.60-7.80 over the period from February 2018 to mid September 2018.

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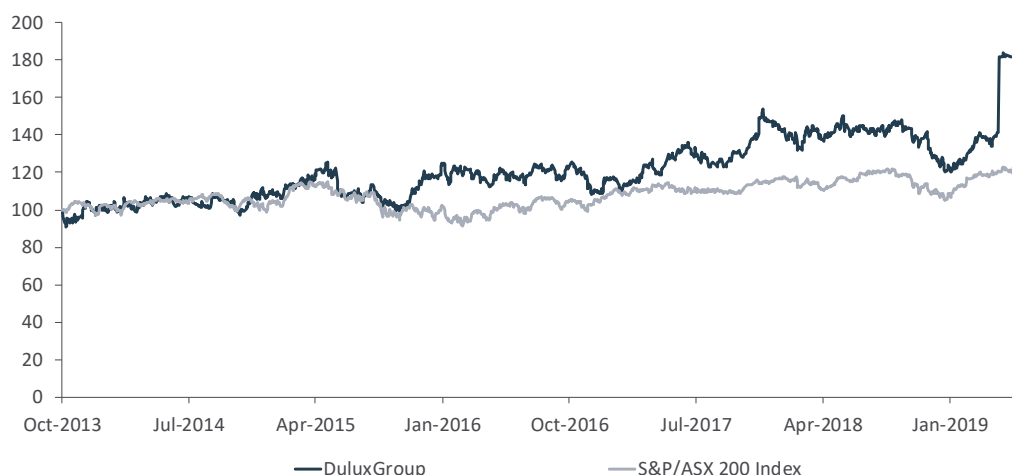
The share price commenced a downward trend in September 2018 as expectations of a property market downturn emerged. This decline accelerated following the release of DuluxGroup's FY18 results (which referenced rising input prices for Dulux ANZ) as market concerns of a downturn increased notwithstanding the defensive nature of its business operations. The DuluxGroup share price hit a low of \$6.31 in late December 2018 but recovered to trade in the range \$7.30-7.50 by March 2019.

The DuluxGroup share price closed at \$7.67 on 16 April 2019, the day prior to announcement of the Scheme. On announcement, the share price jumped to just below the total cash value of \$9.80 (inclusive of dividends).

DuluxGroup been a reasonably liquid stock with no restrictions on free float. Average weekly volume over the twelve months prior to the announcement of the Scheme represented approximately 1.8% of average shares on issue or annual turnover of around 96% of total average issued capital.

DuluxGroup is an ASX 100 company and is a member of all major indices including the S&P/ASX 100 Index and S&P/ASX 200 Index. Its current weighting in these indices is approximately 0.24% and 0.21%, respectively. The following graph illustrates the performance of DuluxGroup shares since 1 October 2013 relative to the S&P/ASX 200 Index:

DULUXGROUP VERSUS S&P/ASX 200 INDEX
(OCTOBER 2013 – JUNE 2019)



Source: IRESS

DuluxGroup shares have generally mirrored the market benchmark (S&P/ASX 200 Index) albeit with periods of under and overperformance (generally in the last three months of the calendar year). In particular, DuluxGroup shares overperformed following the release of its FY17 results (when a record high price occurred) and subsequently underperformed for a period until largely tracking the market index through to September 2018. Since concerns of a property market downturn emerged in late 2018, DuluxGroup shares have underperformed the market ahead of the announcement of the Scheme.



4.10 Business Operations

DuluxGroup's business model is well established. It is positioned as a marketing company with market leading brands supported by strong research and development ("R&D") capabilities. These attributes have enabled DuluxGroup to extend its business into adjacent businesses and it now operates a portfolio of business units across the home improvements and maintenance sector. There is a well developed marketing, sales and R&D capability located within each business supported by group "centres of excellence". In addition, there is group shared capabilities covering manufacturing, distribution, safety and sustainability, human resources, information technology and finance.

4.10.1 Dulux ANZ

Dulux ANZ represents the Dulux paint and coatings business in Australia and New Zealand.

Market Overview

The paint and coatings market encompasses a wide range of products but is generally divided into four sectors³⁸:

- architectural and decorative paints and other coatings used for domestic and trade applications;
- industrial, automotive and marine coatings applied in manufacturing processes or used in construction activities;
- woodcare and other products; and
- other (including ink, fillers, putty and caulking compounds).

The manufacture of paint and coatings is a series of batch processes involving the assembly of raw materials, mixing, dispersing, thinning and adjusting, filling of containers and warehousing. The base raw materials used include pigment (e.g. titanium dioxide which is the basic white pigment used in paints), resin (for binding), solvent (to carry the pigment and resin) and additives (to enhance product features). The end product is the result of the materials used and the processes during manufacture. There has been a trend to water based paints over the last 30 years (due to lower production cost and reduced environmental impacts) and demand for eco-friendly paints is increasing.

The Australian paint and coatings market is estimated at \$3.4 billion per annum and is projected to grow to \$3.7 billion over the next five years (an average rate of 2.0% per annum)³⁸.

Architectural and decorative is the largest (~50%) segment of the Australian market in terms of both volume and value. Market demand of ~\$1.75 billion is projected to grow to \$2.0 billion over the next five years (an average rate of ~2.7% per annum)³⁸. This segment includes interior and exterior water based and solvent based paints, with water based paints representing over 90% of the market. The key drivers of demand in this market are home improvement and maintenance activity and, to a lesser extent, new housing and commercial projects. In this regard, as discussed in Section 3, home improvement activity in Australia is expected to be flat over the next 2-3 years while weak new housing and commercial activity is forecast.

Industrial coatings (for industrial, automotive and marine applications) account for ~33% of the market while woodcare products (such as decking stains) are estimated to account for ~7%.

The Australian paints and coating market is mature. Four participants collectively account for ~70% of the overall market and three make up 90% of the architectural and decorative market:

³⁸ Source: IBISWorld, January 2019.

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AUSTRALIAN PAINT AND COATINGS MARKET

BUSINESS	PARENT	MAJOR BRANDS BY SEGMENT			MARKET SHARE
		PAINT	WOODCARE	INDUSTRIAL	
Dulux ANZ	DuluxGroup	Dulux British Paints Berger Walpamur Porter's Acratex	Cabot's Feast Watson Intergrain	Dulux	34%
PPG Industries Australia	PPG Industries, Inc. ("PPG")	Taubmans Bristol White Knight	Flood Johnstone's	Amercoat Barrier Protec Automotive Refin	17%
Valspar Paint Australia	The Sherwin-Williams Company ("Sherwin-Williams")	Wattyl Pascor Solver Granosite	Wattyl Estapol	Wattyl Automotive	11%
AkzoNobel Coatings	Akzo Nobel NV ("AkzoNobel")		Sikkens	International Interpon Lesonal Wanda	8%
					70%

Source: IBISWorld (January 2019) and Grant Samuel analysis

The balance of the market comprises small Australian specialist paint and coatings manufacturers (such as Haymes Paint, Ecolour Australia, Colormaker and Brinlay Paints) and imported products from specialist manufacturers (such as Hempel, Keim Paints, Jotun³⁹, Lacnam, Allnex and Sika).

Dulux ANZ is the clear market leader with an overall market share of 34%. Its business is focused on the architectural and decorative market where it has an estimated share of over 40%. The other major participants are subsidiaries of the three largest paint and coatings companies globally⁴⁰. This market structure reflects both Dulux ANZ's history and consolidation in the global paint and coatings industry in the last 10-15 years. In this regard:

- PPG, the largest paint and coatings business globally, entered the Australian market in 1998 with the acquisition of Orica's technical coating business. Subsequently, it acquired the Taubmans decorative coatings business in 2007 and the Flood Australia speciality wood stain and paint additive business in 2015;
- Sherwin-Williams' presence in Australia was strengthened in June 2017 following the acquisition of its US based competitor The Valspar Corporation ("Valspar"). Valspar had entered the Australian market during the 1990's via acquisitions of specialist coatings manufacturers (Coats Coatings and Anzol) and subsequently acquired the ASX listed paint and coatings company Wattyl Limited ("Wattyl") in 2010; and
- AkzoNobel entered the Australian market following its 1998 acquisition of Courthaulds plc. Its activities expanded in 2007 following its acquisition of ICI plc. AkzoNobel owns the *Dulux* brand internationally except in the markets where Dulux ANZ owns the brand and in North America where PPG owns the brand.

The paint and coatings market has become more concentrated over the past decade as Dulux ANZ has made substantial market share gains.

³⁹ Jotun also manufactures in Australia.

⁴⁰ Paint & Coatings Industry, "2018 Global Top 10 and PCI 25, Top Paint and Coatings Companies", July 2018.

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Both retail and trade distribution channels are important in the architectural and decorative coating segment. The largest player in the retail channel, with an estimated ~70% share by volume, is Wesfarmers Limited's Bunnings Warehouse home improvement business ("Bunnings") which operates a network of large "big box" warehouses, smaller format stores and trade centres nationally. Independent hardware companies (including Metcash Limited's Independent Hardware Group business, which owns the *Mitre 10* and *Home Timber & Hardware* brands in Australia) and specialist paint retailers (e.g. Inspirations Paint, Paint Place, Paint Spot, Paint Right) account for the balance. The trade channel includes independent and manufacturer operated trade outlets (e.g. Dulux Trade Centres, Inspirations Paint, Wattyl Paint Centres).

The retail distribution channel was impacted by the launch and then closure of the Masters "big box" home improvement chain over the 2011-2016 period. Not only did the destocking process on winding up impact the sector, but while it operated Masters had various disruptive impacts on market competition. For example, it appointed Wattyl as its primary paint supplier (occupying up to 70% of shelf space) which ultimately led Dulux ANZ to remove its product from Masters. Since the closure and destocking process completed, market conditions have settled.

The influence of Bunnings and, to a lesser extent, Mitre 10 on the retail paint market is substantial. Corporate decisions by Bunnings have flow on effects on paint manufacturers. For example, in 2009 Bunnings ceased stocking Wattyl interior paints in favour of imported product from Nippon Paint and decisions by Bunnings to reduce overall inventory levels (e.g. in 2005/06) can impact supplier revenue and profit.

Given the maturity of the industry, the market structure (in terms of suppliers and distribution channels) is concentrated and barriers to entry are high. Capital requirements for the manufacture of paints are not prohibitive. However, branding is a significant issue. The major brands (*Dulux*, *Taubmans* and *Wattyl*) are highly visible, well known and trusted by Australian consumers and entry through a new brand (even by a global business) would be extremely challenging (as Nippon Paint found when it entered the market in 2008 and subsequently left in 2011). Globally, most markets feature well known local rather than global brands. Competition from imports is not insignificant but does not drive the market.

Despite the market maturity, competition is intense and factors important to success in the architectural and decorative paint and coatings market include:

- strategic product and brand portfolio management including:
 - ongoing support for brand names (in both the retail and trade markets). It is a general rule in the paint industry that consumers tend to rely on brands that are well recognised and trusted;
 - creating and managing a range of products with different market positioning and price points;
 - producing premium products along with high quality customer servicing;
 - ongoing product innovation; and
 - addressing consumer trends (e.g. for eco-friendly products);
- pricing strategies and successful differentiation;
- maintaining a range of distribution channels (e.g. retailers, paint specialists, owned specialist outlets) and close commercial ("win/win") relationships with key channel parties; and
- effective cost control including managing the volatility of raw material input prices (e.g. titanium oxide, resins, latex) as well as other overheads.

Industrial coatings are generally distributed directly to customers for on-site application or via contract coaters. There are numerous market participants in the industrial sector often operating in specific segments. The major participants across the sector are DuluxGroup, PPG and AkzoNobel. There is also a range of smaller manufacturers such as Jotun, Miroton, A&I Coatings, Wagon Paints, NuTech and Lacnam. Technology plays a more significant role in the industrial market and there is more scope to import industrial products for specialist application.

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The New Zealand paint and coatings market is estimated at NZ\$1.1 billion per annum and is projected to grow at ~1.3% per annum over the next five years³⁸. The market is mature with four major participants collectively accounting for ~46% of the market:

NEW ZEALAND PAINT AND COATINGS MARKET

BUSINESS	PARENT	MAJOR BRANDS BY SEGMENT			MARKET SHARE
		PAINT	WOODCARE	INDUSTRIAL	
Dulux ANZ	DuluxGroup	<i>Dulux</i> <i>British Paints</i> <i>Berger</i> <i>Acratex</i>	<i>Cabot's</i> <i>Feast Watson</i> <i>Intergrain</i>	<i>Dulux</i>	15%
Resene Paints	Resene Paints Limited (privately owned)	<i>Resene</i>	<i>Resene</i>	<i>Attex</i> <i>Carboline</i>	14%
PPG Industries New Zealand	PPG		<i>PPG</i>	<i>PPG</i>	11%
Valspar Paint New Zealand	Sherwin-Williams	<i>Wattyl</i> <i>Taubmans</i> ⁴¹ <i>Valspar</i> <i>White Knight</i> <i>Granosite</i>	<i>Wattyl</i> <i>Estopol</i> <i>Valspar</i>	<i>Wattyl</i>	6%
					46%

Source: IBISWorld (January 2019) and Grant Samuel analysis

The New Zealand market differs to Australia in that:

- a lesser proportion of decorative paint is sold via the retail channel (~35% by volume versus ~42% in Australia); and
- there are two strong “big box” retailers (Bunnings and Mitre 10⁴²) rather than one (Bunnings) with each stocking only one of the leading suppliers (i.e. Dulux ANZ is sold in Bunnings and Resene is sold in Mitre 10).

The trade distribution channel includes independent and manufacturer operated outlets (e.g. Dulux Trade Centre, Resene ColorShops, Wattyl Paint Centre).

The locally owned competitor (Resene Paints) benefits from local and heritage factors (strong local brand) notwithstanding that Dulux ANZ has been operating in New Zealand for over 80 years.

Operations

Dulux ANZ is a marketer and manufacturer of premium branded paint and coatings primarily focused on the home improvement market in Australia and New Zealand. Tracing its origins back to the BALM paint business established in 1918 in Sydney and the commencement of paint manufacturing in New Zealand in 1939, Dulux ANZ is the heritage business of DuluxGroup. It is also DuluxGroup's core business contributing the majority of its revenue and EBITDA (53% of revenue (as reported) and 67% of EBITDA (as reported) in FY18).

Dulux ANZ is the leading paint and coatings business across Australia and New Zealand with leading market positions in most of its market segments. It owns the *Dulux* trademark in Australia, New Zealand, Papua New Guinea, Samoa and Fiji only, the *Cabot's* trademark in Australia, New Zealand, Papua New Guinea and Fiji only (and does not sell *Dulux* and *Cabot's* products in any other countries) and its other trademarks globally.

Dulux ANZ operates a number of businesses across different parts of the paint and coatings market as follows:

⁴¹ Valspar owns the *Taubmans* brands in New Zealand while PPG owns them in Australia.

⁴² Mitre 10 in New Zealand is an entirely separate business to Mitre 10 in Australia (owned by ASX listed Metcash Limited). Mitre 10 (New Zealand) operates as a co-operative with stores owned by individual operators.

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DULUX ANZ – BUSINESS UNITS

BUSINESS UNIT	DESCRIPTION	MAJOR BRANDS	INDUSTRY SEGMENT
Decorative Paints (Retail and Trade)	<p>Market leading manufacturer and supplier of decorative paints (both solvent and water based) to both the retail and trade markets</p> <p>Biased towards the existing home market</p> <p>Strong share across all retail outlets with close relationships with Bunnings, Mitre 10 and Inspirations Paint</p> <p>Owens and operates a portfolio of retail brands with different market positioning:</p> <ul style="list-style-type: none"> • <i>Dulux</i> is the #1 decorative paint brand in Australia and is available in retail and trade channels • <i>British Paints</i> is exclusive to Bunnings • <i>Berger</i> is largely exclusive to Inspirations Paint <p>Trade strategy (focused on servicing all aspects of the painting process) implemented through a national network of ~120 trade agents (mainly Inspirations Paint) and ~65 Dulux Trade Centres</p>	      	Architectural and Decorative
Woodcare	<p>Market leading manufacturer and marketer of stains, varnishes, clear finishes, oils, paints and polishes for the preservation of timber, with a bias to deck coatings</p> <p>Owens and operates three premium brands with different market positioning</p> <p>Focused on the retail consumer, it operates a small but growing trade and industrial business</p>	  	Woodcare
Speciality Coatings (Texture)	<p><i>Dulux AcraTex</i> product range provides a textured finish for exterior facades to protect against render cracking and staining</p> <p>Product applications include concrete constructions, residential dwellings, roof restoration and specialty concrete finishes</p>		Architectural and Decorative
Speciality Coatings (Powder)	<p>Largest supplier of powder and industrial coatings in Australia and New Zealand for a variety of applications</p> <p>Offers a wide range of stock and custom colours</p>		Industrial
Speciality Coatings (Protective)	<p>A leading manufacturer and supplier of protective coatings</p> <p>Product range provides protection for new and existing buildings, infrastructure, plant and equipment</p> <p>Supplies through a network of manufacturing, distributions centres and trade outlets</p>		Industrial
New Zealand	<p>Paint and coatings business supplying both the retail and trade markets. Biased to the existing home market</p> <p>Has strong share and close relationship with Bunnings but no share with other "big box" retailer, Mitre 10</p> <p>Steady growth in trade share</p> <p>Leveraging Australian business to grow woodcare and specialty coatings businesses</p>		Architectural and Decorative (primarily)

Decorative paints and woodcare account for ~75% of Dulux ANZ's revenue with speciality coatings accounting for the balance. Trade sales are the majority of sales by volume for decorative paints while for woodcare retail sales are more important. The primary retail channel for both decorative paints and woodcare products is through Bunnings.

Approximately 65% of Dulux ANZ's sales are to the home improvement and maintenance segments with only 15% sold into the new housing segment. The balance (20%) is sold into the non-residential construction sector. Dulux ANZ does not operate in the technical and automotive segment of the paint and coatings market as that business was sold by Orica to PPG in 1998.

Dulux ANZ is managed as a single division across Australia and New Zealand with strong alignment of strategic decision making across both markets. It operates eight manufacturing facilities across Australia and New Zealand. In recent years, it has reviewed, consolidated and renovated its portfolio of facilities in order to most efficiently meet future requirements. This process culminated in the development of a \$165 million "state-of-

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the-art" manufacturing facility in Merrifield, Victoria. The factory was commissioned in May 2018, has an annual capacity of 100 million litres and will produce nearly all of Dulux Australia's water based decorative paints.

In recent years, Dulux ANZ has implemented a range of supply chain initiatives to improve productivity and better service customers. This has included the opening of a new third party operated distribution centre in New South Wales in FY16 to support both the Dulux ANZ and Selleys businesses (replacing two distribution centres that were operating at capacity).

Dulux ANZ has deep R&D activities focused on new product development and formulation of products to suit local markets and consumer preferences. This capability was established during the period of ICI plc ownership and has been maintained under independent ownership. A team of 80 chemists operate in a purpose built R&D centre in Clayton, Victoria and at coatings manufacturing sites. It also has strong collaborative relationships with key raw material input suppliers and local universities and government research facilities. Accordingly, it has a long history of product innovation as well as a strong pipeline across its product range. The depth of this capability is considered a key differentiator for Dulux ANZ in the Australian and New Zealand paint and coatings markets.

Marketing is regarded as a core part of Dulux ANZ's "DNA". It has pursued a strategy of consistent positioning and substantial brand investment designed to protect and grow its market share. Another key to its success has been its relationships with key retailers, particularly Bunnings with whom it has been involved for around 25 years. It is estimated that Dulux ANZ has a ~60% share of shelf at Bunnings, ~65% at Mitre 10 and ~90% at Inspirations Paint. Dulux ANZ has well established programs of support for its customers, including category management, team training and in store support.

Historical Operating Performance

The operating performance of Dulux ANZ for the five and half years ended 31 March 2019 is summarised below:

DULUX ANZ – OPERATING PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (including intersegment sales)	821.6	870.8	890.6	937.3	982.2	493.8
Adjusted EBITDA	156.5	165.1	172.8	179.7	191.7	101.6
Depreciation and other amortisation	(17.4)	(18.0)	(16.1)	(14.6)	(18.8)	(10.3)
Adjusted EBITA	139.1	147.1	156.7	165.1	172.9	91.3
Amortisation of acquired intangibles	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)	-
Adjusted EBIT	138.9	146.8	156.5	165.0	172.8	91.3
Capital expenditure ³⁴ :						
Major (Merrifield paint factory)	-	4.8	41.4	77.9	33.3	3.5
Minor	20.4	14.5	12.0	7.3	2.8	12.0
Total	20.4	19.3	53.4	85.2	36.1	15.5
STATISTICS						
Revenue growth	6.1%	6.0%	2.3%	5.2%	4.8%	
Adjusted EBITDA growth	11.3%	5.5%	4.7%	4.0%	6.7%	
Adjusted EBITA growth	12.1%	5.7%	6.6%	5.4%	4.7%	
Adjusted EBIT growth	12.1%	5.7%	6.6%	5.4%	4.7%	
Adjusted EBITDA margin	19.1%	19.0%	19.4%	19.2%	19.5%	20.6%
Adjusted EBITA margin	16.9%	16.9%	17.6%	17.6%	17.6%	18.5%
Adjusted EBIT margin	16.9%	16.9%	17.6%	17.6%	17.6%	18.5%
Minor capex ⁴³ as % of adjusted EBITDA	13.0%	8.7%	6.9%	4.0%	1.4%	11.8%
Minor capex as % of depreciation and other amortisation	117.4%	79.5%	74.3%	50.0%	14.7%	116.8%

Source: DuluxGroup and Grant Samuel analysis (Appendix 1)

⁴³ Capex is capital expenditure (refer Footnote 34).

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Dulux ANZ has delivered consistent revenue and earnings growth⁴⁴, along with margin expansion across the period. This reflects a number of factors including:

- a strong bias to residential home improvement and maintenance activity (~80% of decorative volume in Australia and ~65% in New Zealand in FY18). This is evidenced by the profitability in HY19 notwithstanding a slowing property market and raw material input pressures;
- average market growth of around 1-1.5% per annum in volume terms;
- market share gains. For example, Dulux ANZ estimates that its market share in the Australian architectural and decorative paint sector has grown from approximately 40% to over 45% since the demerger in 2010;
- careful management of its brand portfolio with a focus on pricing discipline and continuing brand focus (including consistent brand marketing support);
- continuing product innovation (e.g. *Dulux Wash & Wear +Plus*, *Dulux Design*, *Dulux Precision*, *Dulux Professional Enviro 2*); and
- continuing cost control. In this regard, the cost of Dulux ANZ's major raw materials (titanium dioxide and latex) had been trending upwards for a number of years and spiked in mid 2018. As its raw material purchases are on a contracted basis, Dulux ANZ's exposure to spot price volatility is limited. Nevertheless, Dulux ANZ responded to the cost pressures by implementing price increases (in both the trade and retail channels) and other cost control and production mix initiatives.

While Dulux ANZ will see an increase in depreciation due to the Merrifield paint factory, the business is not highly capital intensive. The rationale for the new Merrifield paint factory related to risk reduction, production of premium and consistent quality products and enhanced customer service (albeit with a good financial return). During the period of construction of the factory, minor capital expenditure was controlled below historical levels.

Strategy and Outlook

HY19 revenue was flat (compared to the prior comparable period) but in line with guidance that revenue growth will be biased to the second half of HY19. Nevertheless, Dulux ANZ is targeting revenue and earnings growth with FY19 EBIT margins expected to be in line with FY18 (notwithstanding the increase in depreciation associated with Merrifield).

Over the longer term, Dulux ANZ is focused on furthering its overall and segment market leadership positions and pursuing profitable growth opportunities within both the retail and trade channels. The paint and coatings market is expected to continue to grow (in volume terms) over the next five years broadly in line with historical trends supported by population growth and growth in the base of existing housing. Dulux ANZ is aiming to increase revenue above market volume growth by continued marketing of its premium brand paint and coatings, improving customer experience with digital enhancements and direct marketing and continued investment in distribution channel relationships.

⁴⁴ Subdued revenue growth in FY16 reflects broadly flat overall markets and the adverse impact of short term retail market timing dynamics in the Australian decorative paint market (including the impact of Masters) offsetting growth in the trade and other markets.

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4.10.2 Selleys & Parchem ANZ

Selleys & Parchem ANZ represents the operations of Selleys (a sealants, adhesives, fillers and paint preparation business) and Parchem (a construction chemicals and decorative concrete products business) in Australia and New Zealand.

Market Overview

SEALANTS, ADHESIVES, FILLERS AND PAINT PREPARATION

The sealants, adhesives and fillers market encompasses a wide range of products for a variety of general and specialist purposes including in manufacturing (e.g. automotive, footwear), packaging and residential, non-residential and engineering construction.

Selleys' primary market is the residential market, in particular the home improvement and maintenance market, although other segments of the residential and non-residential construction sectors are potential end users of its products. The retail sealant, adhesives and fillers market is estimated to be ~\$300 million per annum. Selleys is the market leader with products across a wide range of categories and an estimated 65% market share. The other major market participants include subsidiaries of major global companies including Sika, Bostik, Henkel and HB Fuller as well as locally owned companies, Timbermate and Tradeware. The trade sealant, adhesives and fillers market is more fragmented where Selleys has a much smaller share and there are no dominant participants. Competitors include Sika, Bostik, HB Fuller and MAPEI. These markets are driven by construction activity generally, albeit the home improvement and maintenance segment is less sensitive to economic and housing market conditions.

CONSTRUCTION CHEMICALS AND DECORATIVE AND PROTECTIVE CONCRETE PRODUCTS

The construction chemicals market is highly specialised and encompasses admixtures (chemicals added to modify the properties of hardened concrete), waterproofing, flooring, repair and rehabilitation and sealants, adhesives and grouts. The market is estimated to be ~\$700 million per annum. Parchem's Fosroc business operates across the market except admixtures (a segment which represents ~20% of the market). Other than Parchem (Fosroc) and Selleys⁴⁵, the major participants in the construction chemicals market are subsidiaries of major global speciality chemical companies including BASF, ARDEX, Bostik and Sika/Parex. This market is driven by engineering construction activity in the resources, infrastructure and commercial sectors.

The decorative and protective concrete products market is fragmented with a large number of market participants including the major concrete manufacturers (e.g. Boral Limited and Hanson Australia), Parchem (Avista/Emer) and small private companies. This market is primarily driven by activity in the residential (both new dwellings and the home improvement and maintenance market) and non-residential construction sectors.

Operations

SELLEYS

Selleys is a marketer and manufacturer of premium branded household sealants, adhesives, fillers, paint preparation and general home maintenance products for do-it-yourself ("DIY") consumers and trade professionals. The Selleys business was established in 1939 with a focus on innovation and was acquired by ICI Australia in 1988 as part of the Berger Group. Selleys contributes ~65% of the revenue of Selleys & Parchem ANZ (~10% of DuluxGroup's revenue).

Selleys is primarily a retail business (~95% of revenue) and is active in 18 discrete product segments within eight key product categories. It markets a number of leading brands across the retail and trade segments including the clear #1 brand in DIY sealants, adhesives and fillers in Australia and New Zealand, *Selleys*. Most of the brands marketed are owned by Selleys:

⁴⁵ Selleys operates in the sealants, tile adhesives, grouts and other segment of the construction chemicals market.

GRANT SAMUEL



SELLEYS – MAJOR BRANDS



Selleys is managed as a single division with sales offices across Australia and New Zealand. It manufactures ~50% of its products at Padstow, Sydney, sources a further 15% of its products from local manufacturers and imports the balance. In FY16, it opened a new third party operated distribution centre in New South Wales in conjunction with Dulux ANZ.

As with Dulux ANZ, Selleys has a long history of new product development and product innovation. Its R&D team has strong expertise in complex chemistries and works closely with its marketing team to bring new products or other innovations to market (e.g. new forms of packaging, product formulations to suit local conditions and consumer preferences). It has a strong pipeline across its key product categories. This capability and approach is a key differentiator for Selleys.




Similarly, marketing is core to the Selleys business. It operates a portfolio of brands with different market positioning and price points. A strategy of consistent positioning and brand investment has enabled it to extend the premium *Selleys* brand into a range of product categories and across both the retail and trade markets. It has also carefully managed its relationships with key retailers, particularly Bunnings (which is by far the largest participant in the retail channel).

PARCHEM

Parchem is a manufacturer and supplier of construction chemicals, decorative concrete and related equipment for the concrete and construction markets in Australia and New Zealand. The origins of this business can be traced to 1958 and it was acquired by DuluxGroup in December 2012 as part of Alesco. Parchem contributes ~35% of the revenue of Selley's & Parchem ANZ (~5% of DuluxGroup's revenue).

Parchem operates three distinct businesses in Australia linked to concrete but with minimal overlap:

PARCHEM – BUSINESS UNITS

BUSINESS UNIT	DESCRIPTION	BRANDS
Fosroc	Delivers concrete protection, repair and remediation solutions (construction chemicals) to resources, infrastructure and commercial construction projects Market leader in concrete repair and rehabilitation Largely a direct to site business, supported by local distribution (which is being transitioned from an owned to agency business model)	
Avista & Emer	Delivers decorative and protective concrete solutions including repair, sealant, waterproofing and membrane coatings Avista provides decorative solutions while Emer provides performance membrane and waterproofing coatings Distribution being transitioned from owned stores to more appropriate distribution network	
Flextool	Delivers a range of hand tools and power equipment for concreters and the broader construction industry Provides service and maintenance support Distribution being transitioned from owned stores to a wholesaler model	

In New Zealand, Parchem operates the Concrete Plus business distributing Fosroc, Avista and Flextool products as well as locally sourced third party goods. Parchem is the perpetual licence holder for Fosroc products in Australia and Concrete Plus in New Zealand.

Parchem owns or has exclusive distribution arrangements for most of the brands sold and manufactures more than 50% of its sales revenue. It has strong experience in cement based technologies and a reputation for superior technical service.

Since acquisition, the business has been reshaped and plans to capitalise on opportunities within the resources, infrastructure and commercial construction sectors.

GRANT SAMUEL



Historical Operating Performance

The operating performance of Selleys & Parchem ANZ for the five and half years ended 31 March 2019 is summarised below:

SELLEYS & PARCHEM ANZ – OPERATING PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (including intersegment sales)	265.9	266.2	253.9	260.7	269.2	128.3
Adjusted EBITDA	33.8	32.6	32.6	36.5	36.7	18.1
Depreciation and other amortisation	(3.6)	(3.1)	(2.7)	(2.5)	(2.3)	(1.1)
Adjusted EBITA	30.2	29.5	29.9	34.0	34.4	17.0
Amortisation of acquired intangibles	(0.4)	(0.4)	(0.4)	(0.3)	(0.4)	(0.2)
Adjusted EBIT	29.8	29.1	29.5	33.7	34.0	16.8
Minor capital expenditure ³⁴	2.0	2.9	1.8	2.8	1.8	1.8
STATISTICS						
Adjusted revenue growth	(0.4%) ²⁸	0.1%	(4.6%)	2.7%	3.3%	
Adjusted EBITDA growth	2.2% ²⁸	(3.5%)	(0.1%)	11.9%	0.6%	
Adjusted EBITA growth		(2.4%)	1.2%	13.9%	1.0%	
Adjusted EBIT growth	3.1% ²⁸	(2.3%)	1.2%	14.1%	1.0%	
Adjusted EBITDA margin	12.7%	12.3%	12.8%	14.0%	13.6%	14.1%
Adjusted EBITA margin	11.4%	11.1%	11.8%	13.1%	12.8%	13.2%
Adjusted EBIT margin	11.2%	11.0%	11.6%	12.9%	12.6%	13.1%
Minor capex as % of adjusted EBITDA	6.0%	9.0%	5.6%	7.7%	5.0%	10.2%
Minor capex as % of depreciation and other amortisation	57.0%	94.1%	66.4%	114.2%	78.2%	161.8%

Source: DuluxGroup and Grant Samuel analysis (Appendix 1)

The results for FY15 and FY16 are distorted by the reshaping of the Parchem business and the impact of the downturn in the engineering construction (in particular in the resources sector where new project investment fell heavily), notwithstanding growth for Selleys. However, overall margins were relatively steady across this period and have risen as the benefits of the Parchem restructuring have emerged (albeit with subdued end markets). FY18 was adversely affected by a weaker performance in Selleys trade sector and Parchem in New Zealand. Both businesses benefited from cost control in HY19. Selleys faced slightly weaker end markets (slightly offset by positive price and mix outcomes) while earnings growth for Parchem reflected market shares gains (in flat markets) and benefits from its reshaped distribution model.

Capital expenditure has been relatively stable across the period and neither business is capital intensive.

Strategy and Outlook

SELLEYS

FY19 is expected to show solid improvement over FY18. Over the longer term, Selleys is targeting revenue and EBIT growth through continued product innovation (particularly of premium products), growth in the trade channel (from a relatively low base) and supply chain optimisation.

PARCHEM

The outlook for FY19 is generally positive. Over the longer term, the restructured Parchem is positioned to benefit from increased activity in its end markets and the potential to expand into other product categories including by additional brand investment.



4.10.3 B&D Group

Market Overview






The garage door market encompasses residential doors, shed and storage doors, warehouse and factory doors, electronic door openers and door service and maintenance. The Australian market is estimated at ~\$600 million per annum with residential demand (including shed and storage doors) accounting for around 70%. The residential market is dominated by national participants but the commercial channel and service and markets highly fragmented. There is limited import competition. B&D Group is the residential market leader (estimated market share ~25%) with other major participants including Taurean Door Systems (a division of New Zealand listed company Fletcher Building Limited ("Fletcher Building")) and private companies, Steel-Line Garage Doors, Centurion Garage Doors and Gliderol Garage Doors. The New Zealand garage door market is estimated at NZ\$100 million per annum with residential demand accounting for around 50%. The major participants in the New Zealand market are B&D Group and private companies Glideaway and Windsor Doors. Residential garage door markets are driven primarily by residential housing construction activity, particularly home improvement and maintenance activity.

Operations

B&D Group is a manufacturer and marketer of premium branded garage doors and automatic openers for residential and commercial use in Australia and New Zealand. The B&D business was established in 1946 but came to prominence with the launch of the "B&D-Roll-Door" in 1956. It has been the market leader in Australia for over 50 years and was acquired by DuluxGroup in December 2012 as part of Alesco.

B&D Group markets doors under the *B&D* brand in Australia and the *Garador* and *Dominator* brands in New Zealand. It uses the *Automatic Technology* brand to market electronic openers (when sold separately to doors).

B&D GROUP – BRANDS

AUSTRALIA	NEW ZEALAND
 	  

B&D Group manufactures and markets a full range of residential garage doors (e.g. sectional, roller door, speciality) and commercial garage doors but also manufactures bespoke (designer) doors to order. It manufactures doors at four sites across Australia and two sites in New Zealand with electronic openers manufactured at a facility in Dalian, China.

In Australia, it operates an exclusive B&D accredited dealer network supported by B&D Group sales and marketing teams. It is rolling out a national mobile showroom distribution model ("B&D to You") which is improving sales conversion rates. In New Zealand, B&D Group operates via the national Dominator and Garador dealer network, supported by B&D Group sales and marketing teams. It intends to roll out a mobile showroom distribution model in key growth areas in New Zealand.

Approximately 45% of sales are to the renovation/replacement segment of the market, with ~40% sold into the new build market. While B&D Group has a long history of product innovation, additional focus has been placed on innovation since the acquisition by DuluxGroup and the *B&D* brand has been re-launched supported by a step up in marketing expenditure.

Historical Operating Performance

The operating performance of B&D Group for the five and half years ended 31 March 2019 is summarised below:

GRANT SAMUEL



B&D GROUP – OPERATING PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (including intersegment sales)	169.8	169.5	178.0	182.6	188.7	94.0
Adjusted EBITDA	24.5	23.4	22.6	24.9	26.2	9.5
Depreciation and other amortisation	(4.1)	(4.1)	(4.2)	(4.3)	(4.2)	(1.9)
Adjusted EBITA	20.4	19.3	18.4	20.6	22.0	7.6
Amortisation of acquired intangibles	(2.2)	(2.2)	(2.3)	(2.4)	(2.3)	(1.2)
Adjusted EBIT	18.2	17.1	16.1	18.2	19.7	6.4
Minor capital expenditure ³⁴	3.6	3.2	2.8	2.2	2.5	1.6
STATISTICS						
Adjusted revenue growth	5.8% ²⁸	(0.2%)	5.0%	2.6%	3.4%	
Adjusted EBITDA growth	2.1% ²⁸	(4.7%)	(3.2%)	10.1%	5.5%	
Adjusted EBITA growth		(5.4%)	(4.5%)	11.6%	7.1%	
Adjusted EBIT growth	4.6% ²⁸	(6.3%)	(5.6%)	13.0%	8.1%	
Adjusted EBITDA margin	14.4%	13.8%	12.7%	13.6%	13.9%	10.1%
Adjusted EBITA margin	12.0%	11.4%	10.4%	11.3%	11.7%	8.0%
Adjusted EBIT margin	10.7%	10.1%	9.1%	10.0%	10.4%	6.8%
Minor capex as % of adjusted EBITDA	14.7%	13.9%	12.3%	8.7%	9.6%	17.2%
Minor capex as % of depreciation and other amortisation	87.9%	79.9%	66.3%	50.2%	59.8%	84.4%

Source: DuluxGroup and Grant Samuel analysis (Appendix 1)

Since acquisition by DuluxGroup in December 2012, the focus has been on reshaping the B&D Group business to improve returns. This has involved exiting low margin business, strengthening the dealer network, increased marketing and product innovation spend and the re-launch of the B&D brand. In this context, the following should be noted in relation to the B&D Group's operating performance:

- B&D Group acquired the Gliderol WA business in November 2015. Excluding the acquisition, revenue grew 2.2% in FY16;
- FY16 profitability was negatively impacted by one-off costs relating to the restructuring. Nevertheless, profit margins were relatively stable during the restructuring with margin improvement in FY18 on the back of revenue growth and a shift towards premium products;
- in HY19, notwithstanding weaker market conditions, B&D Group generated real revenue growth. Profitability declined as a result of increased investment in growth projects (e.g. "B&D to You"); and
- capital expenditure has been relatively stable and the business is not capital intensive.

Strategy and Outlook

The outlook for FY19 is generally positive although the overall result will be impacted by the investment in the roll out of the "B&D to You" mobile showroom strategy and the weaker residential construction markets. Over the longer term, B&D Group is targeting revenue and profit growth through strategic initiatives such as "B&D to You", improved customer service, increased customisation and a push into servicing as well as technical innovations (automation, security, etc.).



4.10.4 Lincoln Sentry

Market Overview








Cabinet hardware and architectural hardware are key building products categories and are impacted by demand in the residential and, to a lesser extent, non-residential construction sectors. The primary demand for cabinet hardware is for kitchens, bathrooms and storage. The cabinet hardware market is estimated at ~\$1.0 billion per annum and is fragmented with the major participants (Lincoln Sentry, Häfele⁴⁶ and Wilson & Bradley⁴⁷) estimated to account for ~30% of the market with the balance supplied by independent suppliers. The architectural hardware market is estimated at ~\$700 million and is similarly fragmented, with the major participants (Lincoln Sentry, Alspec and Access Hardware, all locally owned) estimated to account for ~30% of the market.

Operations

Lincoln Sentry is a distributor of architectural hardware and components to cabinetmakers, window and door fabricators and glaziers across Australia. The business was established in 1986 and acquired by DuluxGroup in 2012 as part of Alesco.

Lincoln Sentry distributes a wide range of products including drawer systems, door opening, storage, lighting and security screen solutions, louvre windows, sealants and adhesives and sliding and folding door hardware. It sources innovative and high quality products from around the world under exclusive distribution arrangements, where possible. Its cabinet hardware business (~75% of revenue) is centred around the Blum premium range of drawer systems which is distributed under a non exclusive arrangement. Lincoln Sentry also owns its own brand that complements the distributed range. The major brands distributed are:

LINCOLN SENTRY – MAJOR BRANDS

OWNED	DISTRIBUTED
	     

The cabinet hardware market is regarded as attractive as it involves a high servicing requirement that provides scope for value adding. The majority of Lincoln Sentry sales are into the home improvement segment rather than new build. Products are distributed nationally through a network of 18 branches and four distribution centres. Customers receive sales and technical support through a National Customer Service centre in Brisbane, teams in branches and on premises.

Historical Operating Performance

The operating performance of Lincoln Sentry for the five and half years ended 31 March 2019 is summarised below:

⁴⁶ A subsidiary of privately owned German company Häfele GmbH & Co KG.

⁴⁷ Wilson & Bradley Pty Limited is a major distributor of Blum products in Australia. It was acquired in early 2019 by the Austrian based Blum Private Foundation, a 48% shareholder of privately owned Julius Blum GmbH which manufactures the Blum range of drawer systems.

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LINCOLN SENTRY – OPERATING PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (including intersegment sales)	159.6	172.8	187.7	195.2	203.5	95.3
Adjusted EBITDA	11.4	11.4	14.8	16.6	16.9	6.6
Depreciation and other amortisation	(1.2)	(1.2)	(0.9)	(0.8)	(0.9)	(0.5)
Adjusted EBITA	10.2	10.2	13.9	15.8	16.0	6.1
Amortisation of acquired intangibles	(1.3)	(1.2)	(1.3)	(1.3)	(0.3)	-
Adjusted EBIT	8.9	9.0	12.6	14.5	15.7	6.1
Minor capital expenditure ³⁴	1.3	0.7	0.9	0.8	1.3	0.3
STATISTICS						
Adjusted revenue growth	8.5% ²⁸	8.3%	8.6%	4.0%	4.3%	
Adjusted EBITDA growth	23.9% ²⁸	(0.2%)	29.7%	12.5%	1.7%	
Adjusted EBITA growth		0.4%	35.4%	14.5%	1.3%	
Adjusted EBIT growth	26.0% ²⁸	0.4%	39.3%	15.6%	9.0%	
Adjusted EBITDA margin	7.1%	6.6%	7.9%	8.5%	8.3%	6.9%
Adjusted EBITA margin	6.4%	5.9%	7.3%	8.1%	7.9%	6.4%
Adjusted EBIT margin	5.6%	5.2%	6.7%	7.4%	7.7%	6.4%
Minor capex as % of adjusted EBITDA	11.7%	6.6%	6.4%	4.8%	7.7%	4.8%
Minor capex as % of depreciation and other amortisation	105.5%	62.4%	96.8%	96.6%	142.7%	62.3%

Source: DuluxGroup and Grant Samuel analysis (Appendix 1)

Since acquisition by DuluxGroup, Lincoln Sentry has seen increased investment in processes and sales and marketing capabilities to support growth as well as investment in systems to drive cost efficiencies. It has generated improved results with revenue and earnings reflecting the strong demand in the residential housing market and positive price outcomes in the FY14-FY16 period as well as the impact of strategic initiatives. Revenue growth moderated in FY17-HY19 as a result of competitive market conditions but margins improved through cost efficiencies). In HY19, Lincoln Sentry experienced weaker markets and margin pressure notwithstanding a focus on fixed cost control. Capital expenditure has been relatively stable and the business is not capital intensive.

Strategy and Outlook

The outlook for FY19 is for continued market softness but profit growth is being targeted through strategic and cost initiatives. Over the longer term, Lincoln Sentry sees opportunities for market share gains, particularly in cabinet hardware, expansion into adjacent categories and improving margins underpinned by investment in productivity improvements (including online sales).

4.10.5 Other Businesses

Other Businesses represents Yates Garden Care and DuluxGroup's international business portfolio.

Operations

YATES GARDEN CARE

Yates is a marketer and manufacturer of consumer home and garden care products in Australia and New Zealand. It was established in New Zealand in 1883 and in Australia in 1887. The businesses were separated in 1906 but recombined in 1989. Yates was acquired by Orica in 2003 and demerged as part of DuluxGroup in 2010.

Yates markets a wide range of premium home and garden care products including fertilisers, plant protection producers, packet seeds, plant food, lawn seeds, potting mix, garden accessories and pest control. Australia

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accounts for ~85% of its traditional revenue and it has a growing bio-horticulture business following the acquisition of Organic Crop Protectants in June 2018. Products are marketed under a range of brands, most of which have strong brand credibility for consumers in Australia and New Zealand:

YATES GARDEN CARE – MAJOR BRANDS



Yates manufactures approximately 50% of its product range at two facilities in New South Wales with the balance purchased. It has a 50% interest in Pinegro Products Pty Limited, a producer of landscape and garden products (e.g. potting mix, mulch).

Yates has a strong focus on consumer and customer engagement including delivering product innovation to meet consumer needs (e.g. eco-friendly products, formulations suitable for the local market) and increasing digital interaction (e.g. via the *Yates Garden Club* and the *Yates My Garden App* which enables consumers to live chat with a horticulturist).

The home and garden market encompasses a wide range of product categories and is estimated at ~\$700 million per annum. The retail channel to market is dominated by Bunnings with other retailers, including grocery stores, independent hardware stores and garden centres, accounting for the balance. Yates, which has activities across most categories, is the market leader and has strong shelf position at Bunnings. The other major market participants are local private companies Richgro, Brunings and Seasol as well as Scotts Australia, a subsidiary of Evergreen Garden Care (the former international business of US listed company The Scotts Miracle-Gro Company).

DULUXGROUP INTERNATIONAL

DuluxGroup has a growth strategy to build a meaningful offshore business leveraging its coatings and Selley's capabilities. Growth potential in its existing markets is constrained by its market leading positions across its businesses as well as the geographic restrictions on its ownership of the key *Dulux* and *Cabot's* brands.

DuluxGroup International comprises a portfolio of established businesses (Papua New Guinea, South East Asia and Hong Kong/China) and two businesses which are in "invest and build" phase (United Kingdom and Indonesia) as follows:

DULUXGROUP INTERNATIONAL – BUSINESS PORTFOLIO

COUNTRY	DESCRIPTION	MAJOR BRANDS
Papua New Guinea	Established 1968 Marketer and manufacture of Dulux decorative and specialty paints Distributor of commodity and specialty chemicals Well established in-country supply chain	     
South East Asia	Established early 1990s Markets include Vietnam, Malaysia and Singapore	 
Hong Kong/China	Established in Hong Kong for over 30 years Business repositioned during 2018 Now Selley's led focus in China	 
United Kingdom	Acquired <i>Craig & Rose</i> decorative paints business in 2016 Launched Selley's in 2017 via Homebase, online and <i>Craig & Rose</i> store network Leveraging DuluxGroup capabilities in product innovation and marketing	 
Indonesia	50.01% interest a joint venture with Avian Paints, an Indonesia paint distributor Commenced trading in 2019	

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In addition to growing these businesses, DuluxGroup proposes to use learnings from these businesses into other international opportunities. Its longer term plans involve expanding Selleys' international footprint and taking *Craig & Rose* into other European (and even US) markets, if the United Kingdom business model can be proven up. A key consideration will be finding partners that can contribute distribution capabilities.

Historical Operating Performance

The operating performance of Other Businesses for the five and half years ended 31 March 2019 (excluding Yate's 50% share in the NPAT of Pinegro Products Pty Limited) is summarised below:

OTHER BUSINESSES – OPERATING PERFORMANCE⁴⁸ (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue (including intersegment sales)	207.7	221.6	217.0	222.2	214.3	88.3
Adjusted EBITDA	14.5	18.1	16.6	13.1	10.9	3.6
Depreciation and other amortisation	(3.1)	(3.1)	(2.8)	(2.9)	(2.7)	(1.4)
Adjusted EBITA	11.4	15.0	13.8	10.2	8.2	2.2
Amortisation of acquired intangibles	(0.2)	-	-	(0.2)	-	-
Adjusted EBIT	11.2	15.0	13.8	10.0	8.2	2.2
Minor capital expenditure ³⁴	3.5	2.7	3.0	2.9	3.8	2.6
STATISTICS						
Adjusted revenue growth	(5.2%) ²⁸	6.7%	(2.0%)	2.4%	(3.6%)	
Adjusted EBITDA growth	19.4% ²⁸	23.0%	(9.2%)	(17.1%)	(9.0%)	
Adjusted EBITA growth		29.9%	(9.0%)	(21.3%)	(10.4%)	
Adjusted EBIT growth	34.1% ²⁸	30.4%	(9.0%)	(22.2%)	(8.3%)	
Adjusted EBITDA margin	7.5%	8.6%	8.0%	6.5%	6.1%	5.2%
Adjusted EBITA margin	6.0%	7.3%	6.7%	5.2%	4.8%	3.6%
Adjusted EBIT margin	5.9%	7.2%	6.7%	5.1%	4.8%	3.7%
Minor capex as % of adjusted EBITDA	22.1%	15.1%	18.3%	21.9%	34.8%	72.2%
Minor capex as % of depreciation and other amortisation	112.1%	92.0%	114.5%	101.6%	139.3%	187.1%

Source: DuluxGroup and Grant Samuel analysis (Appendix 1)

The aggregate operating performance is not meaningful as it comprises several distinct businesses and includes loss making businesses in development mode:

YATES GARDEN CARE

Yates has generated growth in revenue and earnings since FY16 reflecting both the acquisition of the Munns lawn business in June 2016 and Organic Crop Protectants in June 2018 and market share gains in flat markets (primarily as a consequence of weather conditions). Profit margins have been relatively stable reflecting fixed cost control. In HY19, Yates revenue was flat (due to unfavourable weather and stock realignment in retail channels) and earnings declined due to the flat revenue and margin compression due to product mix.

DULUXGROUP INTERNATIONAL

In aggregate, in FY17 and FY18 DuluxGroup International incurred operating losses but made a small profit in HY19. While Papua New Guinea has remained profitable over the period despite weak economic conditions, the results of the other established business (South East Asia and Hong Kong/China) have been mixed with Hong Kong/China impacted by the divestment of the coatings business in 2018 and a refocus on Selleys. The United Kingdom has reported operating losses as a result of planned investment in sales, marketing and management and in HY19 the loss was slightly smaller. Indonesia only commenced trading in 2019.

⁴⁸ Excluding Yate Garden Care's 50% share of the NPAT of Pinegro Products Pty Limited which is accounted for as an equity investment.

GRANT SAMUEL



Strategy and Outlook

YATES GARDEN CARE

FY19 is expected to be impacted by unfavourable weather and stock realignment in retail channels but more “normal” market conditions are expected to return. In the longer term, growth is expected from product innovation, greater consumer engagement and the focus on the bio-horticulture segment.

DULUXGROUP INTERNATIONAL

In aggregate, in FY19 DuluxGroup International is expected to generate a small profit reflecting improvements in all businesses and the commencement of trading in Indonesia. In the longer term, this business is expected to generate revenue and earnings growth as the early stage businesses continue to develop. Expectations for the Indonesian joint venture are underpinned by the distribution capabilities brought by the joint venture partner.

4.10.6 Corporate and Unallocated

DuluxGroup operates a group shared services model for certain costs (such as manufacturing, distribution, information technology, human resources, legal and finance activities such as accounts receivable, accounts payable and payroll) whereby costs are allocated to operating businesses. In addition, the costs associated with the marketing, sales and R&D “centres of excellence” operated at group level are allocated to operating businesses. On this basis, the key business results are considered to largely be on a fully costed basis.

Other costs are incurred and not allocated to the businesses. These costs are associated with running DuluxGroup’s head office (e.g. executive office, group finance, tax, corporate affairs, business strategy and business development), costs of being a listed company (e.g. board of directors, annual reports and shareholder communications, share registry and listing fees) and other costs (e.g. unallocated shared costs (if any) and unrealised foreign exchange adjustments). Costs have increased since FY14 (see below) due to inflation, investment in group capability and growth projects (specifically for the international businesses) and increased cost associated with the defined benefit fund. Corporate and Unallocated is expected to be ~\$28 million (EBIT level) in FY19:

CORPORATE AND UNALLOCATED – ADJUSTED OPERATING PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Adjusted EBITDA	(22.7)	(24.3)	(26.7)	(26.5)	(27.2)	(12.9)
Depreciation and other amortisation	(1.4)	(1.3)	(1.3)	(1.9)	(2.5)	(1.2)
Adjusted EBITA	(24.1)	(25.6)	(28.0)	(28.4)	(29.7)	(14.1)
Amortisation of acquired intangibles	(0.1)	-	-	-	-	-
Adjusted EBIT	(24.2)	(25.6)	(28.0)	(28.4)	(29.7)	(14.1)

Source: DuluxGroup and Grant Samuel analysis (Appendix 1)

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5 Valuation of DuluxGroup

5.1 Summary

Grant Samuel has valued DuluxGroup in the range \$3,319-3,864 million which corresponds to a value of \$8.53-9.93 per share. The valuation is summarised below:

DULUXGROUP – VALUATION SUMMARY (\$ MILLIONS)

	REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Business operations			
Dulux ANZ	5.4	2,800.0	3,200.0
Selleys & Parchem ANZ	5.5	475.0	525.0
Building Products, Yates and DuluxGroup International	5.6	560.0	665.0
Corporate and Unallocated (net of savings and reallocations)	5.9	(200.0)	(220.0)
Enterprise value		3,635.0	4,170.0
Other assets and liabilities	5.10	55.8	65.8
Net borrowings	5.11	(372.0)	(372.0)
Value of equity		3,318.8	3,863.8
Shares on issue (millions)	4.7	389.3	
Value per share		\$8.53	\$9.93

The valuation represents the estimated full underlying value of DuluxGroup assuming 100% of the company was available to be acquired and includes a premium for control. The valuation is on a cum dividend basis (i.e. before the payment of the interim and special dividends on 28 June 2019). The value exceeds the price at which, based on current market conditions, Grant Samuel would expect DuluxGroup shares to trade on the ASX in the absence of a takeover offer. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The value attributed to the business operations of \$3,635-4,170 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings or cash flows and discounted cash flow ("DCF") analysis.

Multiples of EBITDA and EBITA were the primary reference point for valuation of DuluxGroup's business operations. DCF analysis was used as a secondary cross check (see Section 5.7).

The earnings multiples implied by the valuation of DuluxGroup's business operations are summarised below:

DULUXGROUP – IMPLIED OVERALL VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ million)		3,635	4,170
Multiple of EBITDA (times)			
FY18 (actual)	255.2	14.2	16.3
FY19 (broker median forecast)	266.5	13.6	15.6
FY20 (broker median forecast)	272.0	13.4	15.3
Multiple of EBITA (times)			
FY18 (actual)	223.8	16.2	18.6
FY19 (broker median forecast)	232.7	15.6	17.9
FY20 (broker median forecast)	236.0	15.4	17.7



While DuluxGroup has made guidance statements about NPAT for FY19, the Directors of DuluxGroup have decided not to include the FY19 Forecast or Four Year Plan in the Scheme Booklet and therefore this information has not been disclosed in this report. Accordingly, the implied prospective multiples set out above are based on the broker median forecasts for DuluxGroup and its business operations (see Appendix 2 for details). These forecasts are sufficiently close to DuluxGroup's internal projections to be useful for analytical purposes.

The valuation reflects the particular attributes of DuluxGroup's business and takes into account factors such as:

- the track record of consistent revenue growth and margin improvement over the past decade;
- the leading market position of most of DuluxGroup's businesses in their respective categories;
- the strength of individual brands, many of which have been established in their markets for decades;
- the relatively high exposure to the home improvement and maintenance sector rather than the new home construction sector;
- the track record of successful new product development and other innovations; and
- the depth of management in terms of experience and tenure.

5.2 Methodology

5.2.1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

5.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT (or EBITA) or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples (or EBITA multiples) and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT (or EBITA) multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

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Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

While EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT (or EBITA) multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable indicator of ongoing capital expenditure. In addition, there can be differences between companies in the basis of calculation of depreciation. Where this is an issue, another metric that can be useful is EBITDA-Capital Expenditure (sometimes referred to as Operating Cash Flow); and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

In determining a value for DuluxGroup's business operations, Grant Samuel has placed particular reliance on both the EBITDA and EBITA multiples implied by the valuation range compared to the EBITDA and EBITA multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. While averages or medians can be determined it is not appropriate to simply apply such measures to the business being valued. The range will generally



reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings. The most important part of valuation is to evaluate the attributes of the specific business being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a “premium for control” to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

5.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are

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capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

5.3 Approach for DuluxGroup

Grant Samuel's valuation of DuluxGroup has been estimated by aggregating the estimated market value of its business operations (on a “control” basis) together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the business operations has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing DuluxGroup's business operations, the primary focus was on earnings multiples analyses with the DCF analysis used as a cross check. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business operations of DuluxGroup. A net assets/realisation of assets methodology is not appropriate for DuluxGroup.

The value range selected for DuluxGroup is a judgement. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of DCF analysis in terms of various scenarios and their likelihood.

Specific aspects of the methodology adopted by Grant Samuel include the following:

- EBITA rather than EBIT has been used in the earnings multiple analysis as it is before the impact of amortisation of identifiable intangible assets acquired in prior transactions;
- Grant Samuel has given consideration to (but not made explicit adjustment for) the synergies potentially achievable by acquirers of the business (see Section 5.8). In this regard, it needs to be recognised that:
 - normal valuation practice is to include (either implicitly or explicitly) a value for synergies that are available to multiple acquirers but to exclude synergy value that is unique to a particular acquirer; and
 - where earnings multiples from comparable transactions represent primary valuation evidence, adding synergies to earnings or making a further multiple adjustment for synergies would potentially result in “double counting” of value as the multiples from the comparable transactions are usually based on “standalone” earnings (either reported or forecast) and the value of synergies is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits); and
- the valuation is on a cum dividend basis to align it with the total cash value of \$9.80 (i.e. it is before payment of the interim dividend of \$0.15 per share and the special dividend of \$0.28 per share to be paid on 28 June 2019).



5.4 Value of Dulux ANZ

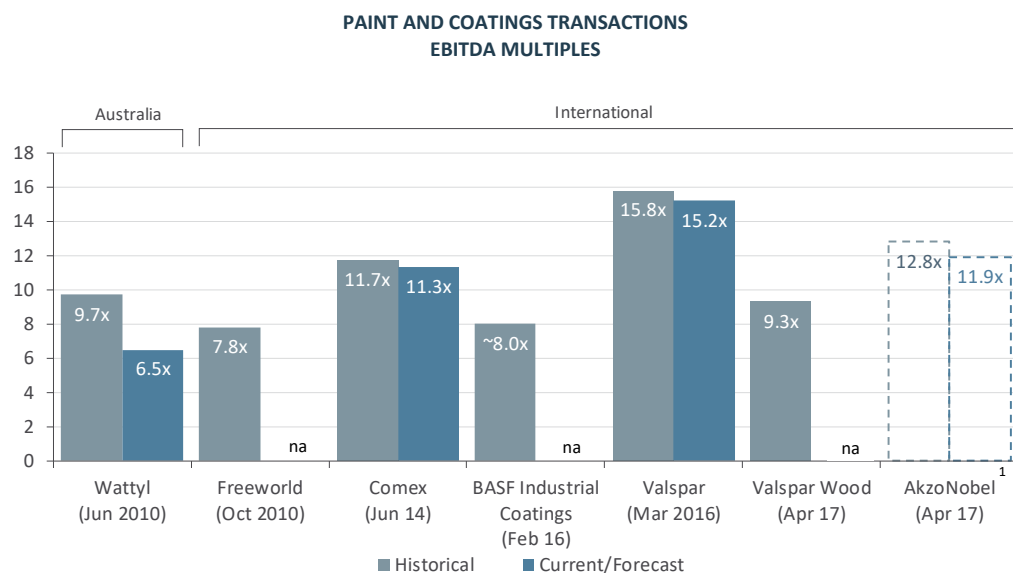
5.4.1 Summary

Grant Samuel has estimated the value of Dulux ANZ to be in the range \$2,800-3,200 million.

5.4.2 Market Evidence

Transaction Evidence

There has been a significant number of transactions in the global paint and coatings industry over the past two decades. However, many are now out of date or involved businesses not really comparable to Dulux ANZ. The following analysis concentrates on selected recent transactions that Grant Samuel considers most relevant to Dulux ANZ:



Source: Grant Samuel analysis^{49,50}

Notes: (1) PPG's acquisition of AkzoNobel did not proceed (see discussion below).

(2) No transaction metrics are available for the 2012 sale by AkzoNobel of its North American architectural coatings business (including the *Dulux* brand in North America) to PPG for US\$1.05 billion.

Transaction evidence in Australia in the last ten years is limited. There have been a number of acquisitions of small paint manufacturers (e.g. DuluxGroup's \$11.5 million acquisition of Porter's Paints in February 2015) but valuation metrics are not publicly available. The most recent transactions were:

- the 2006 proposal by South African listed Barloworld Limited ("Barloworld") (at the time, the third largest supplier of architectural and decorative paints in Australia and owner of *Taubmans*) to acquire WattyI (the second largest supplier of architectural and decorative paints in Australia). This transaction was opposed by the Australian Competition and Consumer Commission ("ACCC") and did not proceed⁵¹;

⁴⁹ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

⁵⁰ Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

⁵¹ This proposal had been preceded by a takeover offer for WattyI by a financial investor in 2005 which was rejected as inadequate.

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- PPG's June 2007 acquisition of Barloworld Coatings Australia (i.e. the *Taubmans* architectural paint business in Australia) from Barloworld, the terms of which were not disclosed at time of announcement. Barloworld subsequently disclosed the price as R258 million (~\$42 million) and that the business had been sold for net asset value; and
- the June 2010 acquisition of Wattyl by US listed Valspar for \$144 million. Wattyl had underperformed for a number of years and lost market share in competitive markets. A restructuring program was initiated in September 2005 to reduce costs and streamline processes. After seeing off the two acquisition proposals mentioned above, Wattyl then faced the economic downturn that commenced after the global financial crisis of 2007/08 with another cost reduction program.

The EBITDA multiples implied by Valspar's acquisition of Wattyl (9.7 times historical and 6.5 times current/forecast year) are low given Wattyl's position and brand recognition in the Australian and New Zealand markets, but likely reflect its financial weakness in difficult trading conditions. The steep drop in the multiple reflects the earnings improvement post completion of the cost reduction program in FY10. In fact, at the time the proposal was made, the current/forecast multiple was effectively an historical multiple (i.e. FY10 was completed).

As such, recent Australian transactions are of little use in considering earnings multiples appropriate for a business such as Dulux ANZ with clear market leadership and a track record of consistent growth and margin improvement.

As a consequence, Grant Samuel has considered selected recent international transactions that are relevant to Dulux ANZ. In considering the evidence for completed transactions the following factors should be taken into consideration:

- Barloworld demerged its southern African coatings division as South African listed company Freeworld Coatings Limited ("Freeworld") in December 2007 (following the sale of Barloworld Coatings Australia to PPG). In October 2010, Kansai Paint Co. Limited ("Kansai") acquired a 27.6% interest in Freeworld and proceeded to make an offer for 100%. The historical multiple implied by the transaction is similar to those implied by the acquisition of Wattyl in June 2010;
- PPG's US\$2.3 billion acquisition of Consorcio Comex, S.A. de C.V. ("Comex"), the leading paint and coatings company in Mexico and Central America, in June 2014 delivered well recognised regional brands, significant R&D facilities and a large operational footprint in a growing market;
- the industrial coatings business of BASF SE ("BASF") supplied a range of products (including metal coatings, wood coating, powder coating and vehicle refinishes) to industries such as construction, domestic appliances, wind energy and commercial transport. It was acquired in February 2016 by AkzoNobel for €475 million. Market commentators indicated that the transaction was completed on an EBITDA multiple of ~8 times;
- Sherwin-Williams' acquisition of Valspar for US\$11.3 billion in March 2016 created the world's largest paint and coatings company in terms of sales (Sherwin-Williams was second largest and Valspar fifth largest prior to the transaction). The companies had complementary paint and coatings offerings with a wide range of strong brands and technologies. The transaction provided Sherwin-Williams an expanded footprint in the Asia Pacific region, Europe, the Middle East and Africa and new capabilities in the packaging and coil segments. The transaction was undertaken at a 41% premium to the 30 day VWAP⁵² of Valspar and a forecast EBITDA multiple of 15.2 times. Annual cost savings of US\$280 million were anticipated within two years, reducing the effective multiple to around 11 times; and
- in April 2017 (prior to completion of Sherwin-Williams' acquisition of Valspar), Axalta Coating Systems ("Axalta") acquired Valspar's North American Industrial Wood Coatings business ("Valspar Wood") for US\$420 million at an implied multiple of 9.3 times EBITDA. Valspar Wood was one of the leading providers of coatings to equipment manufacturers and aftermarket industrial wood markets (including building products, cabinets, flooring and furniture) in North America.

⁵² VWAP is volume weighted average price.

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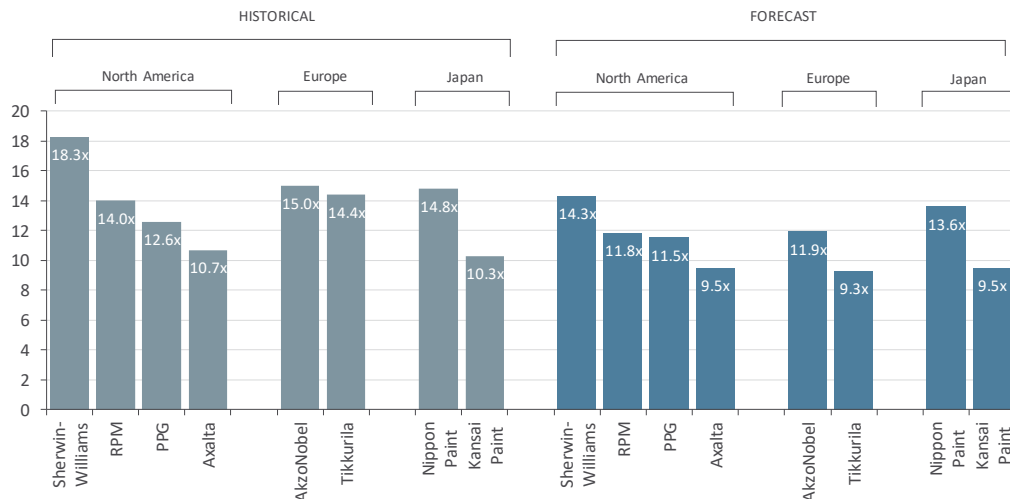


In March 2017, PPG made a conditional proposal to acquire 100% of AkzoNobel, the third largest global paint and coatings company. Following rejection of the initial proposal, PPG revised the proposal twice more with its final proposal in April 2017 valuing AkzoNobel at €26.9 billion (cash and scrip consideration). AkzoNobel also rebuffed this final proposal for a number of reasons including that the offer substantially undervalued AkzoNobel and failed to reflect the value creating opportunities of the new strategic direction to separate its coatings and speciality chemicals businesses and to focus on the coatings business⁵³. The multiples implied by the last offer by PPG implied forecast EBITDA multiples of 11.9 times which was insufficient to convince AkzoNobel to engage with PPG. Furthermore, the multiple reflects the mix of businesses owned by AkzoNobel (decorative paints 27% of FY16 revenue, performance coatings 40% and specialty chemicals 33%).

Sharemarket Evidence

The following charts set out the implied EBITDA and EBITA multiples for a number of listed comparable companies based on share prices as at 20 May 2019:

LISTED PAINT AND COATINGS COMPANIES EBITDA MULTIPLES



Source: Grant Samuel analysis⁵⁴

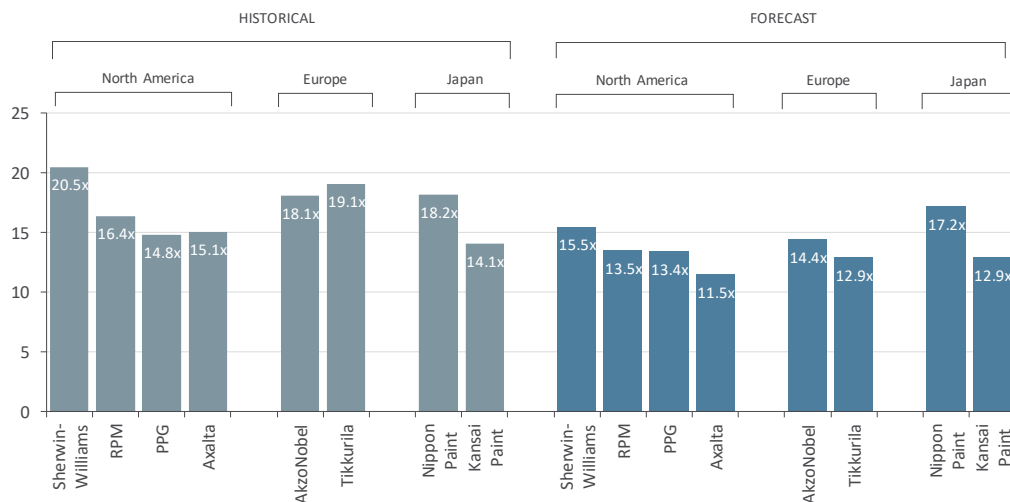
⁵³ The Specialty Chemicals business was sold to The Carlyle Group and GIC in March 2018 for €10.1 billion. The deal closed in October 2018.

⁵⁴ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

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LISTED PAINT AND COATINGS COMPANIES EBITA MULTIPLES



Source: Grant Samuel analysis⁵⁴

The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- all of the companies have a 31 December year end except for Kansai which has a 31 March year end and RPM International Inc. ("RPM") which has a 31 May year end. Kansai has released its results for 31 March 2019 but the last historical year for RPM is 31 May 2018. In order to align the financial data, the first year broker forecasts for RPM have been adopted as historical earnings. While this is a relatively crude adjustment it is arguably more useful than leaving the data unadjusted;
- all of the companies presented have global operations and, in terms of sales revenue, all but one (Tikkurila Oyj) are top 10 paint and coatings companies globally. PPG is the world's largest paint and coatings company (US\$14.8 billion in net sales) followed by Sherwin-Williams and AkzoNobel (with net sales of US\$11.8 billion and US\$11.5 billion, respectively) with Nippon Paint ranked fourth (net sales of US\$5.2 billion)⁵⁵. Tikkurila Oyj ranks itself 25th largest globally;
- the relatively high earnings multiples for Sherwin-Williams reflect the Valspar acquisition which completed in June 2017. Annual cost savings of US\$280 million were anticipated within two years of acquisition and are emerging over the forecast period; and
- Tikkurila Oyj has been undertaking an efficiency program aimed at generating at least €30 million in cost savings compared to 2017 levels with the full savings to emerge by the end of 2019. The high historical multiples reflect the expected increase in earnings.

⁵⁵ Paint & Coatings Industry, "2018 Global Top 10", July 2018.



5.4.3 Analysis and Conclusions

The earnings multiples implied by the valuation of Dulux ANZ are summarised below:

DULUX ANZ – IMPLIED VALUATION PARAMETERS

DATE	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS)	
		LOW	HIGH
Value range (\$ millions)		2,800	3,200
Multiple of EBITDA (times)			
FY18 (actual)	191.7	14.6	16.7
FY19 (broker median forecast)	199.0	14.1	16.1
FY20 (broker median forecast)	205.0	13.7	15.6
Multiple of EBITA (times)			
FY18 (actual)	172.9	16.2	18.5
FY19 (broker median forecast)	177.4	15.8	18.0
FY20 (broker median forecast)	182.0	15.4	17.6

The implied multiples are very high for a mature business. However, in Grant Samuel's opinion, this appropriately reflects the attributes of the Dulux ANZ business. Transactions over the past decade have occurred at multiples of between 6 and 15 times reflecting individual circumstances and other factors (such as synergies). The overall average/median across the last two decades is around 10 times.

However, there are two transactions that, while considerably larger and involving global operators, can be considered prime benchmarks for Dulux ANZ:

- Sherwin-Williams' acquisition of Valspar (2016); and
- PPG's unsuccessful attempt to acquire AkzoNobel (2017).

The acquisition of Valspar at over 15 times EBITDA represented a high watermark for the industry but there were significant strategic attractions. The transaction took Sherwin-Williams from #2 globally to a clear #1 (Valspar was the fifth largest global paint company). However, synergies reduced the multiples to around 11 times. On the other hand, capital expenditure was around 15% of EBITDA.

PPG's final offer for AkzoNobel represented around 12-13 times EBITDA but it was rejected by the target as not fully reflecting the value of the transformation occurring in the business.

In Grant Samuel's opinion, Dulux ANZ warrants a similarly "premium" multiple, notwithstanding that it is smaller and its operations are limited to Australasia. The worldwide paint and coatings industry is a very mature business that has been undergoing a long process of consolidation to the point where there is now a relatively small group of truly global paint businesses (PPG, Sherwin-Williams and AkzoNobel) together with a number of other large but more regionally focused groups and other global coating specialists such as Axalta. At the same time, the industry is essentially local (or regional). Existing brands in individual countries tend to have entrenched market positions and distribution arrangements that make it difficult for any new entrant (even a global operator) to gain a foothold beyond niche products.

In this environment, DuluxGroup can reasonably be regarded as a "prize asset" in the global paint industry and, in an open, competitive sale process (e.g. assuming PPG and Sherwin-Williams were also in a position to acquire it), would be highly sought after.

There are, of course, challenges for the Dulux ANZ business:

- the Australian housing market has softened considerably over the past 12-18 months and the outlook over the next couple of years is for continued weakness. Dulux ANZ has limited exposure to the new housing market (~15% of sales). Its primary exposure is to the home improvement and maintenance

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market (i.e. repair and renovation of existing homes). This is a much more resilient market but it is not immune from the effects of low wages growth, weak consumer confidence and falling house prices and sale volumes. In short, market conditions over the short term are likely to be subdued;

- long term market volume growth has been limited to around 1-1.5% per annum, in line with Australian population growth. There is no reason to assume this will improve going forward although there may be occasional blips (as there was in 2HY19);
- it faces two primary competitors (Taubmans and Wattyl) that are owned by the world's two largest paint companies (PPG and Sherwin-Williams, respectively) which means they are well capitalised and supported by experienced management and sophisticated business support systems (marketing, R&D etc.);
- market positions are well established and gains in share are "hard won" and incremental, requiring continued success in innovation, quality execution of marketing strategies, pricing discipline and attention to detail; and
- it is the #2 market participant in New Zealand and is not represented in the other "big box" retailer (Mitre 10 New Zealand) that competes aggressively with Bunnings in that market.

In addition:

- Dulux ANZ has a deep and long standing relationship with Bunnings. The relationship has been mutually beneficial but it needs to be recognised that there is also an interdependence. Dulux ANZ's market share in the retail channel has benefited from the very strong growth of Bunnings over the past three decades. Bunnings continues to have strong growth aspirations (with significant store openings planned in the next year or two) but it will inevitably reach a point where growth slows. If a significant slowdown does occur, it will make it harder for Dulux ANZ to gain further retail market share (although Dulux ANZ also has a strong position in other retail outlets);
- given the nature of the likely acquirers (international operators not already in Australia), there is relatively limited opportunity to generate operating cost savings or other synergies;
- as a high performing business there is less scope for an acquirer to improve performance by adding its skills and expertise; and
- the *Dulux* and *Cabot's* brands cannot be used in any markets outside Australia or New Zealand (and certain Pacific jurisdictions).

On the other hand, the business has a number of highly attractive attributes:

- an outstanding track record of:
 - steady and consistent (albeit moderate) revenue growth through up and down cycles (combining volume growth, price enhancement and market share gains). If anything, revenue tends to be correlated to GDP growth rather than the vicissitudes of the housing cycle; and
 - continued margin improvement with only occasional falls in earnings, usually due to one-off events;
- world class EBITDA/EBITA margins of around 20% and 18% respectively. While these margins may also suggest limited scope for further improvement, they evidence the strength of the brand, market position, premium pricing and overall cost efficiency;
- clear market leadership in major categories (decorative paint, woodcare and texture coatings) in Australia across both retail and trade distribution channels and unrivalled brand strength, particularly for premium products;
- a demonstrated ability to compete effectively against *Taubmans* and *Wattyl*, notwithstanding their ownership. In part, this reflects the entrenched market position and customer perceptions of each brand;

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- the relationship with Bunnings provides broad ranging benefits. Dulux ANZ is the long established category leader and works closely with Bunnings on developments and strategies to grow category sales. Category leadership gives better control over pricing decisions. Dulux ANZ also provides *British Paints* branded products to Bunnings on an exclusive basis, obviating the need for Bunnings to develop a house brand. In addition, with the demise of Masters, Bunnings position in the retail hardware market is no longer under imminent threat;
- the home improvement and maintenance segment that represents ~65% of Dulux ANZ's revenue is a more attractive market than new housing construction. It is less intensely price competitive and customers are more prepared to purchase premium products (as it usually relates to their largest single asset);
- very strong R&D capacity (80+ chemists) with a proven capability to execute on innovation and a substantial pipeline of new product development in place;
- a highly experienced management team with long tenure in the business and a demonstrated ability to both maintain momentum and to turn around underperforming businesses;
- Dulux ANZ has recently commissioned the world class Merrifield water based paint factory providing quality and cash operating cost benefits as well as substantial spare capacity. In addition, it means capital expenditure requirements for the business going forward should be relatively modest (<10% of EBITDA). As a result, the business will be highly cash generative supporting higher EBITDA multiples; and
- Dulux ANZ believes there are still meaningful opportunities for:
 - market share gains in mainstream channels for decorative paints through innovative and strong marketing execution;
 - margin improvement through continued "premiumisation" as innovation develops higher quality products or new products for specialised needs; and
 - further extension into specialty coatings and into adjacent niche areas such as roofing (through new product development or bolt-on acquisitions).

There are also certain important features of the paint and coatings industry that are relevant:

- the maturity of the industry, long established brands and importance of customer trust create high barriers for new entrants in any geographic market;
- the business (along with many other home improvement categories) is, at least for the present, less susceptible to house brands in the retail space than fast moving consumer goods such as food; and
- raw materials costs such as titanium dioxide and latex are a significant proportion of costs and have demonstrated some volatility in recent years. However, the whole industry is similarly exposed to these costs and, accordingly, participants have generally been able to pass through input cost rises to selling prices.

The median of the major listed companies in the sector is just under 12 times forecast EBITDA with some on materially higher multiples. These multiples do not include a premium for control and would therefore support "control" multiples above 12 times (depending on the attributes of the individual companies).

Taking all of these factors into account, it is Grant Samuel's opinion that the implied multiples are reasonable. While the short term outlook over the next two years is subdued, Dulux ANZ is extremely well positioned to continue to develop the business and to generate consistent solid growth over the medium to longer term. It represents a unique opportunity for an acquirer to secure the clear market leader across Australasia.

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5.5 Value of Selleys & Parchem ANZ

5.5.1 Summary

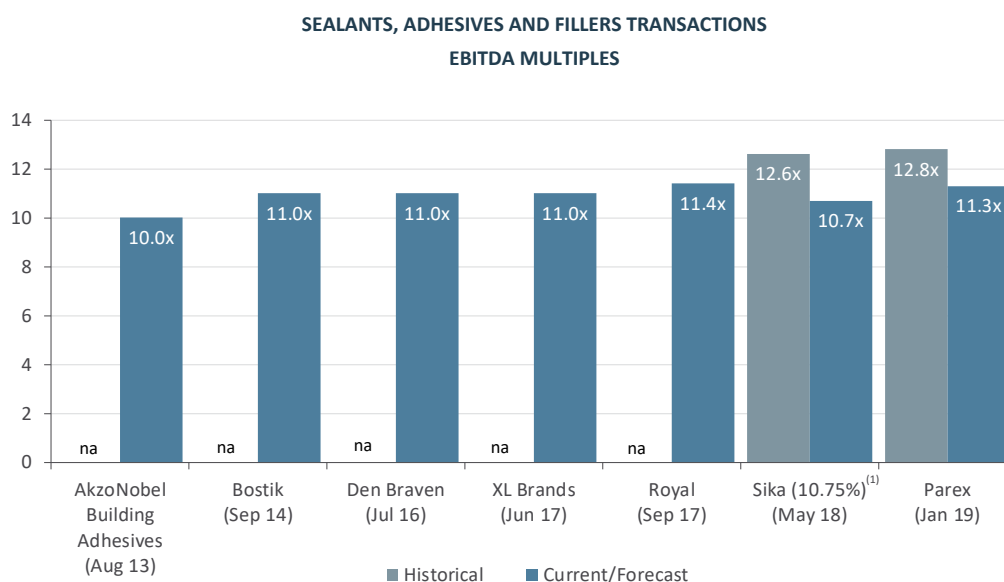
Grant Samuel has estimated the value of Selleys & Parchem ANZ to be in the range \$475-525 million.

5.5.2 Market Evidence

Transaction Evidence

Selleys has over 50% of the retail sealants, adhesives and fillers market in Australia with the balance (and much of the trade sector) held by global operators. Accordingly, there have been no significant Australian transactions in this product market. The same situation applies to specialty chemicals for concrete.

The following chart summarises the historical and forecast EBITDA multiples for a number of recent international acquisitions:



Source: Grant Samuel analysis^{49,50}

Note (1) Not a control transaction

None of the transactions is directly comparable to Selleys & Parchem ANZ in terms of the nature of operations, scale or geographic reach but the evidence is nevertheless useful in considering appropriate valuation parameters:

- Sika AG ("Sika"), a Swiss based manufacturer of construction chemicals and industrial adhesives, acquired the Building Adhesives business of AkzoNobel in 2013. AkzoNobel Buildings Adhesives was a top 3 participant in European markets with a focus on the top quality segment. It had sales of CHF228 million per annum, two production sites and a pan European distribution network. The acquisition price of CHF320 million represented 10 times forecast 2013 EBITDA;
- Arkema S.A. ("Arkema"), a French specialty chemicals business, acquired Bostik SA ("Bostik") in 2014. Bostik was #3 worldwide in adhesives with sales of €1.5 billion and EBITDA margins of ~10%. Its business was spread across a broad base of industrial applications, with construction products (floors, tiling and sealants) representing approximately 25% of sales.

Arkema's acquisition price of €1.74 billion represented 11 times forecast 2014 EBITDA. However:

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- Arkema anticipated a 30% uplift in EBITDA over the next 3 years (reducing the multiple to 8.4 times) as a result of business development and synergies; and
- capital expenditure represented approximately 30% of EBITDA (3% of sales);

- Arkema acquired Den Braven Benelux B.V. (“Den Braven”), a leader in sealants for insulation and construction in Europe in 2016. Den Braven’s sales were approximately €350 million and it generated a 12.5% EBITDA margin.

The acquisition price of €485 million represented 11 times 2016 forecast EBITDA. Arkema expected synergies of €30 million to be realised over three years, reducing the effective multiple to approximately 6.5 times;

- in 2017, H.B. Fuller Company (“HB Fuller”) acquired Royal Adhesives and Sealants (“Royal”) from American Securities LLC. Royal was a manufacturer of high value adhesives and sealants for a diverse range of end markets including aerospace, transportation, commercial roofing, insulated glass, solar, packaging and flooring applications. It operated in five countries, generating sales of US\$650 million and EBITDA margins of 21%.

The acquisition price of US\$1.575 billion represented 11.4 times 2017 forecast adjusted EBITDA. HB Fuller expected synergies of US\$35 million and revenue synergies of US\$15 million, lowering the effective multiple, if fully realised, to 8.4 times;

- in May 2018, Compagnie de Saint-Gobain S.A. (“Saint-Gobain”), a French industrial conglomerate and Sika announced an agreement that brought a four year battle, in which Saint-Gobain had sought control of Sika by acquiring the stake of the founding Burkard family, to an end.

Under the agreement, Saint-Gobain would acquire the family’s interest for CHF3.22 billion, then sell part of that stake back to the company, leaving it with a 10.75% shareholding at a net cost of CHF1.14 billion.

The net price paid by Saint-Gobain represented 12.6 times 2017 EBITDA and 10.7 times forecast 2018 EBITDA. As Saint-Gobain was acquiring only a 10.75% economic and voting interest (with additional substantial restrictions) there were no synergies available to it and the multiples do not include a premium for control;

- Arkema acquired XL Brands, a leader in floor covering adhesives in the United States, in 2017. The acquisition price of US\$205 million represented 11 times current year EBITDA (reducing to approximately 7 times within 4 to 5 years including the impact of synergies); and
- in January 2019, Sika acquired Parex, a leading manufacturer of mortar solutions (including facade mortars, tile adhesives, waterproofing and technical mortars such as concrete repair). Parex had sales of CHF1.2 billion and operated in 23 countries. Parex had enjoyed sales growth over the previous seven years of over 7% per annum and generated EBITDA margins of approximately 16%.

The acquisition was highly complementary, doubling the size of Sika’s own mortar business (one of its five core businesses) and offering substantial product and distribution synergies as well as additional technological expertise. Sika would become a global top three participant in mortars.

The acquisition price of CHF2.1 billion represented 12.8 times historical (2018) and 11.3 times forecast (2019) EBITDA. Sika expected synergies of CHF80-100 million (to be achieved over four years at a cost of CHF70 million) which reduced the effective multiple to 8.8 times historical and 8.5 times forecast earnings.

Sharemarket Evidence

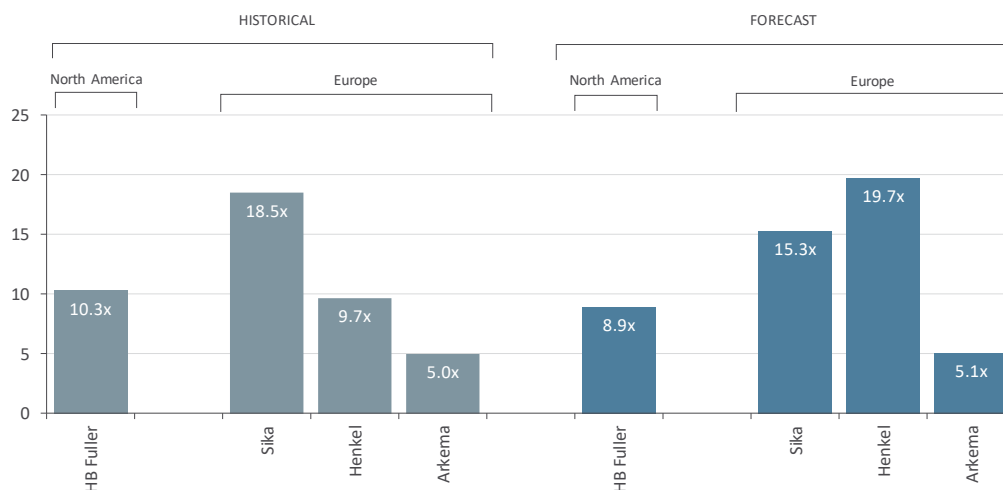
The following charts set out the implied EBITDA and EBITA multiples for a number of listed comparable companies based on share prices as at 20 May 2019:

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LISTED SEALANTS, ADHESIVES AND FILLERS COMPANIES

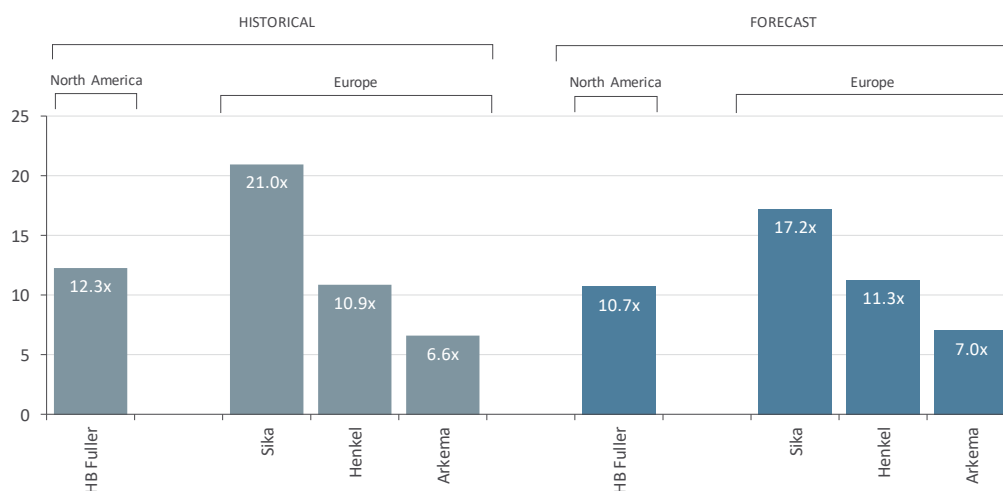
EBITDA MULTIPLES



Source: Grant Samuel analysis⁵⁴

LISTED SEALANTS, ADHESIVES AND FILLERS COMPANIES

EBITA MULTIPLES



Source: Grant Samuel analysis⁵⁴

The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- all of the companies have a 31 December year end, except for HB Fuller which has a 30 November year end;
- HB Fuller is a United States based global and sealants company. During 2018 it realised US\$15 million of the US\$35 million in cost savings targeted on acquisition of Royal for US\$1.575 billion in October 2017. The trading multiples implied for HB Fuller reflect the cost savings expected to emerge as integration of the acquisition is completed;

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- the multiples for Sika are not meaningful as a result of its CHF2.1 billion acquisition of Parex which is due to settle in Q2/Q3 2019. Parex generated sales of CHF1.2 billion in 2018 and EBITDA of CHF195 million. Sika expects annual synergies of CHF80-100 million per annum to emerge over the four years post closing of the transaction;
- Henkel AG & Co. KGaA ("Henkel") is a German based company which operates across three industries globally – adhesives, laundry and home care and beauty care. Henkel Adhesive Technologies is considered a global leader both in the industrial and consumer markets with its major brand being *LOCTITE*. However, adhesives only accounts for around 50% of revenue and EBIT and, therefore, the trading multiples implied for Henkel reflect its mix of businesses; and
- the relatively low multiples for Arkema likely reflect its mix of businesses. Arkema is transforming its business by way of strategic acquisitions and a targeted divestment program but remains primarily a specialty chemicals company. It operates three divisions. High Performance Materials accounted for 45% of revenue in 2018, of which Bostik represented approximately 50%. The balance comprises Industrial Specialties (31% of revenue) and Coating Solutions (24% of revenue). Coating Solutions involves the supply of performance resins for the decorative paints and industrial coatings industry. In recent years, it has also made strategic acquisitions in the adhesives segment (Bostik and Den Braven).

5.5.3 Analysis and Conclusion

The multiples implied by the valuation of Selleys & Parchem ANZ are summarised below:

SELLEYS & PARCHEM ANZ – IMPLIED VALUATION PARAMETERS

DATE	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS)	
		LOW	HIGH
Value range (\$ millions)		475	525
Multiple of EBITDA (times)			
FY18 (actual)	36.7	12.9	14.3
FY19 (broker median forecast)	40.7	11.7	12.9
FY20 (broker median forecast)	42.0	11.3	12.5
Multiple of EBITA (times)			
FY18 (actual)	34.4	13.8	15.3
FY19 (broker median forecast)	38.4	12.4	13.7
FY20 (broker median forecast)	39.2	12.1	13.4

The market evidence on comparable transactions consistently indicates multiples around 11 times forecast EBITDA as being a benchmark for the sector. However, most of the acquisitions have had strong industrial logic with substantial levels of cost savings and other synergies expected. Allowing for these synergies, typically reduced the effective multiples to between 8 and 9 times, depending on individual circumstances (albeit that some of these multiples are based on earnings 3-4 years out including underlying business growth and development). Nevertheless, it would appear reasonable to conclude that effective multiples (net of synergies) for larger businesses in the sealants, adhesives and fillers market are typically less than 10 times.

In this context, there is likely to be limited opportunities for operational synergies for an acquirer as any existing participant in the Australian market (including those that are part of multinationals) would likely face significant ACCC issues in acquiring Selleys & Parchem ANZ (given its market share position).

Several of the acquisitions involve businesses that are direct competitors of Selleys (e.g. Sika, Bostik) and Parchem (e.g. Parex, now part of Sika). However, they are much larger businesses with, in a number of instances, sales of more than €1 billion and operations spread across numerous countries or regions. In contrast, Selleys has sales of <\$200 million and Parchem <\$100 million and the business is limited to Australia and New Zealand. Other things being equal, larger businesses usually warrant higher multiples because the scale and diversity adds to the robustness of the business and its market position.

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At the same time, the Selleys & Parchem ANZ business has a number of attractive features including:

- a market leading brand (*Selleys*) with over 65% share in the retail channel and very high brand awareness;
- comprehensive coverage across individual product categories and price points;
- a proven track record in product innovation (e.g. *Selleys Storm*);
- the scope for significant growth in the more fragmented trade channel; and
- market leadership in concrete repair and rehabilitation (Fosroc).

In addition, there are features of the Selleys & Parchem ANZ business that distinguish it from others and mean a higher multiple can be justified:

- Selleys is a 95% retail business with very high brand recognition and clear market leadership. The companies involved in the comparable transactions largely served commercial/industrial customers.

As a retail focused business with by far the largest market share, Selleys:

- can generate premium pricing (e.g. through smaller unit sizes) and more attractive margins than a trade orientated business;
 - has a high level of influence over pricing across the product range; and
 - is able to entrench brand recognition amongst customers;
- the business has a minimal exposure to the new housing market (<10% of sales); and
 - the business is far less capital intensive than the comparable companies. Capital expenditure generally fluctuates between 5% and 8% of EBITDA. In contrast, the capital expenditure for many of the comparable companies was more in the order of 20-30% of EBITDA. As a result, Selleys & Parchem ANZ generates a materially higher level of cash flow for every dollar of EBITDA.

Listed comparable companies such as HB Fuller and Henkel trade at around 9 times forecast EBITDA excluding a premium for control.

Taking all of these factors into account, it is Grant Samuel's opinion that multiples slightly above the comparable transactions are reasonable.

5.6 Value of Building Products, Yates and DuluxGroup International

5.6.1 Summary

Grant Samuel has estimated the value of Building Products, Yates and DuluxGroup International to be in the range \$560-665 million.

5.6.2 Market Evidence

The various businesses in this grouping are relatively small scale, niche businesses operating within the broader home improvement and maintenance sector with a focus on building products (except for Yates).

There is little or no market evidence available in relation to the individual sectors (garage doors, architectural hardware distribution, garden care products). Accordingly, the market evidence below is largely based on the general building products industry in Australia with selected other evidence where relevant.

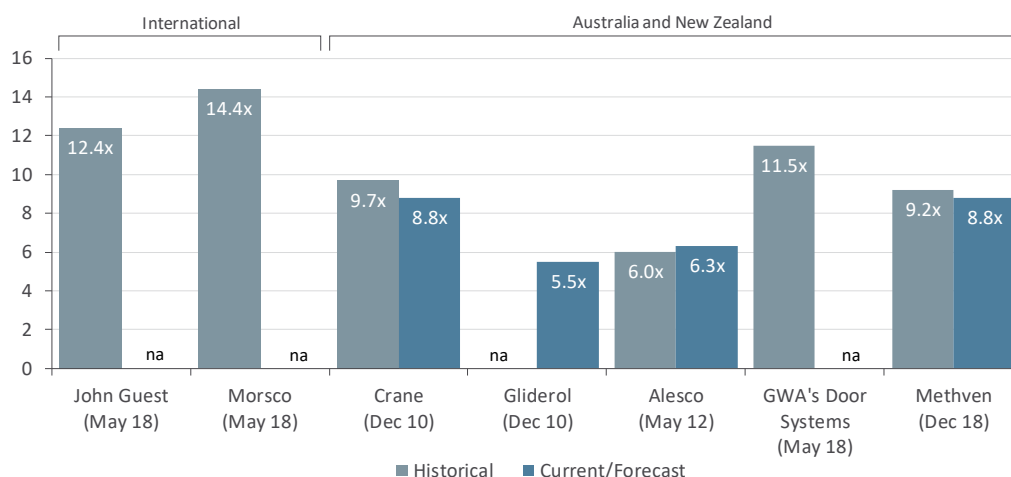
Transaction Evidence

The following chart summarises the historical and forecast EBITDA multiples for a number of recent transactions involving Australian or New Zealand businesses or where Australian companies have acquired international building products businesses:

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BUILDING PRODUCTS TRANSACTIONS EBITDA MULTIPLES



Source: Grant Samuel analysis^{49,50}

In considering the evidence for the completed Australian and New Zealand building products industry transactions shown above the following factors should be taken into consideration:

- Crane Group Limited ("Crane") was a building and industrial products businesses with a focus on plumbing and plastic pipes. It was acquired by New Zealand listed Fletcher Building in December 2010. The acquisition price implies EBITDA multiples of around 9-10 times;
- in December 2010, GWA Group Limited ("GWA") acquired Gliderol International Pty Ltd ("Gliderol") as a product extension to its Doors and Access Systems Division for \$42 million. Gliderol was a manufacturer and distributor of garage doors and openers for residential and commercial markets with annual sales of around \$70 million;
- DuluxGroup's proposal to acquire Alesco was announced in May 2012 and completed in December 2012. The transaction valued the Alesco businesses at ~\$270 million and implied multiples of around 6 times EBITDA. The overall multiples reflect Alesco's mix of businesses including the businesses of Parchem, B&D Group and Lincoln Sentry;
- in May 2018, GWA sold its Doors and Access Systems division to Dublin based company Allegion plc ("Allegion") for \$107 million. Allegion is a global security products and solutions provider which supplies a range of branded products associated with doorway security. The acquisition strengthened Allegion's Australian footprint and involved the acquisition of the market leading residential door hardware brand *Gainsborough*. The acquisition price implied an historical EBITDA multiple of 11.5 times; and
- in December 2018, as part of its strategic focus on its Bathrooms & Kitchens business, GWA proposed to acquire New Zealand listed company Methven Limited, a designer, manufacturer and supplier of kitchen and bathroom products. The acquisition price implied multiples of around 9 times EBITDA.

In May 2018, the two Australian listed plumbing companies, Reece Limited ("Reece") and Reliance Worldwide Corporation Limited ("Reliance") both announced major overseas acquisitions:

- on 7 May 2018, Reece announced the acquisition of MORSCO Inc. ("MORSCO"), a leading United States distributor of plumbing, waterworks and heating and cooling equipment for \$1.91 billion. The acquisition provided Reece with a strategic platform to provide access to a large and growing market in the United States. The acquisition price implied a relatively high historical EBITDA multiple of 14.4 times; and
- on 24 May 2018, Reliance announced the acquisition of John Guest Holdings Limited ("John Guest"), a United Kingdom based global leader in plastic Push-to-Connect plumbing fittings for \$1.22 billion which implied a historical EBITDA multiple of 12.4 times. John Guest was considered to have products and

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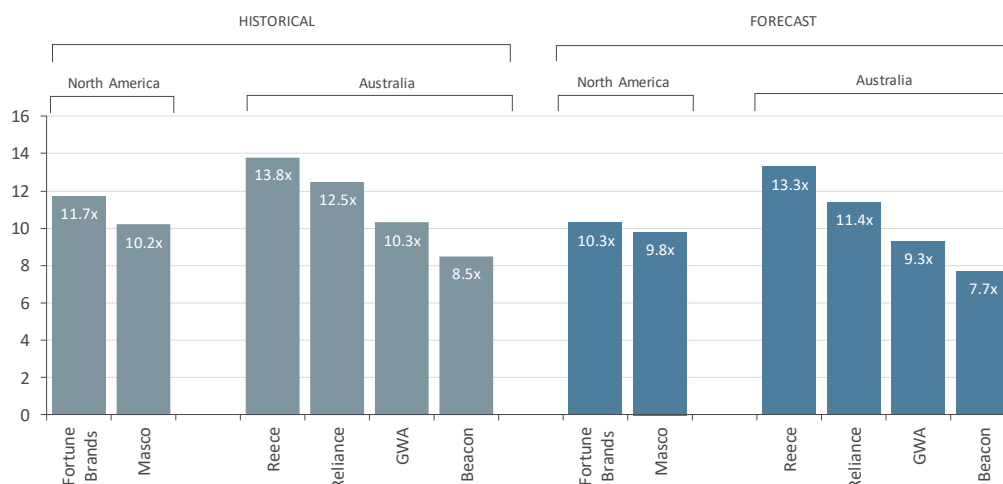
markets that were highly complementary to Reliance and was considered a market leader and committed innovator. Synergies of around \$20 million per annum were anticipated one year after completion.

In addition, there has been one significant transaction in the global garden care industry. In 2017, The Scotts Miracle-Gro Company ("Scotts") sold its European and Australian garden products business for US\$250 million. The price represented a multiple of 14 times historical EBIT for the year to 30 September 2016. While it is difficult to get complete or accurate information, the price would appear to represent approximately 12 times EBIT for the year to 30 September 2017. The sale was part of a plan by Scotts to refocus its business in its home market of North America. The European and Australian businesses had been underperforming and were sold to a private equity fund.

Sharemarket Evidence

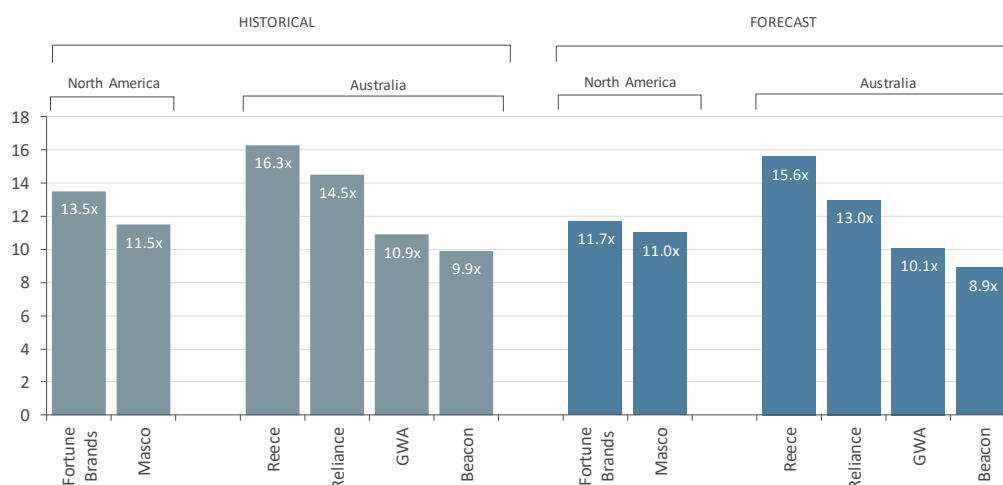
The following charts set out the implied EBITDA and EBITA multiples for a number of listed comparable companies based on share prices as at 20 May 2019:

LISTED BUILDING PRODUCTS COMPANIES
EBITDA MULTIPLES



Source: Grant Samuel analysis⁵⁴

LISTED BUILDING PRODUCTS COMPANIES
EBITA MULTIPLES



Source: Grant Samuel analysis⁵⁴

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The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- the Australian companies all have a 30 June year end while the North American companies have a 31 December year end. In order to align the financial data, the first year broker forecasts for the Australian companies have been adopted as historical earnings. While this is a relatively crude adjustment it is arguably more useful than leaving the data unadjusted;
- the North American companies (Masco Corporation (“Masco”) and Fortune Brands Home & Security, Inc. (“Fortune Brands”)) are both large global manufacturers and distributors of branded products for home improvements and new home construction markets. Masco Corporation’s product range includes paint, faucets, bath and shower fixtures, cabinets, windows and doors, decorative outdoor lighting and spas while Fortune Brands products include cabinetry, plumbing, door and security products. The market ratings for these companies are similar around 11 times forecast EBITDA;
- the earnings multiples for both Reliance and Reece are impacted by their recent large international acquisitions with the multiples for Reece further impacted by a low free float of around 25%; and
- GWA and Beacon Lighting Group Limited (“Beacon”) are smaller building products companies focused on the Australian and New Zealand markets.

Japanese listed company LIXIL Group Corporation is also comparable for the purposes of this analysis. However, its current trading multiples are impacted by the failure to complete the sale of a material loss making business and are therefore not meaningful.

5.6.3 Analysis and Conclusion

Grant Samuel has estimated the value of Building Products, Yates and DuluxGroup International to be in the range \$560-665 million. This value comprises \$480-545 million for Building Products and Yates and \$80-120 million for DuluxGroup International.

Building Products and Yates

The multiples implied by the overall valuation of Building Products and Yates are summarised below:

BUILDING PRODUCTS AND YATES – IMPLIED VALUATION PARAMETERS

DATE	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS)	
		LOW	HIGH
Value range (\$ millions)		480	545
Multiple of EBITDA (times)			
FY18 (actual)	56.4	8.5	9.7
FY19 (broker median forecast)	54.6	8.8	10.0
FY20 (broker median forecast)	58.0	8.3	9.4
Multiple of EBITA (times)			
FY18 (actual)	50.0	9.6	10.9
FY19 (broker median forecast)	48.1	10.0	11.3
FY20 (broker median forecast)	50.3	9.5	10.8

The FY19 multiples are distorted by one-off events impacting on Yates.

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B&D GROUP

The value attributed to B&D Group implies multiples of 8.3-9.4 times forecast FY19 EBITDA and 9.9-11.3 times forecast FY19 EBITA.

The multiples are broadly in line with mid range transaction multiples typically seen in the building product sector. They are:

- above previous transactions for Gliderol and Alesco of ~6 times EBITDA. While the businesses may be similar (B&D Group was part of Alesco) the performance profile of B&D Group is now stronger; and
- well below the recent acquisitions by Reliance (John Guest) and Reece (Morsco) which were in the 12-14 times EBITDA range but these were large scale international plumbing businesses (value greater than \$1 billion) that represented strategic and transforming acquisitions for the acquirers.

Listed companies in Australia trade at a wide range of forecast EBITDA multiples (7.7-13.3) but the smaller ones, GWA and Beacon, which are closer to B&D Group in size (albeit still larger), are less than 10 times. However, they both operate in different product markets to B&D Group.

B&D Group has a number of attractive features:

- a market leadership position. B&D Group has a market share of approximately 20% and a widely recognised brand;
- strong financial performance subsequent to acquisition in 2012 with sales growth of ~3-4% per annum and consistent EBITDA margins of approximately 10%;
- a reshaped business that has exited low margin activities, is building out an accredited dealer network and has successfully introduced product innovations and new sales/service models. In short, the business is poised to improve organic growth and profit performance;
- a strong technology base (automation, security, etc.); and
- growth opportunities in customisation and servicing (installation, maintenance).

In addition:

- launch and development costs of new initiatives (e.g. “B&D to You” mobile strategy) are reflected in current earnings; and
- while the EBITDA multiples appear relatively high, capital expenditure is relatively low at around \$2-3 million per annum (on average a little over 10% of EBITDA). Accordingly, cash flow is strong and the multiples of EBITA are not particularly demanding.

At the same time, it is important to recognise that:

- the category is competitive, with two other groups also having significant market shares;
- B&D Group has a relatively large exposure to the new home build sector of the market (~40%); and
- some of the initiatives are still at an early stage (e.g. “B&D to You”) and ultimate success is not certain.

On balance, Grant Samuel considers the multiples to reasonably reflect these factors.

LINCOLN SENTRY

The value attributed to Lincoln Sentry implies multiples of 8.8-9.9 times forecast FY19 EBITDA and 9.3-10.6 times FY19 EBITA.

As a distribution business, Lincoln Sentry is highly dependent on maintaining its relationships with third party suppliers, particularly Blum. While the Blum relationship is longstanding and there is no current threat to the relationship⁵⁶, it is nevertheless a risk factor. Lincoln Sentry is also dependent on Blum maintaining its product leadership position and reputation.

⁵⁶ Lincoln Sentry has been advised that the recent acquisition of Wilson & Bradley by the Blum Private Foundation is not expected to result in any changes to Blum distribution arrangements in Australia.

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On the other hand:

- the cabinet hardware segment in particular is attractive with a focus on renovation and high customer service;
- Lincoln Sentry is a national distributor of hardware but has a relatively small existing market share;
- Blum is a very strong product line to be representing and distributing;
- there are growth opportunities in adjacent categories (e.g. laundry, bathrooms, outdoor);
- the business has had a solid track record of revenue growth (~6% per annum over FY14-FY18) and margin improvement (over 100 basis points over the same period); and
- the business is “capital light” with capital expenditure running at approximately 5-7% of EBITDA.

YATES

The value attributed to Yates implies multiples of 8.3-9.4 times FY18 EBITDA and 9.2-10.4 times FY18 EBITA. FY19 multiples are distorted by one-off factors but FY20 forecast multiples are below FY18 levels.

Yates is a very strong heritage brand that is virtually synonymous with garden care products across Australia and New Zealand. Garden care is a niche market but the Yates business has a number of attractions:

- a market position with a portfolio of strong brands (e.g. *Hortico*, *Dynamic Lifter*, *Munns*);
- a focus on non-commoditised product categories;
- proven ability to create and successfully develop new innovative products;
- a strong relationship with Bunnings which is the dominant retail channel for the garden care sector; and
- a track record in recent years of steady sales growth (~3.5% per annum over FY13-18) and a consistent uplift in EBITDA margins.

The multiple is below the apparent multiple for Scotts sale of its European and Australian business but it is difficult to draw reliable conclusions as to differences between that business and Yates as it was underperforming and there may have been expectations of significant improvement in financial performance.

DuluxGroup International

DuluxGroup International is a grouping of all of DuluxGroup’s businesses and initiatives outside of its core Australian and New Zealand markets. As such it includes:

- a long standing business in Papua New Guinea (*Dulux* and *Selleys*) which makes a consistent trading profit;
- distribution arrangements (primarily *Selleys*) into South East Asia and China (recently restructured) which make a very small contribution;
- a new joint venture to distribute into Indonesia which only commenced operations in 2019; and
- a high end niche paint business in the United Kingdom (*Craig & Rose*) which is currently in the early stages of development and is therefore loss making.

Overall, DuluxGroup International is currently loss making and is expected to make only a small profit over the next couple of years. Given this mix, it is not possible to establish a value benchmarked to other transactions.

There is clearly a more definitive value for the Papua New Guinea business. A starting point might be the multiples implied by the valuations of Dulux ANZ and Selleys & Parchem ANZ but it is then necessary to discount these for factors such as:

- the small size of the market;
- the economic outlook for Papua New Guinea relative to Australia; and
- political risks including exchange rate and funds repatriation.

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The value attributable to the Indonesian joint venture, the United Kingdom paint business and the wider (albeit long term) potential to expand the business into Western Europe and the United States is more problematic and highly uncertain.

Any kind of long term DCF analysis, even if risk weighted, would give a misleading impression of precision. Fundamentally, it is a question of judgement and is more in the nature of option value. Clearly the potential is real but there is substantial execution risk (including the need to find appropriate partners) and any payoff is a long way in the future. It is doubtful that acquirers would attribute much value today to businesses/plans that are at such a stage. Moreover, most of the transactions analysed in Sections 5.4 and 5.5 involved businesses that would have had a variety of expansion and development initiatives in train or under consideration.

Grant Samuel has attributed a value of \$80-120 million to DuluxGroup International. This value allows for the outside equity interests in the DGL Camel International joint venture and the PT Avian Selleys Joint Venture. At the low end, the value largely comprises value for the existing operations in Papua New Guinea and South East Asia with some additional value recognising the realistic prospects of the restructured China business generating a contribution in the next 2-3 years. The higher end recognises:

- the potential of the Indonesian joint venture where DuluxGroup International has teamed with a partner that contributes strong distribution capabilities; and
- the inroads made in sales into the United Kingdom market.

Looked at from another perspective, the top end of the range implies a value equal to approximately 1% of the combined value of Dulux ANZ and Selleys & Parchem ANZ to take account of their international expansion potential.

To the extent the value range at the upper end is optimistic, it would only reinforce the conclusion as to fairness.

5.7 DCF Analysis

5.7.1 Introduction

Grant Samuel has used DCF analysis as a cross check of the capitalisation of earnings based valuations. DuluxGroup has not prepared any detailed forecasts beyond FY19. The Four Year Plan is the result of a regular formal group wide exercise but is aspirational in nature.

Grant Samuel has developed a simplified high level financial model for DuluxGroup's business operations to examine the impact of key drivers of the value which in this case is sales growth and EBITDA margin. The DCF model forecast nominal after tax cash flows from 1 April 2019 to 30 September 2028, a period of 9.5 years, with a terminal value calculated at 30 September 2028 by capitalising net after tax cash flows using a perpetual growth rate assumption of 3%.

The model forecasts cash flows for DuluxGroup as a whole as all the businesses are driven by a similar set of factors and in the long run face similar growth constraints. DuluxGroup International is arguably different but is not large enough to have a material impact. The assumptions for sales growth and EBITDA margin effectively represents a blended rate across all of DuluxGroup's businesses. The model uses FY19 Forecast as a starting point.

The other key assumptions are:

- depreciation based on the Four Year Plan and equal to capital expenditure thereafter;
- corporate costs have been adjusted for the savings set out in Section 5.9;
- corporate tax rate of 30%;
- working capital remains static in terms of days, debtors, payables and inventories; and

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- capital expenditure in FY20 is \$32.5 million (the mid point of a \$30-35 million range) and is then indexed by sales growth.

A discount rate (WACC⁵⁷) in the range 8.5-9.5% for DuluxGroup has been adopted. A single discount rate range has been chosen as all of DuluxGroup's operating businesses are essentially in the same industry (products for residential and non-residential construction and home improvements and maintenance). The determination of the appropriate discount rate for the analysis is difficult:

- the cost of equity capital is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the Capital Asset Pricing Model ("CAPM") do no more than infer it from other data using one particular theory about the way in which security prices behave. The usefulness of any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve models which have questionable empirical validity (and competing formulation), simplifying assumptions, the use of historical data as proxy for estimates of forward looking parameters, data of dubious statistical reliability and unresolved issues (such as the impact of dividend imputation).

It is easy to over-engineer the process and to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation; and

- strict application of the CAPM at the present time gives results that are arguably unrealistically low (primarily because of very low government bond rates) and are often inconsistent with other measures. Use of the CAPM based on current parameters would result in a cost of equity of 7.7% calculated assuming a risk-free rate of 1.7% (the current 10 year Commonwealth Government bond rate), a market risk premium of 6% (a standard rate adopted by Grant Samuel) and a beta factor of 1.0 (based on the betas of Australian and international listed paint and building products companies).

The resultant WACC calculation is 6.6-7.1% assuming a pre-tax debt margin of 1.3%, a tax rate of 30% and a debt/equity mix of 10-20% debt and 80-90% equity.

However, in Grant Samuel's opinion, these calculations are likely to understate the true cost of capital for DuluxGroup. In this context, Grant Samuel does not believe that the current low level of global interest rates is sustainable over the long term and, in our view, the risk is clearly towards a rise in bond yields, notwithstanding the recent drop in Australia. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long-term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. This practice has become increasingly common among broker analysts. On this basis, an increase in the risk-free rate to (say) 4% would, for example, increase the calculated WACC range to 8.7-9.4%.

Having regard to these matters, Grant Samuel considers a discount rate above the calculated WACC to be an appropriate measure of the cost of capital. Accordingly, for this purpose Grant Samuel has adopted a discount rate in the range 8.5-9.5%. This range is broadly consistent with rates adopted by equity analysts that follow DuluxGroup.

5.7.2 Limitations

The DCF model is based on a number of assumptions and is subject to significant uncertainties and contingencies, many of which are outside the control of DuluxGroup. Key assumptions regarding future

⁵⁷ WACC is weighted average cost of capital.

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operational performance are highly uncertain and there is scope for significant differences of opinion in relation to these assumptions.

As a result of these uncertainties, there is a wide range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes). Accordingly, Grant Samuel has considered a number of scenarios to reflect the impact on value of key assumptions relating to growth and EBITDA margins.

It should be recognised that the scenarios are highly simplified and focus on two value drivers, rather than detailed “bottom up” parameters. Nevertheless, Grant Samuel considers that the analysis does provide some insight into value. In view of the uncertainties surrounding the future growth of DuluxGroup’s businesses, the scenarios analysed are, to some extent, arbitrary. However, they reflect the range of judgements that potential buyers of the business could make. The scenarios do not, and do not purport to, represent the range of potential outcomes for DuluxGroup’s business operations. They are simply theoretical indicators of the sensitivity of the net present values derived from the DCF.

The scenarios do not represent Grant Samuel’s forecasts of the future financial performance of DuluxGroup. Grant Samuel gives no undertaking and makes no warranty regarding the future financial performance of DuluxGroup and its divisions. Such future performance is subject to fundamental uncertainty. Rather, the scenarios have been developed purely to allow Grant Samuel to assess the impact on calculated net present values of alternative assumptions regarding the future growth and financial performance of DuluxGroup and its businesses.

Moreover, DCF analysis is subject to significant limitations and net present value outcomes need to be treated with considerable caution. The calculated net present values are extremely sensitive to small changes in assumptions regarding margins, revenue growth and capital expenditure for many years into the future. This sensitivity to assumptions regarding future operational performance is accentuated by the fact that the terminal value (the value contributed by cash flows generated after the end of the explicit cash flow forecast period) normally contributes a high proportion of the overall value.

5.7.3 NPV Outcomes

The following scenarios were developed:

DULUXGROUP – DCF SCENARIOS

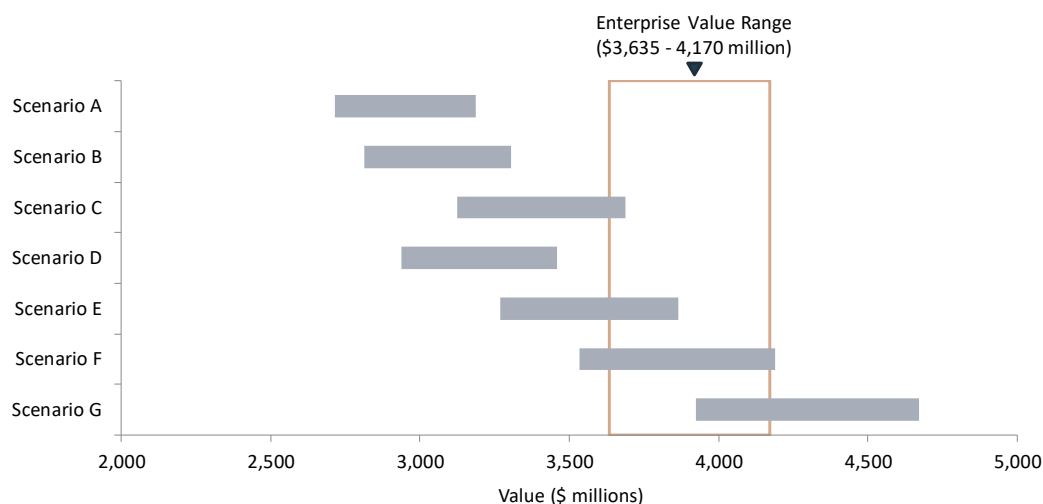
SCENARIO	KEY ASSUMPTIONS	
	REVENUE GROWTH (PER ANNUM)	EBITDA MARGIN
A	3% from FY20	Flat at FY19 levels
B	3% in FY20 and FY21, 4% thereafter	Flat at FY19 levels
C	3% in FY20 and FY21, 4% thereafter	Steps up 20 basis points each year
D	4.5% from FY20	Flat at FY19 levels
E	4.5% from FY20	Steps up 20 basis points each year
F	5% from FY20	Steps up 30 basis points each year
G	6% from FY20	Steps up 40 basis points each year

The net present value “NPV” outcomes are depicted diagrammatically below:

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DULUXGROUP – NPV OUTCOMES (AT 8.5-9.5% DISCOUNT RATES)



DCF analyses are subject to significant limitations and should always be treated with considerable caution. The following factors are relevant to consideration of the NPV outcomes:

- Scenarios A to C are arguably unrealistically conservative. Notwithstanding a reasonable expectation of a subdued trading environment over the short term, they reflect performance levels below that achieved by DuluxGroup over the past few years;
- Scenario G is clearly an optimistic upside case that reflects parameters well above historical performance. EBITDA margins increase from 14.8% to 18.4% over the forecast period (9.5 years);
- Scenarios D to F are arguably more realistic reflecting sales growth of between 4.5% and 5% and a steady but still meaningful increase in EBITDA margins ($\pm 2-3\%$ over the 10 year period); and
- Scenario F corresponds with the Grant Samuel valuation range but is probably still optimistic. Nevertheless, it provides a useful indicator of the performance level that would need to be achieved to generate a value that exceeded the offer price (at an 8.5% discount rate).

In Grant Samuel's view, Scenario E represents the most realistic of the scenarios for the businesses. The NPV outcome for this scenario is below the estimated value range of \$3,635-4,170 based on earnings multiples. This outcome is because for businesses such as Dulux a purely standalone financial analysis does not necessarily capture the broader strategic value (which may be reflected in transaction multiples of businesses in a similar situation) of a "once in a lifetime" opportunity to acquire a business with:

- entrenched market leadership positions in a (relatively) high performing advanced economy;
- iconic brands; and
- offshore expansion potential.

5.8 Synergies

Valuation practice is to include synergies that are available to all acquirers but to exclude synergies that are unique to a particular acquirer. Grant Samuel has allowed for the elimination of public listed company costs incurred by DuluxGroup as any acquirer would be able to save these (see Section 5.9). However, there are no identifiable operational savings:

- as an offshore acquirer, Nippon Paint has no existing operations in Australia. It will need to maintain the vast majority of centralised management team at DuluxGroup to continue to manage the existing business and to continue to develop it. The same would apply to any other offshore acquirer; and

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- existing paint and coatings businesses in Australia could, in theory, acquire DuluxGroup, merge it with their existing operations and potentially achieve substantial operational savings as well as revenue benefits. However, the only two major participants, PPG (*Taubmans*) and Sherwin-Williams (*Wattyl*), would, given previous ACCC rulings, be highly unlikely to be permitted to acquire DuluxGroup (without disposing of their existing businesses). Realistically, there is no “in market” acquirer that could realise synergy benefits.

There are, of course, opportunities for Nippon Paint to:

- accelerate the development of DuluxGroup’s offshore businesses (e.g. by utilising Nippon Paint’s distribution network and capabilities across China and the rest of Asia); and
- utilise DuluxGroup’s experience, learnings and know-how to jointly develop new market opportunities in Europe and the United States.

However, these are in the nature of general opportunities that underpin most large corporate acquisitions (excluding private equity transactions). Moreover:

- DuluxGroup is not aware of any specific plans for such developments or any financial modelling that sets out revenues or costs associated with such ventures (i.e. they are totally unquantified);
- the returns from any such initiatives are likely to be a long way down the track; and
- some of the benefits may be unique to Nippon Paint.

In Grant Samuel’s opinion, it is not appropriate, nor is it practical, to include any value for such theoretical possibilities in a valuation of DuluxGroup.

5.9 Corporate and Unallocated

In recent years, DuluxGroup has incurred unallocated corporate costs of around \$28-30 million per annum (at EBIT level). These costs represent costs associated with running DuluxGroup’s head office and include:

- the DuluxGroup’s head office (such as costs associated with executive office, group finance, tax, treasury, corporate affairs, business strategy and business development etc.);
- being a listed company (such as directors fees, annual reports and shareholder communications, share registry and listing fees and dividend processing); and
- other costs not allocated to the business operations during the year (such as unallocated shared services costs (if any) and unrealised foreign exchange adjustments).

DuluxGroup has provided guidance that unallocated corporate costs in FY19 are expected to be ~\$28 million at EBIT level (before costs associated with the Scheme). This equates to ~\$25.5 million at EBITDA (or cash cost) level.

Grant Samuel has assumed residual unallocated corporate costs of \$16.5 million per annum for the purposes of the valuation. This level of residual costs is based on DuluxGroup’s guidance (~\$25.5 million at EBITDA level) adjusted for the following:

- costs included in that amount that have effectively been valued elsewhere in Grant Samuel’s valuation of DuluxGroup:
 - \$2.0 million in contributions to the defined benefit plan to meet DuluxGroup’s obligation to fund the defined benefit plan liability (see Section 5.10); and
 - \$2.0 million of costs specifically relating to the DuluxGroup International activities but not recharged to the offshore businesses (see Section 5.6.3); and
- \$5 million of costs associated with being a publicly listed company on the basis that any acquirer of 100% of DuluxGroup would be able to save these costs.

It should be noted that an acquirer of DuluxGroup which has an existing presence in Australia (i.e. an

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“in-market” acquirer) would be able to eliminate some of the costs associated with the DuluxGroup executive office. However, based on previous competition regulatory decisions in the sector, it is unlikely that the other major market participants (PPG, Sherwin-Williams) would be permitted to acquire DuluxGroup. Accordingly, no further adjustment to unallocated corporate costs has been allowed.

Grant Samuel has attributed a capitalised value \$(200)-(220) million to the residual unallocated corporate costs (\$16.5 million at EBITDA level and \$19 million at EBIT level). This value represents multiples of 12.1-13.3 times EBITDA and 10.5-11.6 times EBIT level.

The multiple range is lower than the multiple range implied by the aggregate value attributed to the business operations for FY18 and FY19. This average is impacted by the high multiples attributed to Dulux ANZ relative to other businesses. It would not be appropriate to use this multiple as it is not reflective of an allocation on an activity basis. Based on discussions with DuluxGroup, Grant Samuel has used a 50%/20%/30% (Dulux ANZ/Selleys & Parchem ANZ/Building Products and Other Businesses) split to calculate multiples appropriate to apply to Corporate and Unallocated.

5.10 Other Assets and Liabilities

DuluxGroup’s other assets and liabilities have been valued in the range \$55.8-65.8 million and include:

- the 50% interest in the equity accounted investment, Pinegro Products Pty Limited;
- the balance of the interest bearing loan receivable at 31 March 2019 (\$4.3 million);
- the provision for restructuring as at 31 March 2019 (\$(3.7) million);
- DuluxGroup’s obligation to fund the defined benefit plan. The net liability at 31 March 2019 (\$43 million) has been tax effected assuming a 30% corporate tax rate (\$30.1 million);
- the properties not currently used by DuluxGroup and realisable in the short to medium term. Value has been allowed having regard to market value estimates received from property valuers and allowing for costs of realisation; and
- LTEIP loans receivable as at 31 March 2019 (\$47.3 million) (refer Section 4.8) after allowing for loan forgiveness to be applied under the Scheme (\$35.3 million).

No separate value has been attributed to:

- the outside equity interests at 31 March 2019 (49% in DGL Camel International joint venture and 49.99% interest in PT Avian Selleys Joint Venture) which have been allowed for in the value attributed to DuluxGroup International (see Section 5.6);
- accumulated franking credits at 31 March 2019 (\$50 million) (see Section 5.12);
- the non-Australian carried forward income tax losses as at 31 March 2019 (\$16 million); and
- the interim dividend of \$0.15 per share and the special dividend of \$0.28 per share to be paid on 28 June 2019 as the valuation of DuluxGroup has been undertaken on a “cum dividend” basis (see Section 5.3).

5.11 Net Borrowings

DuluxGroup’s net borrowings for valuation purposes are \$372.0 million. This amount reflects DuluxGroup’s reported net borrowings as at 31 March 2019 adjusted as follows:

DULUXGROUP – ADJUSTED NET BORROWINGS

	(\$ MILLIONS)
Net borrowings as at 31 March 2019 (Section 4.4)	(405.4)
Capitalised borrowings costs	(1.6)
Normalisation adjustment	35.0
Adjusted net borrowings	(372.0)

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The adjustments made are:

- capitalised borrowing costs have been removed as they are non cash assets that are amortised over the life of the relevant borrowings; and
- an adjustment to reflect that:
 - a “normal” level of net borrowings during the financial year. DuluxGroup’s net borrowings fluctuate over the course of the year largely reflecting the seasonality in DuluxGroup’s working capital with net borrowings generally close to a peak at 31 March and cash flows stronger in the second half of the financial year; and
 - at 31 March 2019 net borrowings were also elevated as a result of operational decisions by key clients over the six months since 30 September 2018.

Total working capital as a percentage of sales is expected to decline from the elevated level ~18% at 31 March 2019 back to FY18 year end levels of ~16.5% at 30 September 2019.

In assessing the adjustment, Grant Samuel has reviewed working capital seasonality data for the period since FY16 until 30 September 2019, net borrowings at 30 April 2019 (which were ~\$25 million lower than at 31 March 2019) and projected net borrowings at 30 September 2019. Based on this review, an adjustment to reduce net borrowings of \$35.0 million has been assumed. The resulting amount of net borrowings (\$372 million) exceeds the forecast net borrowings at 30 September 2019.

5.12 Franking Credits

Under Australia’s dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for tax paid by a company. The franking credit attaches to any dividends paid by a company and the franking credit offsets personal tax for Australian investors. To the extent that personal tax has been fully offset the individual will receive a refund of the balance of the franking credit. Franking credits therefore have value to the recipient.

However, in Grant Samuel’s opinion, while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the Australian sharemarket evidence used by Grant Samuel in valuing DuluxGroup’s businesses will already reflect the value impact of the existence of franking credits). Further, franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. To some shareholders (e.g. overseas shareholders) they may have very little or no value. Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit (in fact, there may be some categories of shareholders who are worse off in this situation such as shareholders with a capital loss on disposal of the shares).

Accordingly, while franking credits may have value to some shareholders they do not affect the underlying value of the company itself. No value has therefore been attributed to DuluxGroup’s accumulated franking credit position at 31 March 2019 (\$50 million) in the context of the value of DuluxGroup as a whole.

Grant Samuel notes that the total cash value to be received by DuluxGroup shareholders (\$9.80 per share) includes a fully franked interim dividend (\$0.15 per share) and a fully franked special dividend (\$0.28 per share), both to be paid on 28 June 2019. In this case, some shareholders may realise additional value from the franking credits (i.e. they will be better off in after tax terms than they would otherwise be) (see Section 6.3.4).



6 Evaluation of the Scheme

6.1 Summary

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of DuluxGroup shareholders, in the absence of a superior proposal.

6.2 Fairness

Grant Samuel has estimated the full underlying value in DuluxGroup, including a premium for control, to be in the range \$3.3-3.9 billion which corresponds to \$8.53-9.93 per share⁵⁸. The value is the aggregate value of the estimated value of DuluxGroup's business operations less external liabilities and any non trading assets or liabilities. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect DuluxGroup to trade on the ASX in the absence of a takeover offer (or speculation as to an offer). The valuation is set out in detail in Section 5 of this report.

The total cash value to be received by DuluxGroup shareholders of \$9.80 per share⁵⁹ falls within the value range of \$8.53-9.93 per share. Accordingly, the Scheme is fair. The bottom of the value range represents the relevant threshold for fairness. In this case, the total cash value is close to the top of the value range and is therefore demonstrably fair.

6.3 Reasonableness

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme and which DuluxGroup shareholders should consider in determining whether or not to vote for or against the Scheme. These factors are set out in the following sections.

6.3.1 Premium for Control

The total cash value of \$9.80 per share represents a 27.8% premium to the price at which DuluxGroup shares last traded prior to the announcement of the Scheme. The premium is higher (circa 33-38%) when compared to prices over the 12 months prior to announcement:

DULUXGROUP – PREMIUM OVER PRE-ANNOUNCEMENT PRICES

PERIOD	DULUXGROUP PRICE/VWAP ⁵²	PREMIUM
16 April 2019 – Pre-announcement price	\$7.67	27.8%
1 month prior to 16 April 2019 – VWAP ⁵²	\$7.39	32.7%
3 months prior to 16 April 2019 – VWAP ⁵²	\$7.24	35.4%
6 months prior to 16 April 2019 – VWAP ⁵²	\$7.10	38.0%
12 months prior to 16 April 2019 – VWAP ⁵²	\$7.37	33.0%

The implied premiums are above the level usually associated with takeovers of 20-35% although it should be recognised that premiums for control:

- are an outcome not a determinant of value; and
- vary widely depending on the circumstances of the target and other factors (such as the potential for competing offers). In fact, most transactions fall outside (either above or below) the 20-35% range.

⁵⁸ On a cum dividend basis (i.e. prior to payment of the interim and special dividends on 28 June 2019).

⁵⁹ Comprising the consideration under the Scheme of \$9.37 per share together with the interim dividend of \$0.15 per share and the special dividend of \$0.28 per share.

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There are reasons why DuluxGroup shareholders could reasonably expect high premiums in a change of control transaction given its leading market positions (market share and brand recognition) and its track record of consistent revenue, profit and dividends growth. A substantial premium is necessary to convince shareholders to forgo DuluxGroup's future returns and to find alternative reinvestment opportunities.

6.3.2 Share Trading in the absence of the Scheme

The Scheme enables shareholders to realise their investment in DuluxGroup at a cash price which incorporates a premium for control. In the absence of the Scheme or a similar transaction, shareholders could only realise their investment by selling on market at a price which does not include any premium for control and would incur transaction costs (e.g. brokerage).

In this context, the short term earnings outlook for DuluxGroup is for continued growth but at subdued levels. The HY19 results released on 15 May 2019 showed flat sales, a 4% decrease in adjusted EPS⁶⁰ and a 7% increase in the interim dividend relative to the previous corresponding period. Analyst reaction to the result was muted. However, it should be noted that:

- the previous corresponding period was particularly strong and included a number of positive influences (particularly paint volumes); and
- DuluxGroup indicated that there will be a bias to the second half of FY19.

Beyond FY19, trading conditions in the short to medium term are likely to be affected to some extent by the softening housing market and by continuing weak wages growth.

In these circumstances, and in the absence of the Scheme or a similar transaction, it is likely that DuluxGroup shares, under current market conditions, would trade at prices well below \$9.80 and quite possibly back towards the prices prevailing prior to announcement of the Scheme of circa \$7.25-7.50 (before allowing for the special dividend of \$0.28 per share). The special dividend (along with the ordinary dividend of \$0.15 per share) will be paid on 28 June 2019 irrespective of the implementation of the Scheme. Accordingly, any trading subsequent to the ex date for this dividend will reflect the payment of the dividend (i.e. share prices can be expected to be \$0.28 less than they would otherwise have been). However, shareholders will have received the total cash value.

6.3.3 Alternative Proposals

It is conceivable that a third party could make a higher offer for DuluxGroup:

- DuluxGroup has a number of strategic attractions for international paint companies including its leading market positions across its business operations and its well established brands with strong consumer awareness; and
- there are no structural or absolute impediments to an alternative acquirer:
 - no shareholder owns more than 10% of DuluxGroup and Nippon Paint has no shareholding in DuluxGroup; and
 - while DuluxGroup has agreed to usual exclusivity provisions, there is a fiduciary carve out and DuluxGroup can respond to unsolicited proposals from other parties (subject to a notification obligation).

While Nippon Paint's right to match any competing proposal and the \$38.15 million break fee (approximately 9.8 cents per share) may deter some parties, they would not necessarily stop a determined bidder.

However, it should be noted that:

⁶⁰ FY18 EPS adjusted for one-off events.

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- two of the top three global paint companies, PPG (*Taubmans*) and Sherwin-Williams (*Wattyl*) already operate in Australia. Given its previous rulings, it is almost certain that the ACCC would prevent either of them from acquiring DuluxGroup unless they divested their existing operations. In this context, the ACCC previously blocked two attempts to merge Wattyl and Taubmans in Australia (in 1996 and 2006); and
- the price offered by Nippon Paint, which reflects very high implied multiples of earnings and premiums over pre announcement share price trading, will act as a practical disincentive to alternative acquirers.

The meeting at which DuluxGroup shareholders will vote on the Scheme is scheduled for 31 July 2019. This should be ample time for an alternative offeror to come forward. If this does not occur, it would be imprudent for shareholders to vote against the Scheme in anticipation of a higher offer from Nippon Paint or a third party.

6.3.4 Franking Credits Benefits

DuluxGroup shareholders will receive fully franked dividends of \$0.43 per share comprising an interim dividend of \$0.15 per share and a special dividend of \$0.28 per share.

In Grant Samuel's opinion, it is not appropriate to either:

- factor into the value of DuluxGroup the value of accumulated franking credits held by DuluxGroup; or
- include in the value of the transaction the value of the franking credits attached to the dividends that form part of the consideration.

The reasons are manifold but not the least of these is that the franking credits do not have value to a company per se but only have value to the shareholders of a company (when attached to dividends) and the value of those credits to each shareholder varies depending on their individual circumstances (from zero to \$1.00 per \$1.00 of franking credit).

In any event, the dividends will have been paid on 28 June 2019 and therefore are not conditional on the Scheme and will not form part of the consideration under the Scheme when (if approved) it is implemented in mid August 2019.

Nevertheless, it needs to be recognised that some shareholders may realise additional value from the franking credits attached to the interim and special dividends (i.e. they would be better off in after tax terms than they would have been had the same amount been paid as part of the acquisition price and been received as a capital gain).

6.3.5 Other Matters

There are few issues other than price when shareholders are faced with a cash offer. Other matters that DuluxGroup shareholders should take into consideration are:

- if the Scheme is implemented, shareholders will be treated as having disposed of their DuluxGroup shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the DuluxGroup shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. For this purpose, the consideration will be \$9.37 per share (i.e. net of the interim and special dividends). Details of the Australian taxation consequences for DuluxGroup shareholders who are Australian resident individuals and hold their shares on capital account are set out in Section 9 of the Scheme Booklet. Shareholders should consult their own professional adviser in relation to the taxation consequences; and
- if the Scheme is not approved by shareholders or otherwise not implemented, it is estimated that DuluxGroup will meet costs (including legal and other adviser's fees as well as printing and mailing costs) of ~\$6 million (~1.5 cents per share). Furthermore, in certain circumstances, DuluxGroup will be liable to pay Nippon Paint a \$38.15 million break fee. On the other hand, in certain circumstances, Nippon Paint will be liable to pay DuluxGroup a \$38.15 million reverse break fee.

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6.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Scheme is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of DuluxGroup.

In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Scheme, shareholders should consult their own professional adviser.



7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 560 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson BCom MCom (Hons) CA SF Fin and Caleena Stilwell BBus FCA F Fin GAICD. Each has a significant number of years of experience in relevant corporate advisory matters. Tom Rowe BCom MBA and Serafina Fong BCom MFin assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Scheme is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any DuluxGroup shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by DuluxGroup and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with DuluxGroup or Nippon Paint or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that it was engaged by Orica Limited and prepared an independent expert's report dated 24 May 2010 in relation to the proposed demerger of DuluxGroup.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$515,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

DuluxGroup has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. DuluxGroup has also agreed to

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indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by DuluxGroup are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to DuluxGroup and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

In accordance with the terms of the Scheme Implementation Deed, DuluxGroup provided advance drafts of this report to Nippon Paint. No changes were made to the drafting of the report as a result of the circulation of the draft report to Nippon Paint.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of DuluxGroup. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 14 June 2019 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

14 June 2019

Grant Samuel & Associates

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APPENDIX 1

ADJUSTED HISTORICAL FINANCIAL PERFORMANCE BY BUSINESS

Set out below is the operating performance of each of DuluxGroup's key businesses based on the adjusted historical consolidated financial performance set out in Section 4.3 of the Grant Samuel report:

DULUXGROUP – ADJUSTED FINANCIAL PERFORMANCE BY BUSINESS (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Revenue						
Dulux ANZ	821.6	870.8	890.6	937.3	982.2	493.8
Selleys & Parchem ANZ	265.9	266.2	253.9	260.7	269.2	128.3
B&D Group	169.8	169.5	178.0	182.6	188.7	94.0
Lincoln Sentry	159.6	172.8	187.7	195.2	203.5	95.3
Other Businesses	207.7	221.6	217.0	222.2	214.3	88.3
Eliminations (intragroup sales)	(13.1)	(13.1)	(10.9)	(13.5)	(14.2)	(6.8)
Total revenue	1,611.5	1,687.8	1,716.3	1,784.5	1,843.7	892.9
Adjusted EBITDA						
Dulux ANZ	156.5	165.1	172.8	179.7	191.7	101.6
Selleys & Parchem ANZ	33.8	32.6	32.6	36.5	36.7	18.1
B&D Group	24.5	23.4	22.6	24.9	26.2	9.5
Lincoln Sentry	11.4	11.4	14.8	16.6	16.9	6.6
Other Businesses	14.5	18.1	16.6	13.1	10.9	3.6
Corporate and Unallocated	(22.7)	(24.3)	(26.7)	(26.5)	(27.2)	(12.9)
Total adjusted EBITDA	218.0	226.3	232.7	244.3	255.2	126.5
Depreciation and other amortisation						
Dulux ANZ	(17.4)	(18.0)	(16.1)	(14.6)	(18.8)	(10.3)
Selleys & Parchem ANZ	(3.6)	(3.1)	(2.7)	(2.5)	(2.3)	(1.1)
B&D Group	(4.1)	(4.1)	(4.2)	(4.3)	(4.2)	(1.9)
Lincoln Sentry	(1.2)	(1.2)	(0.9)	(0.8)	(0.9)	(0.5)
Other Businesses	(3.1)	(3.1)	(2.8)	(2.9)	(2.7)	(1.4)
Corporate and Unallocated	(1.4)	(1.3)	(1.3)	(1.9)	(2.5)	(1.2)
Total depreciation and other amortisation	(30.8)	(30.8)	(28.0)	(27.0)	(31.4)	(16.4)
Adjusted EBITA						
Dulux ANZ	139.1	147.1	156.7	165.1	172.9	91.3
Selleys & Parchem ANZ	30.2	29.5	29.9	34.0	34.4	17.0
B&D Group	20.4	19.3	18.4	20.6	22.0	7.6
Lincoln Sentry	10.2	10.2	13.9	15.8	16.0	6.1
Other Businesses	11.4	15.0	13.8	10.2	8.2	2.2
Corporate and Unallocated	(24.1)	(25.6)	(28.0)	(28.4)	(29.7)	(14.1)
Total adjusted EBITA	187.2	195.5	204.7	217.3	223.8	110.1
Amortisation of acquired intangibles						
Dulux ANZ	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)	-
Selleys & Parchem ANZ	(0.4)	(0.4)	(0.4)	(0.3)	(0.4)	(0.2)
B&D Group	(2.2)	(2.2)	(2.3)	(2.4)	(2.3)	(1.2)
Lincoln Sentry	(1.3)	(1.2)	(1.3)	(1.3)	(0.3)	-
Other Businesses	(0.2)	-	-	(0.2)	-	-
Corporate and Unallocated	(0.1)	-	-	-	-	-
Total amortisation of acquired intangibles	(4.4)	(4.1)	(4.2)	(4.3)	(3.1)	(1.4)



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	YEAR ENDED 30 SEPTEMBER					SIX MONTHS ENDED 31 MARCH 2019 ACTUAL
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	
Adjusted EBIT						
Dulux ANZ	138.9	146.8	156.5	165.0	172.8	91.3
Selleys & Parchem ANZ	29.8	29.1	29.5	33.7	34.0	16.8
B&D Group	18.2	17.1	16.1	18.2	19.7	6.4
Lincoln Sentry	8.9	9.0	12.6	14.5	15.7	6.1
Other Businesses	11.2	15.0	13.8	10.0	8.2	2.2
Corporate and Unallocated	(24.2)	(25.6)	(28.0)	(28.4)	(29.7)	(14.1)
Total adjusted EBIT	182.8	191.4	200.5	213.0	220.7	108.7

Source: DuluxGroup and Grant Samuel analysis

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APPENDIX 2

BROKER CONSENSUS FORECASTS

DuluxGroup has not publicly released detailed earnings forecasts for FY19¹ or beyond. However, on 14 November 2018, it provided guidance that, subject to economic conditions and excluding non-recurring items, NPAT² in FY19 is expected to be higher than \$150.7 million (see Section 4.3 of the Grant Samuel report). This guidance was reiterated at DuluxGroup's annual general meeting on 20 December 2018 and again on release of its HY19 results on 15 May 2019.

Accordingly, the prospective multiples implied by the valuation of DuluxGroup in the Grant Samuel report are based on median broker forecasts. Set out below is a summary of FY19 and FY20 business operations forecasts prepared by brokers that follow DuluxGroup in the Australian sharemarket:

DULUXGROUP – BROKER FORECASTS FOR YEAR ENDING 30 SEPTEMBER (\$ MILLIONS)

BROKER	DATE	REVENUE		EBITDA ³		EBITA ⁴		EBIT ⁵	
		2019	2020	2019	2020	2019	2020	2019	2020
Broker 1	15 May 2019	1,813.1	1,821.6	252.6	245.6	218.1	209.5	215.4	207.5
Broker 2	15 May 2019	1,856.4	1,926.5	270.8	277.6	236.8	242.6	234.1	240.6
Broker 3	16 May 2019	1,850.0	1,866.0	267.0	269.0	232.7	231.0	230.0	229.0
Broker 4	15 May 2019	1,840.6	1,919.6	268.7	284.3	234.2	247.0	231.5	245.0
Broker 5	15 May 2019	1,875.7	1,921.7	270.0	275.0	235.4	239.4	232.7	237.4
Broker 6	15 May 2019	1,893.6	1,941.3	273.3	283.9	237.6	246.5	234.9	244.5
Broker 7	15 May 2019	1,848.4	1,908.2	266.0	275.3	232.2	241.3	229.5	239.3
Broker 8	15 May 2019	1,867.0	1,973.0	na ⁶	na	237.7	236.0	235.0	234.0
Broker 9	15 May 2019	1,864.7	1,898.9	263.6	268.4	230.3	233.5	227.6	231.5
Broker 10	15 May 2019	1,828.0	1,855.0	256.0	259.0	221.7	223.0	219.0	221.0
Broker 11	15 May 2019	1,868.0	1,915.0	258.0	266.0	223.7	230.0	221.0	228.0
Minimum		1,813.1	1,821.6	252.6	245.6	218.1	209.5	215.4	207.5
Maximum		1,893.6	1,973.0	273.3	284.3	237.7	247.0	235.0	245.0
Median		1,856.4	1,915.0	266.5	272.0	232.7	236.0	230.0	234.0

Source: Brokers' reports and Grant Samuel analysis

When reviewing this data the following should be noted:

- the forecasts presented above represent the latest available broker forecasts for DuluxGroup since the release of its HY19 results on 15 May 2019;
- as far as Grant Samuel is aware, DuluxGroup is currently followed by 12 brokers, of which 11 are presented above. The broker not shown has not published research on DuluxGroup which includes detailed earnings forecasts since announcement of its FY18 results;
- all of the 11 brokers shown above have published research on DuluxGroup since announcement of the Scheme. Furthermore, Broker 2 is now restricted and cannot advise its opinion on DuluxGroup;
- the broker forecasts are not prepared on a consistent basis, particularly in relation to the treatment of share of NPAT from associates. Some brokers show this separately and some do not. As Grant Samuel has attributed value to DuluxGroup's interests in associates separately, NPAT from associates should be excluded

¹ FYXX is financial year ended 30 September 20XX (e.g. FY19 is the year ending 30 September 2019).

² NPAT is net profit after tax.

³ EBITDA is earnings before net interest, tax, depreciation, amortisation, share of profits of associates and non-recurring items.

⁴ EBITA is earnings before net interest, tax, depreciation, amortisation of acquired intangibles, share of profits of associates and non-recurring items.

⁵ EBIT is earnings before net interest, tax, share of profits of associates and non-recurring items.

⁶ na = not available



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from its earnings parameters. In the table above, Grant Samuel has assumed NPAT of \$2.0 million from associates in each of FY19 and FY20 as part of Yates Garden Care which is part of “Other Businesses”;

- none of the brokers has separately identified amortisation of acquired intangibles. In the table above, Grant Samuel has assumed that \$2.7 million and \$2.0 million of each broker's depreciation and amortisation charge for FY19 and FY20 respectively relates to amortisation of acquired intangible assets; and
- as far as is possible to identify from a review of the broker reports, Grant Samuel believes that the earnings forecasts do not incorporate any other one-off adjustments or non-recurring items.

The median brokers' forecasts for FY19 and FY20 for DuluxGroup are sufficiently close to DuluxGroup's FY19 Forecast and longer term projections to be useful for analytical purposes.

Set out below is a summary of FY19 and FY20 forecasts for DuluxGroup's businesses prepared by the brokers that follow DuluxGroup in the Australian sharemarket. When reviewing this data the following should be noted:

- only six of the 11 brokers that have published research on DuluxGroup since the release of its HY19 results that provides forecasts by business for FY19 and FY20; and
- the brokers that provide a breakdown of earnings forecasts by business generally only provide revenue and EBITDA or revenue and EBIT. In order to present forecasts on a consistent basis, Grant Samuel has assumed depreciation and amortisation by business for FY19 and FY20 having regard to DuluxGroup's FY19 Forecast and longer term projections.

The median broker forecasts for the businesses are sufficiently close DuluxGroup's FY19 Forecast and longer term projections to be useful for analytical purposes.

DULUX ANZ – BROKER FORECASTS FOR YEAR END 30 SEPTEMBER (\$ MILLIONS)

BROKER	DATE	REVENUE		EBITDA		EBITA		EBIT	
		2019	2020	2019	2020	2019	2020	2019	2020
Broker 1	15 May 2019	980.4	983.9	194.6	192.3	173.0	169.3	172.9	169.3
Broker 2	15 May 2019	1,007.1	1,047.8	201.1	204.8	179.5	181.8	179.4	181.8
Broker 3	16 May 2019	994.0	999.0	198.7	199.0	177.1	176.0	177.0	176.0
Broker 4	15 May 2019	1,005.8	1,057.8	198.4	209.4	176.8	186.4	176.7	186.4
Broker 5	15 May 2019	1,012.0	1,040.0	200.7	205.0	179.1	182.0	179.0	182.0
Broker 6	15 May 2019	1,016.7	1,045.8	200.6	207.0	179.0	184.0	178.9	184.0
Broker 7	15 May 2019	1,001.8	1,031.9	199.0	205.6	177.4	182.6	177.3	182.6
Minimum		980.4	983.9	194.6	192.3	173.0	169.3	172.9	169.3
Maximum		1,016.7	1,057.8	201.1	209.4	179.5	186.4	179.4	186.4
Median		1,005.8	1,040.0	199.0	205.0	177.4	182.0	177.3	182.0

SELLEYS & PARCHEM – BROKER FORECASTS FOR YEAR END 30 SEPTEMBER (\$ MILLIONS)

BROKER	DATE	REVENUE		EBITDA		EBITA		EBIT	
		2019	2020	2019	2020	2019	2020	2019	2020
Broker 1	15 May 2019	261.0	264.2	36.0	35.4	33.7	32.6	33.3	32.4
Broker 2	15 May 2019	279.4	299.3	43.6	46.2	41.3	43.4	40.9	43.2
Broker 3	16 May 2019	275.0	284.0	39.7	41.0	37.4	38.2	37.0	38.0
Broker 4	15 May 2019	270.2	277.8	42.4	44.6	40.1	41.8	39.7	41.6
Broker 5	15 May 2019	277.0	286.0	40.7	42.0	38.4	39.2	38.0	39.0
Broker 6	15 May 2019	279.8	289.1	38.8	40.7	36.5	37.9	36.1	37.7
Broker 7	15 May 2019	271.9	280.0	40.8	42.8	38.5	40.0	38.1	39.8
Minimum		261.0	264.2	36.0	35.4	33.7	32.6	33.3	32.4
Maximum		279.8	299.3	43.6	46.2	41.3	43.4	40.9	43.2
Median		275.0	284.0	40.7	42.0	38.4	39.2	38.0	39.0

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BUILDING PRODUCTS, YATES AND DULUXGROUP INTERNATIONAL⁷ – BROKER FORECASTS FOR YEAR END 30 SEPTEMBER (\$ MILLIONS)

BROKER	DATE	REVENUE		EBITDA		EBITA		EBIT	
		2019	2020	2019	2020	2019	2020	2019	2020
Broker 1	15 May 2019	567.8	569.4	50.6	49.4	42.5	39.4	40.2	37.5
Broker 2	15 May 2019	583.5	593.2	51.9	55.6	43.8	45.6	41.5	43.7
Broker 3	16 May 2019	596.0	598.0	54.4	54.9	46.3	44.9	44.0	43.0
Broker 4	15 May 2019	578.7	598.2	53.5	57.3	45.4	47.3	43.1	45.4
Broker 5	15 May 2019	601.0	610.0	54.4	56.9	46.3	46.9	44.0	45.0
Broker 6	15 May 2019	611.3	620.8	61.3	66.4	53.2	56.4	50.9	54.5
Broker 7	15 May 2019	588.7	610.3	52.5	57.0	44.4	47.0	42.1	45.1
Minimum		567.8	569.4	50.6	49.4	42.5	39.4	40.2	37.5
Maximum		611.3	620.8	61.3	66.4	53.2	56.4	50.9	54.5
Median		588.7	598.2	53.5	56.9	45.4	46.9	43.1	45.0

CORPORATE AND UNALLOCATED – BROKER FORECASTS FOR YEAR END 30 SEPTEMBER (\$ MILLIONS)

BROKER	DATE	REVENUE		EBITDA		EBITA		EBIT	
		2019	2020	2019	2020	2019	2020	2019	2020
Broker 1	15 May 2019			(28.6)	(29.0)	(31.0)	(31.7)	(31.0)	(31.7)
Broker 2	15 May 2019			(25.4)	(25.3)	(27.8)	(28.0)	(27.8)	(28.0)
Broker 3	16 May 2019			(25.6)	(25.3)	(28.0)	(28.0)	(28.0)	(28.0)
Broker 4	15 May 2019			(25.5)	(25.8)	(27.9)	(28.5)	(27.9)	(28.5)
Broker 5	15 May 2019			(25.6)	(25.9)	(28.0)	(28.6)	(28.0)	(28.6)
Broker 6	15 May 2019			(28.6)	(29.0)	(31.0)	(31.7)	(31.0)	(31.7)
Broker 7	15 May 2019			(25.6)	(25.5)	(28.0)	(28.2)	(28.0)	(28.2)
Minimum				(28.6)	(29.0)	(31.0)	(31.7)	(31.0)	(31.7)
Maximum				(25.4)	(25.3)	(27.8)	(28.0)	(27.8)	(28.0)
Median				(25.6)	(25.8)	(28.0)	(28.5)	(28.0)	(28.5)

⁷ “Building Products, Yates and DuluxGroup International” is the aggregate of broker forecasts for B&D Group, Lincoln Sentry and Other Businesses.

APPENDIX C – SCHEME IMPLEMENTATION DEED



Scheme implementation deed

DuluxGroup Limited

Nippon Paint Holdings Co., Ltd.

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Date: 17 April 2019

Parties

- 1 **DuluxGroup Limited (ACN 133 404 065)** of 1956 Dandenong Road, Clayton VIC 3168, Australia (**DuluxGroup**)
 - 2 **Nippon Paint Holdings Co., Ltd. 1200-01-072994** of 2-1-2 Oyodo Kita, Kita-ku, Osaka 531-8511 Japan (**Nippon Paint**)
-

Background

- A The parties have agreed that Nippon Paint will acquire DuluxGroup by means of a scheme of arrangement under Part 5.1 of the Corporations Act between DuluxGroup and Scheme Shareholders.
- B Nippon Paint and DuluxGroup have agreed to implement the Scheme on and subject to the terms of this deed.

The parties agree

1 Defined terms and interpretation

1.1 Defined terms

A term or expression which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this deed.

2 Agreement to proceed with Transaction

2.1 DuluxGroup to propose Scheme

- (a) DuluxGroup agrees to propose and implement the Scheme on and subject to the terms of this deed.
- (b) DuluxGroup must not consent to any modification of, or amendment to, the Scheme, or to the making or imposition by the Court of any condition in respect of the Scheme, without the prior written consent of Nippon Paint (such consent not to be unreasonably withheld or delayed in the case of a modification of or amendment to the Scheme made or imposed by the Court).
- (c) Nippon Paint agrees to assist DuluxGroup in proposing and implementing the Scheme on and subject to the terms of this deed.

2.2 Scheme Consideration

- (a) Each Scheme Shareholder will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares, on and subject to the terms of the Scheme.

- (b) Subject to the Scheme becoming Effective, Nippon Paint undertakes and warrants to DuluxGroup (in DuluxGroup's own right and separately for the benefit of each of the Scheme Shareholders) that, in consideration of the transfer to Nippon Paint or the Nominee of all Scheme Shares pursuant to the terms of the Scheme, Nippon Paint will:
 - (i) accept, or procure the acceptance by the Nominee of, that transfer on the Implementation Date; and
 - (ii) pay, or procure the payment of, an amount equal to the Aggregate Scheme Consideration, in cleared funds, into a trust account operated by DuluxGroup for the benefit of the Scheme Shareholders before 12 noon on the date that is two Business Days before the Implementation Date, provided that any interest accruing on the amount paid into such account will accrue for the benefit of Nippon Paint.

2.3 DuluxGroup Board recommendation

- (a) DuluxGroup represents and warrants to Nippon Paint that, as at the date of this deed, each DuluxGroup Director has confirmed that:
 - (i) he or she recommends that DuluxGroup Shareholders vote in favour of the resolution to approve the Scheme without any qualification other than by words to the effect of "in the absence of a Superior Proposal and subject to the Independent Expert concluding that the Scheme is in the best interests of DuluxGroup Shareholders"; and
 - (ii) he or she intends to vote, or cause to be voted, all Scheme Shares in which he or she has a Relevant Interest in favour of the resolution to approve the Scheme,

and will not change, withdraw or adversely modify such recommendation or voting intention unless any of the events set out in clause 2.3(b)(iii) or 2.3(b)(iv) occur.
- (b) DuluxGroup must procure that each DuluxGroup Director:
 - (i) recommends to DuluxGroup Shareholders that they vote in favour of the resolution to approve the Scheme; and
 - (ii) announces their intention to vote, or cause to be voted, all Scheme Shares in which they have a Relevant Interest in favour of the resolution to approve the Scheme,

and does not change, withdraw or adversely modify their recommendation or voting intention unless:

 - (iii) a Superior Proposal is made and DuluxGroup has complied with its obligations under clause 8 in respect of that Superior Proposal; or
 - (iv) the Independent Expert concludes that the Scheme is not or is no longer in the best interests of DuluxGroup Shareholders (including in any updated or supplementary Independent Expert's Report released, or which will be released, to ASX).
- (c) DuluxGroup must ensure that each of the Scheme Booklet and the public announcement referred to in clause 13(a) contains the recommendation and voting intention set out in clause 2.3(b) above.

3 Conditions precedent

3.1 Conditions

Subject to this clause 3, the Scheme will not become Effective until and unless the following Conditions are satisfied or waived in accordance with clause 3.4:

- (a) **FIRB:** Before 5:00pm on the Business Day before the Second Court Date, either:
 - (i) Nippon Paint has received a written notice under FATA from the Treasurer (or the Treasurer's delegate) stating that, or to the effect that, the Commonwealth Government does not object to the acquisition of all the Scheme Shares by Nippon Paint under the Transaction, either without conditions or subject only to the Standard Tax Conditions or conditions that are acceptable to Nippon Paint (acting reasonably to the extent required by clause 3.3); or
 - (ii) following notice of the proposed acquisition of all the Scheme Shares by Nippon Paint under the Transaction having been given by Nippon Paint to the Treasurer under FATA, the Treasurer ceases to be empowered to make any order under Part 3 of FATA.
- (b) **OIO:** Nippon Paint has received all consents required under the *Overseas Investment Act 2005* (NZ) and the *Overseas Investment Regulations 2005* (NZ) for the implementation of the Scheme either unconditionally or subject to the conditions referred to by the OIO as "Standard Conditions" or conditions that Nippon Paint (acting reasonably to the extent required by clause 3.3) considers to be acceptable and such consents have not been withdrawn, suspended or revoked before 5:00pm on the Business Day before the Second Court Date.
- (c) **Court approval:** The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.
- (d) **DuluxGroup Shareholder approval:** DuluxGroup Shareholders approve the Scheme at the Scheme Meeting by the requisite majorities under section 411(4)(a)(ii) of the Corporations Act.
- (e) **No Restraints:** No restraining order, injunction or other order that would prevent the Scheme from becoming Effective or being implemented is made by a court of competent jurisdiction or Government Agency in Australia or New Zealand and is in effect as at 8.00am on the Second Court Date.
- (f) **No Prescribed Occurrence:** No Prescribed Occurrence occurs between the date of this deed and 8:00am on the Second Court Date.
- (g) **No Material Adverse Change:** No Material Adverse Change occurs before 8.00am on the Second Court Date.
- (h) **DuluxGroup Warranties:** The DuluxGroup Warranties are true and correct in all material respects as at the date of this deed and 5.00pm on the Business Day before the Second Court Date.
- (i) **Nippon Paint Warranties:** The Nippon Paint Warranties are and true and correct in all material respects as at the date of this deed and 5.00pm on the Business Day before the Second Court Date.

3.2 Reasonable endeavours

- (a) DuluxGroup must, to the extent within its power to do so, use reasonable endeavours to procure that the Conditions in each of clauses 3.1(f), 3.1(g) and 3.1(h) are satisfied.
- (b) Nippon Paint must, to the extent within its power to do so, use reasonable endeavours to procure that the Condition in clause 3.1(i) is satisfied.
- (c) Each of DuluxGroup and Nippon Paint must, to the extent within its power to do so, use reasonable endeavours to procure that:
 - (i) the Conditions in clauses 3.1(a), 3.1(b), 3.1(c), 3.1(d) and 3.1(e) are satisfied as soon as practicable after the date of this deed; and
 - (ii) there is no occurrence within its control or the control of any of its Related Bodies Corporate that would prevent or be reasonably likely to prevent any of those Conditions being satisfied.
- (d) DuluxGroup will not be in breach of its obligations under clause 3.2(a) or 3.2(c) to the extent that it takes or omits to take any action where permitted by clauses 6.1(b) or 6.1(c).
- (e) Each party must otherwise co-operate with, and comply with all reasonable requests of, the other party for the purposes of procuring the satisfaction of any Condition and must not take any action that will or is likely to hinder or prevent the satisfaction of any Condition.
- (f) Each party must keep the other party reasonably informed of the progress towards satisfying the Conditions.

3.3 Regulatory Approvals

- (a) Without limiting clause 3.2, but subject to clause 3.3(b), Nippon Paint must:
 - (i) give DuluxGroup a reasonable opportunity to review an advanced draft of each application for a Regulatory Approval, and must consider in good faith any reasonable comments provided by or on behalf of DuluxGroup;
 - (ii) apply for each Regulatory Approval as soon as practicable (and, in any event, within 10 Business Days) after the date of this deed, and give DuluxGroup a final copy of each such application;
 - (iii) take all steps reasonably required to obtain each Regulatory Approval as soon as practicable, including responding to requests for information at the earliest practicable time;
 - (iv) keep DuluxGroup reasonably informed of the progress towards obtaining each Regulatory Approval, including promptly notifying DuluxGroup of any issues or matters raised, or any conditions or other arrangements proposed, by a relevant Government Agency;
 - (v) not do, and must ensure that its Related Bodies Corporate and Representatives do not do, any of the following:
 - (A) apply to any Government Agency for any approval, consent, clearance, waiver, concession or similar in connection with the Transaction; or

- (B) send any submission, notification or communication to, or otherwise contact, any Government Agency in connection with the Transaction, in each case other than:
 - (C) in respect of a Regulatory Approval and in accordance with this clause 3.3; or
 - (D) with the prior written consent of DuluxGroup (not to be unreasonably withheld where necessary or desirable for the purposes of the Transaction and where, in the reasonable opinion of DuluxGroup, the proposed action will not prejudice the successful completion of the Transaction in accordance with the terms of this deed);
 - (vi) give DuluxGroup a reasonable opportunity to review an advanced draft of each material submission or communication proposed to be sent to a Government Agency by or on behalf of Nippon Paint (or any of its Related Bodies Corporate or Representatives) in connection with the Transaction, and consider in good faith any reasonable comments provided by or on behalf of DuluxGroup;
 - (vii) allow Representatives of DuluxGroup to attend any material meetings or telephone calls with Government Agencies in connection with the Transaction (unless such attendance is not permitted by the relevant Government Agency); and
 - (viii) promptly notify DuluxGroup and provide reasonable details (including, where applicable, copies) of all material communications or discussions between Nippon Paint (or any of its Related Bodies Corporate or Representatives) and any Government Agency in connection with the Transaction (whether or not such communications or discussions relate to a Regulatory Approval and whether or not such communications or discussions were initiated by Nippon Paint (or any of its Related Bodies Corporate or Representatives) or by a Government Agency), and DuluxGroup shall provide equivalent details to Nippon Paint of any material communications or discussions between DuluxGroup (or any of its Related Bodies Corporate or Representatives) and any Government Agency in connection with the Transaction.
- (b) Before a party provides the other party with any document or information under clause 3.3(a), the disclosing party may redact or exclude such part of that document or information that constitutes confidential information of:
- (i) the disclosing party or any of its Related Bodies Corporate where disclosure to the other party is reasonably likely to materially prejudice the commercial interests of the disclosing party or any of its Related Bodies Corporate; or
 - (ii) a director or executive of the disclosing party or any of its Related Bodies Corporate.
- (c) Nippon Paint undertakes to act reasonably and promptly in considering whether or not to accept or agree to such conditions or undertakings as may be imposed or proposed by a Government Agency in connection with a Regulatory Approval. For the avoidance of doubt, Nippon Paint must promptly accept the following conditions if imposed or proposed by the relevant Government Agency:
- (i) for the purposes of the Condition in clause 3.1(a), Standard Tax Conditions; and
 - (ii) for the purposes of the Condition in clause 3.1(b):

- (A) conditions that are referred to by the OIO as “Standard Conditions”; and
- (B) conditions that are consistent with any written assurances or other written commitments provided to the OIO by Nippon Paint in, or in connection with, its application for OIO approval.

3.4 Waiver of Conditions

- (a) The Conditions in clauses 3.1(a), 3.1(b), 3.1(c) and 3.1(d) cannot be waived.
- (b) The Condition in clause 3.1(e) is for the benefit of Nippon Paint and DuluxGroup and may only be waived by written agreement between Nippon Paint and DuluxGroup.
- (c) The Conditions in clauses 3.1(f), 3.1(g) and 3.1(h) are for the sole benefit of Nippon Paint and may only be waived by Nippon Paint in writing.
- (d) The Condition in clause 3.1(i) is for the sole benefit of DuluxGroup and may only be waived by DuluxGroup in writing.
- (e) Waiver of breach or non-fulfilment of a Condition does not constitute:
 - (i) a waiver of breach or non-fulfilment of any other Condition resulting from the same event; or
 - (ii) a waiver of breach or non-fulfilment of that Condition resulting from any other event.
- (f) A party entitled to waive or to agree to waive a Condition under clause 3.4(c) may do so in its absolute discretion.

3.5 Failure of Condition

- (a) If:
 - (i) there is a breach or non-fulfilment of a Condition that has not been waived in accordance with clause 3.4;
 - (ii) a Condition becomes incapable of satisfaction and the breach or non-fulfilment of that Condition that has occurred, or would otherwise occur, has not been waived in accordance with clause 3.4; or
 - (iii) the Scheme has not become Effective by the End Date,
 then either DuluxGroup or Nippon Paint may give the other written notice (**Consultation Notice**) within 5 Business Days of the relevant event referred to in clause 3.5(a)(i), 3.5(a)(ii) or 3.5(a)(iii).
- (b) If DuluxGroup or Nippon Paint gives a Consultation Notice, the parties must promptly consult in good faith to determine whether they can reach agreement with respect to:
 - (i) an extension of the time for satisfaction of the relevant Condition or an extension of the End Date (or both); or
 - (ii) the Transaction proceeding by way of alternative means or methods.

- (c) If DuluxGroup and Nippon Paint have not reached agreement under clause 3.5(b) within 10 Business Days after a Consultation Notice is given, or if neither of them gives a Consultation Notice in accordance with clause 3.5(a), then either of them may terminate this deed with immediate effect by giving written notice to the other, provided that a party may only exercise such termination right if the relevant circumstances did not arise due to a breach of this deed by that party.

3.6 Certain notices

If a party becomes aware:

- (a) that any Condition has been satisfied; or
- (b) of any fact, matter or circumstance that has resulted, will result or is reasonably likely to result in:
 - (i) a Condition becoming incapable of satisfaction or otherwise not being satisfied in accordance with its terms;
 - (ii) a breach of a Warranty provided by that party under this deed or such a Warranty ceasing to be true and correct in all material respects; or
 - (iii) a material breach of this deed by that party,

it must promptly notify the other party in writing and provide such evidence or details as may be reasonably requested by the other party.

4 Implementation steps and Scheme Booklet

4.1 DuluxGroup obligations

DuluxGroup must take all steps reasonably necessary to implement the Scheme in accordance with the Timetable and otherwise on and subject to the terms of this deed, and must consult with Nippon Paint on a regular basis about its progress in satisfying its obligations under this clause 4.1. Without limiting the foregoing, DuluxGroup must:

- (a) **Independent Expert:** as soon as reasonably practicable after the date of this deed, appoint the Independent Expert and provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report;
- (b) **Preparation of Scheme Booklet:**
 - (i) prepare the Scheme Booklet (other than the Nippon Paint Information and the Independent Expert's Report) in accordance with all applicable laws, including the Corporations Act and Corporations Regulations, ASIC published policy including Regulatory Guide 60, Takeovers Panel guidance notes and the Listing Rules; and
 - (ii) provide Nippon Paint with drafts of the Scheme Booklet (including a factual accuracy draft of the Independent Expert's Report) in a timely manner, allow Nippon Paint a reasonable period to review and comment on the drafts, and consider in good faith any reasonable comments promptly provided by or on behalf of Nippon Paint, provided that, in respect of the Independent Expert's Report, any such comments must be limited to matters of factual accuracy and DuluxGroup makes no representation, and gives no assurance, as to the extent to which such comments will be considered or incorporated by the Independent Expert;

- (c) **Lodgement of Scheme Booklet:**
- (i) provide an advanced draft of the Scheme Booklet to ASIC for its review for the purposes of section 411(2) of the Corporations Act, provided that such draft must not be provided to ASIC without Nippon Paint's prior written consent in respect of the Nippon Paint Information (which must not be unreasonably withheld); and
 - (ii) keep Nippon Paint reasonably informed of any material issues raised by ASIC in relation to the Scheme Booklet and any steps taken to address such issues, and where such issues relate to Nippon Paint Information, DuluxGroup must not take any steps to address such issues in respect of the Nippon Paint Information without Nippon Paint's prior written consent (which must not be unreasonably withheld);
- (d) **Approval of Scheme Booklet:** procure that a meeting of the DuluxGroup Board (or a sub-committee thereof) is convened to consider approving the despatch of the Scheme Booklet to DuluxGroup Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act;
- (e) **No objection statement:** apply to ASIC for:
- (i) a letter stating that ASIC does not intend to appear at the First Court Hearing; and
 - (ii) a statement under section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (f) **Tax:** apply to the ATO for a class ruling in relation to the Special Dividends and keep Nippon Paint reasonably informed as to the status, progress and outcomes of the application;
- (g) **First Court Hearing:** apply to the Court for orders under section 411(1) of the Corporations Act directing DuluxGroup to convene the Scheme Meeting;
- (h) **Registration of Scheme Booklet:** subject to receipt from Nippon Paint of the written confirmation referred to in clause 4.2(e) (which must not be unreasonably withheld or delayed), request that ASIC register the Scheme Booklet in accordance with section 412(6) of the Corporations Act;
- (i) **Despatch:** as soon as reasonably practicable following registration of the Scheme Booklet by ASIC, despatch the Scheme Booklet to DuluxGroup Shareholders;
- (j) **Supplementary disclosure:** if, after despatch of the Scheme Booklet, DuluxGroup becomes aware:
- (i) that information included in the Scheme Booklet is or has become misleading or deceptive in any material respect (whether by omission or otherwise); or
 - (ii) of information that is required to be disclosed to DuluxGroup Shareholders under any applicable law, ASIC published policy, Takeovers Panel guidance note or Listing Rule but was not included in the Scheme Booklet,
- promptly consult with Nippon Paint and make any supplementary disclosure to DuluxGroup Shareholders that DuluxGroup considers reasonably necessary in the circumstances;

- (k) **Scheme Meeting:** convene and hold the Scheme Meeting to approve the Scheme in accordance with the orders made by the Court at the First Court Hearing;
- (l) **Conditions certificate:** at the Second Court Hearing, provide to the Court (through its counsel) a certificate confirming (in respect of matters within its knowledge) whether or not the Conditions (other than the Condition in clause 3.1(c)) have been satisfied or waived in accordance with clause 3, a draft of which must be provided to Nippon Paint by 5:00pm on the date that is 3 Business Days prior to the Second Court Date, and any certificate provided to it by Nippon Paint pursuant to clause 4.2(i);
- (m) **Second Court Hearing:** subject to the Conditions (other than the Condition in clause 3.1(c)) being satisfied or waived in accordance with clause 3, apply to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme;
- (n) **Court Documents:** prepare the Court Documents, provide drafts of those documents to Nippon Paint and consider in good faith any reasonable comments promptly provided by or on behalf of Nippon Paint;
- (o) **Nippon Paint representation at Court Hearings:** allow, and not oppose, any application by Nippon Paint for leave of the Court to be represented by counsel at a Court Hearing;
- (p) **Lodgement of Court order:** for the purposes of section 411(10) of the Corporations Act, lodge with ASIC an office copy of the orders made by the Court under section 411(4)(b) of the Corporations Act before 5:00pm on the Business Day immediately following the day on which it receives such office copy;
- (q) **Share Register:** procure that the Share Register is closed as at the Record Date to determine the identity of the Scheme Shareholders and their entitlements to Scheme Consideration;
- (r) **Proxy reports:** keep Nippon Paint reasonably informed on the status of proxy forms received for the Scheme Meeting and if it becomes aware that any material DuluxGroup Shareholder intends to vote against the resolution to approve the Scheme;
- (s) **Instruments of transfer:** subject to Nippon Paint satisfying its obligations under clause 2.2(b), on the Implementation Date:
 - (i) execute proper instruments of transfer and effect the transfer of Scheme Shares to Nippon Paint (or the Nominee, if applicable)); and
 - (ii) register all transfers of Scheme Shares held by Scheme Shareholders to Nippon Paint (or the Nominee, if applicable),
 in each case in accordance with the Scheme;
- (t) **Quotation of DuluxGroup Shares and ASX listing:** apply to ASX to have:
 - (i) trading in DuluxGroup Shares suspended from the close of trading on the Effective Date; and
 - (ii) DuluxGroup removed from the official list of ASX, and quotation of DuluxGroup Shares on ASX terminated, by the close of trading on the trading day following the Implementation Date;

- (u) **Provision of information to Nippon Paint:** following despatch of the Scheme Booklet to DuluxGroup Shareholders, provide Nippon Paint with such information as Nippon Paint reasonably requests in relation to the shareholdings of DuluxGroup Shareholders in a form reasonably requested by Nippon Paint;
- (v) **Promotion of Transaction:** unless a majority of DuluxGroup Directors change or withdraw their recommendation as permitted by clause 2.3(b), take such steps as DuluxGroup (acting reasonably and in consultation with Nippon Paint) considers necessary or desirable to promote the merits of the Transaction, which steps may include procuring that senior DuluxGroup Group officers meet with key DuluxGroup Shareholders and communicating with employees, partners, customers and suppliers in a manner which is supportive of the Scheme;
- (w) **Compliance with laws:** do everything reasonably within its power to ensure that the Transaction is effected in accordance with the terms of this deed and applicable laws; and
- (x) **Implementation:** if the Scheme becomes Effective, do all things contemplated of it under the Scheme.

4.2 Nippon Paint obligations

Nippon Paint must take all steps reasonably necessary to implement the Scheme in accordance with the Timetable and otherwise on and subject to the terms of this deed, and must consult with DuluxGroup on a regular basis about its progress in satisfying its obligations under this clause 4.2. Without limiting the foregoing, Nippon Paint must:

- (a) **Prepare Nippon Paint Information:** as soon as practicable after the date of this deed:
 - (i) prepare the Nippon Paint Information for inclusion in the Scheme Booklet in accordance with all applicable laws, including the Corporations Act and Corporations Regulations, ASIC published policy (including Regulatory Guide 60), Takeovers Panel guidance notes and the Listing Rules; and
 - (ii) provide DuluxGroup with drafts and updates of the Nippon Paint Information and consider in good faith any reasonable comments provided by or on behalf of DuluxGroup;
- (b) **Final form of Nippon Paint Information:** provide to DuluxGroup the Nippon Paint Information (including drafts thereof) in a form appropriate for inclusion in the Scheme Booklet;
- (c) **Assistance with Scheme Booklet and Court Documents:** provide any assistance or information reasonably requested by DuluxGroup or its Representatives in connection with the preparation of the Scheme Booklet (including any supplementary disclosure to DuluxGroup Shareholders) or any Court Documents, including reviewing drafts of the Scheme Booklet and Court Documents provided by or on behalf of DuluxGroup and promptly providing comments in good faith;
- (d) **Independent Expert's Report:** provide any assistance or information reasonably requested by DuluxGroup or its Representatives, or by the Independent Expert, in connection with the preparation of the Independent Expert's Report;
- (e) **Confirmation of Nippon Paint Information:** promptly after DuluxGroup requests that it does so (and, in any event, prior to 5:00pm on the Business Day prior to the First Court Date) having provided to Nippon Paint a full copy of the Scheme

Booklet containing the Nippon Paint Information in the form provided or approved by Nippon Paint under clause 4.2(b), confirm in writing to DuluxGroup that:

- (i) it consents to the inclusion of the Nippon Paint Information in the Scheme Booklet, in the form and context in which the Nippon Paint Information appears;
 - (ii) the Nippon Paint Information is accurate and not misleading or deceptive in any material respect (whether by omission or otherwise) and otherwise complies with all applicable laws, ASIC published policy (including Regulatory Guide 60), Takeovers Panel guidance notes and the Listing Rules; and
 - (iii) the Nippon Paint Information is in a form appropriate for inclusion in the Scheme Booklet;
- (f) **Provide comments promptly:** promptly (having regard to the Timetable) provide comments on documents on which DuluxGroup and Nippon Paint are required to consult, including in accordance with clause 4.1(b) or 4.1(n) (including the Scheme Booklet and all Court Documents);
- (g) **Update Nippon Paint Information:** promptly notify DuluxGroup in writing if it becomes aware:
- (i) of information which should have been but was not included in the Nippon Paint Information, and promptly provide DuluxGroup with the omitted information; or
 - (ii) that the Nippon Paint Information is or has become misleading or deceptive in any material respect (whether by omission or otherwise), or otherwise does not comply with applicable laws, ASIC published policy (including Regulatory Guide 60), Takeovers Panel guidance notes and the Listing Rules, and promptly provide DuluxGroup with all information necessary to ensure the Nippon Paint Information complies with applicable laws and is not false or misleading in any material respect (whether by omission or otherwise);
- (h) **Deed Poll:** execute the Deed Poll, and deliver the fully executed Deed Poll to DuluxGroup, in each case before 5:00pm on the Business Day before the First Court Date, and, if the Scheme becomes Effective, fully comply with the Deed Poll;
- (i) **Conditions certificate:** before 8:00am on the Second Court Date, provide to DuluxGroup for provision to the Court at the Second Court Hearing a certificate confirming (in respect of matters within its knowledge) whether or not the Conditions (other than the Condition in clause 3.1(c)) have been satisfied or waived in accordance with clause 3, a draft of which must be provided to DuluxGroup by 5:00pm on the date two Business Days before the Second Court Date;
- (j) **Representation at Court:** ensure that it is represented by counsel at each Court Hearing, and (if requested by the Court) undertake, through its counsel, to do all things within its power to ensure the fulfilment of its obligations under this deed and the Deed Poll and as are reasonably necessary to ensure the Court makes an order under section 411(4)(b) of the Corporations Act approving the Scheme;
- (k) **Scheme Consideration:** if the Scheme becomes Effective, pay or procure the payment of the Scheme Consideration in the manner and in the amount contemplated by clause 2.2(b)(ii), the terms of the Scheme and the Deed Poll;

- (l) **Share transfer:** if the Scheme becomes Effective, accept a transfer of the Scheme Shares as contemplated by clause 2.2(b)(i) and execute instruments of transfer in respect of the Scheme Shares, or procure that the Nominee does so (if applicable);
- (m) **Tax:** provide DuluxGroup with such assistance and information as may reasonably be requested by DuluxGroup for the purposes of obtaining from the ATO a class ruling in relation to the Special Dividends;
- (n) **Promotion of Transaction:** participate in efforts reasonably requested by DuluxGroup to promote the merits of the Transaction, including:
 - (i) meeting with key DuluxGroup Shareholders where requested by DuluxGroup; and
 - (ii) providing DuluxGroup with such information and assistance as DuluxGroup reasonably requests to enable it to promote the merits of the Transaction;
- (o) **Compliance with laws:** do everything reasonably within its power to ensure that the Transaction is effected in accordance with the terms of this deed and applicable laws; and
- (p) **Implementation:** if the Scheme becomes Effective, do all things contemplated of it under the Scheme in accordance with the Deed Poll.

4.3 Scheme Booklet

- (a) If Nippon Paint and DuluxGroup are unable to agree on the form or content of a particular part of the Scheme Booklet (other than the Independent Expert's Report), then:
 - (i) if the relevant part of the Scheme Booklet is Nippon Paint Information, DuluxGroup will make such amendments to that part of the Scheme Booklet as required by Nippon Paint (acting reasonably and in good faith); and
 - (ii) in any other case, subject to clause 2.3(c), DuluxGroup (acting reasonably and in good faith) will decide the form and content of that part of the Scheme Booklet.
- (b) Nippon Paint and DuluxGroup agree that the Scheme Booklet will contain a responsibility statement in a form to be agreed between the parties (acting reasonably) to the effect that:
 - (i) DuluxGroup is responsible for the DuluxGroup Information contained in the Scheme Booklet, and none of Nippon Paint or its Related Bodies Corporate or their respective directors, officers or employees assumes any responsibility or liability for the accuracy or completeness of the DuluxGroup Information;
 - (ii) Nippon Paint is responsible for the Nippon Paint Information contained in the Scheme Booklet, and none of DuluxGroup or its Related Bodies Corporate or their respective directors, officers or employees assumes any responsibility or liability for the accuracy or completeness of the Nippon Paint Information; and
 - (iii) the Independent Expert is responsible for the Independent Expert's Report, and none of Nippon Paint or its Related Bodies Corporate or their respective directors, officers or employees, nor DuluxGroup or its Related Bodies Corporate or their respective directors, officers or employees, assumes any responsibility or liability for the accuracy or completeness of the Independent Expert's Report.

- (c) DuluxGroup must undertake appropriate verification processes in relation to the DuluxGroup Information included in the Scheme Booklet and Nippon Paint must undertake appropriate verification processes in relation to the Nippon Paint Information included in the Scheme Booklet.

5 Permitted Dividends

5.1 Interim Dividend

- (a) Notwithstanding any other provision of this deed, DuluxGroup may (in its absolute discretion) declare and pay to DuluxGroup Shareholders an interim dividend (**Interim Dividend**) of up to \$0.15 per DuluxGroup Share in respect of the six months ended 31 March 2019.
- (b) The Interim Dividend may (in DuluxGroup's absolute discretion) be partially or fully franked, provided that the DuluxGroup franking account must not be in deficit at the end of the income year in which the Interim Dividend is paid, as a result of the franking of the Interim Dividend.
- (c) The record date for the Interim Dividend must be on or before the Scheme Record Date.
- (d) The Scheme Consideration will be reduced by the cash amount of the Interim Dividend that is declared and paid to DuluxGroup Shareholders on or before the Implementation Date. For the avoidance of doubt, in no circumstances will Nippon Paint be required to pay or procure the payment of more than \$9.65 per Scheme Share under this deed, the Scheme or the Deed Poll.

5.2 Special Dividends

- (a) DuluxGroup may declare and pay to DuluxGroup Shareholders one or more special dividends (each a **Special Dividend**) of up to an aggregate of \$0.26 per DuluxGroup Share, provided that, if DuluxGroup has capacity to pay Special Dividends of a higher aggregate amount without breaching clause 5.2(b) or clause 5.2(e), and DuluxGroup requests Nippon Paint's consent to declaring and paying Special Dividends up to such higher aggregate amount, Nippon Paint must consider any such request in good faith and not unreasonably withhold its consent. For the avoidance of doubt, any such higher amount will be subject to clause 5.2(d).
- (b) Each Special Dividend may be partially or fully franked, provided that the DuluxGroup franking account must not be or likely to become in deficit at the end of the income year in which the Special Dividend is paid, as a result of the franking of a Special Dividend, and DuluxGroup must consult with Nippon Paint and consider in good faith the reasonable views of Nippon Paint with respect to the amount of, availability of and basis for franking credits prior to declaring a Special Dividend.
- (c) The record date for a Special Dividend must be on or before the Scheme Record Date.
- (d) The Scheme Consideration will be reduced by the cash amount of each Special Dividend that is declared and paid to DuluxGroup Shareholders on or before the Implementation Date.
- (e) DuluxGroup represents and warrants, and must procure, that each Special Dividend will be paid in cash from profits, retained earnings or distributable reserves and otherwise comply with the Corporations Act and all other applicable laws.

5.3 Dividend reinvestment plan

DuluxGroup must suspend the operation of its dividend reinvestment plan with effect on the date of this deed.

6 Conduct of business and transitional matters

6.1 Conduct of business

- (a) Subject to clause 6.1(b), on from the date of this deed up to and including the Implementation Date, DuluxGroup must:
 - (i) procure that the business of the DuluxGroup Group is conducted:
 - (A) in the ordinary course; and
 - (B) in a manner generally consistent with the manner in which such business has been conducted in the 12 months prior to the date of this deed;
 - (ii) make reasonable efforts to:
 - (A) retain the services of Key Management Personnel; and
 - (B) maintain and preserve the DuluxGroup Group's relationships with material customers and suppliers and others with whom the DuluxGroup Group has material business dealings; and
 - (iii) procure that no member of the DuluxGroup Group:
 - (A) declares, pays or distributes any dividend or other share of its profits or assets, other than a Permitted Dividend or where the payment or distribution is made to a member of the DuluxGroup Group to enable a Permitted Dividend to be declared and paid;
 - (B) makes any change to its constitution;
 - (C) acquires or disposes of any securities, business or assets having a value in excess of \$12.5 million, other than to or from another member of the DuluxGroup Group and other than inventory, raw materials or finished goods purchased or sold in the ordinary course of business;
 - (D) makes a commitment to, or incurs, capital expenditure of more than \$4 million in one transaction or a series of related transactions;
 - (E) incurs financial indebtedness by way of new borrowings of an amount exceeding \$12.5 million (excluding any borrowings advanced by a member of the DuluxGroup Group and any extension or replacement of an existing debt facility of the DuluxGroup Group on terms substantially similar to the terms of such debt facility as at the date of this deed, and excluding, for the avoidance of doubt, any indebtedness under or in connection with the DuluxGroup Group's existing debt facilities or private placement notes, or the DuluxGroup Group's hedging arrangements, and any indebtedness incurred to fund the payment of a Special Dividend and maintain an appropriate level of liquidity);
 - (F) enters into, renews, materially varies or terminates any Material Contract (or agrees to do any of those things);
 - (G) agrees to be bound by a restrictive covenant that materially limits the future business activities of the DuluxGroup Group, or agrees to an

amendment of such a covenant by which the relevant member of the DuluxGroup Group is bound at the date of this deed (and such amendment is materially adverse to the DuluxGroup Group);

- (H) terminates the employment of any Key Management Personnel or materially varies the terms of employment of any Key Management Personnel;
- (I) increases the annual remuneration of any employee whose total fixed annual remuneration (inclusive of superannuation) is more than \$300,000 or creates or increases any entitlement for any such employee to receive a bonus or other payment in addition to annual remuneration (other than increases of remuneration as part of remuneration reviews conducted in the ordinary course and consistent with past practice, and other than payments required by law);
- (J) employs or terminates without cause the employment of any person whose total fixed annual remuneration (inclusive of superannuation) is more than \$300,000 except where the employment of such a person is to fill a position vacated by an employee who has resigned;
- (K) causes any LTEIP Shares or Incentive Shares to vest other than as provided for in Schedule 5 and in accordance with the terms of such incentives as at the date of this deed or in accordance with clause 6.5;
- (L) accelerates the rights of any director or employee to compensation or benefits of any kind in excess of, in aggregate, \$200,000;
- (M) pays, incurs or agrees to pay or incur any special exertion fees or board committee or sub-committee fees to the DuluxGroup Directors in relation to the Transaction in excess of, in aggregate, \$150,000;
- (N) commences or settles any material legal proceedings, claim, investigation, mediation, arbitration or other like proceeding where the amount claimed or the settlement amount (as applicable) exceeds \$10 million;
- (O) makes any material Tax election or settles or compromises any material liability relating to a Tax Dispute unless the relevant member of the DuluxGroup Group has received an opinion from a partner of a big 4 accounting firm, Queen's Counsel or Senior Counsel with at least 15 years' experience in Tax matters that the election, settlement or compromise is in the best interests of that member of the DuluxGroup Group;
- (P) terminates or amends, or fails to use reasonable endeavours to renew on its expiry, any insurance policy held by that member of the DuluxGroup Group as at the date of this deed;
- (Q) agrees to a material variation of, or fails to take reasonable steps to avoid (to the extent within its power) the termination, suspension, revocation or non-renewal of, any licence, permit or other authorisation given or issued to it by any Government Agency, except where the variation, termination suspension, revocation or non-renewal of the relevant licence, permit or other authorisation could not be reasonably expected to have a material adverse effect on the financial or operational performance of the DuluxGroup Group;
- (R) enters into any guarantee or indemnity on behalf of any person or provides security for the obligations of any person except for in the ordinary course of business;

- (S) changes any accounting policy applied by it to report its financial position other than any change in policy required by a change in accounting standards or law;
 - (T) enters into or resolves to enter into a material transaction with any related party of DuluxGroup (other than a related party which is a member of the DuluxGroup Group) as defined in section 228 of the Corporations Act (excluding any transaction involving paying amounts or conferring benefits to directors of DuluxGroup in accordance with their employment or engagement terms or their statutory or other entitlements); or
 - (U) authorises, or agrees conditionally or otherwise to do, any of the matters set out in this clause 6.1(a)(iii).
- (b) Nothing in clause 6.1(a) restricts any member of the DuluxGroup Group from doing or not doing (or agreeing to do or not do) anything which:
- (i) is required by any applicable law or Government Agency;
 - (ii) is required or permitted by this deed or the Scheme or any transaction contemplated by either;
 - (iii) is required for any DuluxGroup Director to comply with his or her fiduciary or statutory duties, provided that, to the extent possible in the circumstances, DuluxGroup first provides Nippon Paint with reasonable details and consults in good faith with Nippon Paint in relation to any act to be done (or not done) in reliance on this clause 6.1(b)(iii);
 - (iv) is required to pay any Tax or Duty when due;
 - (v) is required to obtain or maintain insurances for the DuluxGroup Group (or any member thereof) or the business conducted by the DuluxGroup Group (or any member thereof);
 - (vi) in the reasonable opinion of DuluxGroup, is a necessary and prudent response to any emergency or disaster (including a situation giving rise to a risk of personal injury or damage to property);
 - (vii) has been Fairly Disclosed in the Disclosure Materials or Disclosure Letter (which, for the avoidance of doubt, includes undertaking actions and matters Fairly Disclosed in the Disclosure Materials or Disclosure Letter which DuluxGroup is considering or proposing to undertake);
 - (viii) would have been disclosed to Nippon Paint had Nippon Paint conducted searches 10 Business Days before the date of this deed of the public records maintained by:
 - (A) ASX;
 - (B) ASIC;
 - (C) the High Court of Australia, Federal Court of Australia, the Fair Work Commission and the Supreme Court of Victoria, New South Wales, South Australia, Western Australia and Queensland;
 - (D) the register established under the *Personal Property Securities Act 2009* (Cth); or
 - (E) IP Australia,
 or equivalent searches in New Zealand (other than in respect of ASX);
 - (ix) relates to incurring or payment of any Transaction Costs, provided that DuluxGroup must use all reasonable endeavours not to materially exceed

the estimated amount of Transaction Costs specified in the Disclosure Letter; or

- (x) has been consented to in writing by Nippon Paint (such consent not to be unreasonably withheld or delayed).
- (c) For the avoidance of doubt, nothing in clause 6.1(a) restricts the ability of DuluxGroup to respond to a Competing Proposal in accordance with clause 8.
- (d) If DuluxGroup requests Nippon Paint's consent for the purposes of clause 6.1(b)(x) and Nippon Paint does not notify DuluxGroup within:
 - (i) three Business Days of the request being made; or
 - (ii) such shorter period (if any) as specified in the request where, in the reasonable opinion of DuluxGroup, a shorter period is required to avoid material prejudice to the interests of the DuluxGroup Group,then Nippon Paint will be deemed to have consented to the relevant matters the subject of the request.

6.2 Access

- (a) Subject to clauses 6.2(a)(iii) to 6.2(c), from the date of this deed until the Implementation Date, DuluxGroup must use reasonable endeavours to procure that, subject to Nippon Paint providing reasonable notice, Nippon Paint is provided with reasonable access during normal business hours to information and premises of the DuluxGroup Group, and members of the DuluxGroup executive team (including Key Management Personnel), where Nippon Paint reasonably requests such access for the sole purpose of:
 - (i) facilitating Nippon Paint to develop plans for DuluxGroup's operations and business following implementation of the Scheme; or
 - (ii) any other purpose agreed with DuluxGroup in writing,provided that:
 - (iii) information will be made available via a data room; and
 - (iv) DuluxGroup will not be required to provide access under clause 6.2(a) to the extent that doing so would, in the reasonable opinion of DuluxGroup:
 - (A) cause unreasonable disruption to the DuluxGroup Group's business;
 - (B) result in any member of the DuluxGroup Group breaching any applicable law or requirement of any Government Agency, or any obligation of confidentiality owed to a Third Party; or
 - (C) materially prejudice the interests of the DuluxGroup Group (or any member thereof) or compromise legal privilege.
- (b) Nothing in clause 6.2(a) requires DuluxGroup to provide any information concerning its directors' and management's consideration of the Scheme or any Competing Proposal.
- (c) Any information provided by DuluxGroup pursuant to clause 6.2(a) will be subject to the Confidentiality Deed.

6.3 Material change of control consents

- (a) As soon as practicable following the date of this deed, DuluxGroup and Nippon Paint will use reasonable endeavours to agree a list of, and a proposed approach

(which, among other things, will have due regard to applicable legal restrictions) to obtaining, material change of control consents (including change of control consents under each Material Contract). Such consents shall be limited to consents required to avoid a member of the DuluxGroup Group being in breach of a contract that is material to the business of the DuluxGroup Group (taken as a whole) as a result of the Transaction.

- (b) Nippon Paint must not, and must procure that its Related Bodies Corporate and Representatives do not, contact or hold discussions with any party from whom a material change of control consent is required without the prior written consent of DuluxGroup.
- (c) DuluxGroup must cooperate with, and provide reasonable assistance to, Nippon Paint to obtain each material change of control consent as soon as practicable, provided that nothing in this clause 6.3(c) will require DuluxGroup to make any payment or incur any material expense.
- (d) Nippon Paint must take, and must procure that its Related Bodies Corporate take, all actions necessary to comply with any requirements of any party from whom a material change of control consent is required to the extent reasonably necessary to obtain such consent, including providing any information, and entering into or providing any parent guarantees, bank guarantees and/or other forms of guarantee or security, as may be reasonably required by such party.
- (e) Provided that DuluxGroup complies with clauses 6.3(a) and 6.3(c) in all material respects, but notwithstanding any other provision of this deed, the failure to obtain any change of control consent (or similar) will not constitute or contribute to a breach of this deed by DuluxGroup nor a breach of any Condition, and any such failure, together with any consequences that arise, will be disregarded when assessing the operation of any other provision of this deed, except to the extent that such failure results in a material breach of a DuluxGroup Warranty.

6.4 Transition Committee

- (a) On and from the date of this deed, DuluxGroup and Nippon Paint agree to establish a committee (**Transition Committee**) initially comprising up to 3 individuals from each of DuluxGroup and Nippon Paint to be nominated by the relevant party. Each party may substitute its nominated members of the Transition Committee from time to time by notice in writing to the other party.
- (b) The role of the Transition Committee will be to act as a forum for discussion and planning, but not decision making, in relation to overseeing the progress of the Transaction in accordance with this deed and assisting with the eventual transition of the control of DuluxGroup to Nippon Paint upon the Scheme becoming Effective.
- (c) Without limiting clause 6.4(b), the matters considered or discussed by the Transition Committee will include:
 - (i) material developments relating to the business of the DuluxGroup Group, including anything that would reasonably be expected to have a material adverse effect on the financial or operational performance of DuluxGroup Group or its relationships with Government Agencies or key customers or suppliers;
 - (ii) the strategy for engagement with key stakeholders (including Government Agencies and key contractual counterparties);
 - (iii) regular updates from DuluxGroup on the Transaction Costs incurred, paid or payable;
 - (iv) the process for obtaining material change of control consents and giving effect to other implementation steps set out in this deed; and

- (v) the progress and outcomes of the ATO's Streamlined Assurance Review of DuluxGroup and the ATO class ruling application in respect of the Special Dividend(s).
- (d) Any information provided to Representatives of Nippon Paint or DuluxGroup under this clause 6.4 will be subject to the Confidentiality Deed.
- (e) The Transition Committee will meet at least fortnightly or on such shorter timeframes as DuluxGroup and Nippon Paint may agree. Meetings may be held via telephone.
- (f) The members of the Transition Committee may agree to invite other persons to attend meetings of the Transition Committee from time to time (including the parties' respective legal and financial advisers).
- (g) Nothing in this clause 6.4:
 - (i) in any way, or to any extent, limits DuluxGroup's conduct of the business of the DuluxGroup Group in accordance with clause 6.1;
 - (ii) requires DuluxGroup to act at the direction of Nippon Paint or imposes any obligation on DuluxGroup to conduct the business of the DuluxGroup Group in accordance with any direction or representation made by Nippon Paint; or
 - (iii) requires any party to act or participate in any forum to the extent that doing so is contrary to law or the requirements of any Government Agency.

6.5 DuluxGroup Share Rights and Incentive Shares

- (a) DuluxGroup confirms that, as at the date of this deed, the outstanding Share Rights, LTEIP Shares and Incentive Shares on issue are as set out in Schedule 5.
- (b) The parties acknowledge that all outstanding Share Rights will be exercised (or deemed to be exercised) such that, prior to the record date for the Interim Dividend, DuluxGroup Shares are transferred to the respective holders of such Share Rights on a one for one basis.
- (c) The parties agree that the DuluxGroup directors will exercise their discretions under the rules of the LTEIP and other Share Incentive Plans such that:
 - (i) all unvested LTEIP Shares will vest;
 - (ii) 30% of each LTEIP Loan will be forgiven (other than any LTEIP Loan in respect of LTEIP Shares granted under the 2015 LTEIP, it being acknowledged by the parties that the level of forgiveness in respect of each such LTEIP Loan has already been determined, as disclosed to Nippon Paint prior to the date of this deed);
 - (iii) all transfer restrictions in respect of Incentive Shares will be lifted but only to the extent necessary to permit the transfer of the Incentive Shares to Nippon Paint under the terms of the Scheme;
 - (iv) all Incentive Shares will be subject to the terms of the Scheme; and
 - (v) each LTEIP Loan (after taking into account the forgiveness contemplated in sub-paragraph (ii) above, if applicable) will be repaid in full, which repayment may be made out of the Scheme Consideration in respect of the LTEIP Shares to which such LTEIP Loan relates,in each case subject to the Scheme becoming Effective.
- (d) For the avoidance of doubt, Nippon Paint acknowledges and agrees that, notwithstanding any other provision of this deed:

- (i) the DuluxGroup Board can exercise such discretions and authorise such actions under the rules of the Share Incentive Plans (or otherwise) as it considers necessary or desirable to give effect to the arrangements and payments contemplated by clause 6.5(b) or 6.5(c) (including, for the avoidance of doubt, acquiring or procuring the acquisition of DuluxGroup Shares on-market for the purpose of satisfying entitlements to DuluxGroup Shares under any Share Incentive Plan); and
- (ii) no action or matter contemplated in this clause 6.5 will give rise to, or in any way contribute to, any breach of a Condition or any breach of the conduct of business provisions in clause 6.1 or any other provision of this deed.

6.6 Short term incentives

- (a) On or before the Implementation Date, and subject to the Scheme becoming Effective, DuluxGroup may pay (in the absolute discretion of the DuluxGroup Board or any other person(s) delegated such authority by the DuluxGroup Board) the short term incentive and other payments for the financial year ending 30 September 2019 as contemplated by the Disclosure Letter, subject to the aggregate amount of such payments not exceeding the amounts specified in the Disclosure Letter.
- (b) For the avoidance of doubt, Nippon Paint acknowledges and agrees that, notwithstanding any other provision of this deed:
 - (i) the DuluxGroup Board can exercise such discretions and authorise such actions under the rules of DuluxGroup's short term incentive plans (or otherwise) as it considers necessary or desirable to give effect to the arrangements and payments contemplated by clause 6.6(a); and
 - (ii) no action or matter contemplated in this clause 6.6 will give rise to, or in any way contribute to, any breach of a Condition or any breach of the conduct of business provisions in clause 6.1 or any other provision of this deed.

6.7 Employee benefits

- (a) During the period commencing on the Effective Date and ending on the date which is 12 months after the Effective Date (the **Continuation Period**), Nippon Paint must provide, and must procure that any applicable subsidiary of DuluxGroup provides, to any employee of a member of the DuluxGroup Group who continues to be employed by a member of the DuluxGroup Group immediately after the Effective Date (**Continuing Employees**) with:
 - (i) base salary or hourly wage and short-term cash incentive bonus opportunity that, in each case, is no less than the base salary or hourly wage and short-term cash incentive bonus opportunity paid or made available to the applicable Continuing Employee immediately prior to the Effective Date;
 - (ii) a total direct compensation opportunity for the year ending 30 September 2020 (i.e., base salary or hourly wage, short-term cash incentive bonus opportunity, long-term incentive opportunity and retention or other transition opportunity) that is no less favourable (on an overall basis) to the applicable Continuing Employee than his or her total direct compensation (consisting of base salary or hourly wage rate, short-term cash incentive bonus opportunity and long-term incentive opportunity) for the year ending 30 September 2019;
 - (iii) severance benefits that are no less favourable to the applicable Continuing Employee than those applicable immediately prior to the Effective Date; and
 - (iv) group employee benefits that are substantially similar in the aggregate to the group employee benefits provided to the Continuing Employees under the DuluxGroup employee benefit plans immediately prior to the Effective Date,

excluding benefits under the existing Sacrifice Share Acquisition Plan and Employee Share Investment Plan for executives and employees, provided that, in respect of the Employee Share Investment Plan, Nippon Paint must use reasonable endeavours to provide an alternative opportunity of at least the same value (including by way of equity, cash payment or otherwise) to those executives and employees who would otherwise have been eligible to participate in 'Our Share Offers' made under such plan.

- (b) DuluxGroup receives and holds the benefit of clause 6.7(a) for the benefit of each Continuing Employee.

6.8 Resignation of directors

- (a) Subject to implementation of the Scheme in accordance with its terms including the Scheme Consideration having been paid to Scheme Shareholders, DuluxGroup must procure that, with effect on and from the Implementation Date:
 - (i) those persons nominated by Nippon Paint are appointed to the DuluxGroup Board and/or the boards of other members of the DuluxGroup Group, subject to:
 - (A) such persons having duly signed consents to act as a director of the relevant member(s) of the DuluxGroup Group; and
 - (B) such consents to act having been provided to DuluxGroup before the Effective Date; and
 - (ii) those persons nominated by Nippon Paint resign as directors of DuluxGroup and/or other members of the DuluxGroup Group.
- (b) Any nomination by Nippon Paint under clause 6.8(a)(i) or 6.8(a)(ii) must be made by written notice to DuluxGroup, and such notice must be given before the Effective Date.
- (c) Nothing in clause 6.8(a) requires any director of a member of the DuluxGroup Group to forego any rights he or she may have under any deed of access, indemnity and insurance or policy of directors' and officers' insurance.

6.9 Deeds of indemnity and insurance

- (a) Subject to the Scheme becoming Effective, Nippon Paint undertakes in favour of DuluxGroup and each other person who is a DuluxGroup Indemnified Party that it will:
 - (i) procure that DuluxGroup and each member of the DuluxGroup Group complies with any deeds of indemnity, access and insurance entered into by them in favour of their respective directors and officers from time to time, including to ensure that directors' and officers' run-off insurance cover for such directors and officers obtained in accordance with clause 6.10 is maintained (and DuluxGroup may, at its election, pay any reasonable amounts necessary to ensure such maintenance upfront and prior to the implementation of the Scheme); and
 - (ii) for a period of 7 years from the Implementation Date, ensure that the constitutions of DuluxGroup and each other member of the DuluxGroup Group continue to contain rules which are no less favourable overall than the rules contained in those constitutions at the date of this deed that provide for each company to indemnify each of its current and previous directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a member of the DuluxGroup Group.

- (b) The undertakings contained in clause 6.9(a) are subject to any Corporations Act restriction and will be read down accordingly.
- (c) DuluxGroup receives and holds the benefit of clause 6.9(a) to the extent it relates to the other DuluxGroup Indemnified Parties for their benefit.
- (d) The undertakings contained in clause 6.9(a) are given until the earlier of the end of the relevant period specified in clause 6.9(a) or the relevant member of the DuluxGroup Group ceasing to be part of the DuluxGroup Group.

6.10 D&O insurance

Each party acknowledges that, notwithstanding any other provision of this deed, DuluxGroup may, prior to the Implementation Date, enter into arrangements to secure and place a directors' and officers' run-off insurance policy in respect of any current director or officer of any member of the DuluxGroup Group that applies for no less than a 7 year period following the Implementation Date, provided that DuluxGroup has consulted with Nippon Paint and provided a copy of said insurance policy to Nippon Paint before DuluxGroup enters into the arrangements, and has considered in good faith any reasonable comments provided by Nippon Paint.

7 Nippon Paint financing

- (a) Nippon Paint must use commercially reasonable efforts (including enforcing its rights under the Debt Commitment Letter) to obtain the proceeds of the Debt Financing on the terms and conditions described in the Debt Commitment Letter on or prior to the Business Day immediately before the Implementation Date, including by using all reasonable efforts to:
 - (i) maintain in effect the Debt Commitment Letter;
 - (ii) negotiate the Debt Document with respect to the Debt Financing on terms which do not:
 - (A) reduce the aggregate amount of the Debt Financing in such way that will or would be reasonably likely to prejudice Nippon Paint's ability to satisfy its obligations under clause 2.2(b)(ii); or
 - (B) impose new or additional conditions precedent to funding of the Debt Financing or adversely modify any such conditions precedent; and
 - (iii) satisfy on a timely basis all conditions precedent to funding of the Debt Financing.
- (b) Nippon Paint must give DuluxGroup prompt written notice of:
 - (i) execution of the Debt Document;
 - (ii) any termination or repudiation of the Debt Commitment Letter or Debt Document;
 - (iii) any material breach or default of the Debt Commitment Letter or Debt Document by any party thereto in a manner which could reasonably be expected to prejudice Nippon Paint's ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll; or
 - (iv) any material variations of the Debt Commitment Letter or the Debt Documents (or the substitution of such agreements with alternative financing arrangements) together with copies of such variations or alternative financing arrangements.

- (c) Nippon Paint must not terminate or agree to terminate the Debt Commitment Letter or Debt Document without the prior written consent of DuluxGroup where to do so will or would be reasonably likely to prejudice Nippon Paint's ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll.
- (d) Nippon Paint must not, without the prior written consent of DuluxGroup:
 - (i) replace, amend or agree to amend the Debt Commitment Letter or Debt Document;
 - (ii) waive or agree to waive any of its rights under the Debt Commitment Letter or Debt Document; or
 - (iii) agree or consent to any novation, assignment or transfer of any counterparty's obligations under the Debt Commitment Letter or Debt Document,where to do so will or would be reasonably likely to prejudice Nippon Paint's ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll.
- (e) If any portion of the Debt Financing becomes unavailable for any reason, Nippon Paint must:
 - (i) promptly notify DuluxGroup of such unavailability and the reason; and
 - (ii) use all reasonable efforts to obtain alternative debt financing:
 - (A) in an amount sufficient, when taken together with the available portion of the Debt Financing, to perform its obligations under this deed and the Deed Poll; and
 - (B) on terms which do not include any conditions to the consummation of such alternative financing that are more onerous than the conditions contained in the Debt Commitment Letter.

8 Exclusivity

8.1 Termination of existing discussions

DuluxGroup represents and warrants to Nippon Paint that as at the date of this deed:

- (a) it and its Representatives are not party to and have terminated all discussions with any Third Party in relation to, or which could reasonably be expected to lead to, a Competing Proposal;
- (b) any due diligence access granted to any Third Party for the purposes of such Third Party making, formulating, developing or finalising a Competing Proposal has been terminated; and
- (c) any Third Party to whom non-public information in relation to the DuluxGroup Group has been provided or made available for the purposes of such Third Party making, formulating, developing or finalising a Competing Proposal has been requested to immediately return or destroy that non-public information in accordance with any agreed terms of confidentiality currently in place with such Third Party.

8.2 No-shop

During the Exclusivity Period, DuluxGroup must not, and must procure that its Representatives do not directly or indirectly:

- (a) solicit, encourage, initiate or invite enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal; or
- (b) communicate to any person any intention to do any of the things referred to in clause 8.2(a).

8.3 No-talk and no due diligence

Subject to clause 8.5, during the Exclusivity Period, DuluxGroup must not, and must procure that its Representatives do not directly or indirectly:

- (a) participate in or continue any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Competing Proposal;
- (b) provide, make available, or permit access to any Third Party or its Representatives to any non-public information (including due diligence information) relating to the DuluxGroup Group for the purposes of such Third Party formulating, developing or finalising a Competing Proposal;
- (c) provide or permit access to any Third Party or its Representatives to any premises owned or occupied by a member of the DuluxGroup Group for the purposes of such Third Party formulating, developing or finalising a Competing Proposal;
- (d) provide or permit access to any Third Party or its Representatives to any officers or employees of the DuluxGroup Group (including Key Management Personnel) for the purposes of such Third Party formulating, developing or finalising a Competing Proposal; or
- (e) communicate to any person any intention to do any of the things referred to in clauses 8.3(a) to 8.3(d).

8.4 Notification obligation

During the Exclusivity Period, DuluxGroup must notify Nippon Paint promptly and in any event within two Business Days if DuluxGroup or any of its Representatives receives a written Competing Proposal, and such notice must set out the material terms and conditions of the Competing Proposal and:

- (a) subject to clause 8.5, the identity of the Third Party making the Competing Proposal; or
- (b) otherwise, a general description of the nature of the Third Party.

8.5 Fiduciary exception

Clauses 8.3 and 8.4(a) do not apply to the extent that they restrict any person from taking or not taking any action with respect to a bona fide Competing Proposal which did not arise from a breach of clauses 8.1 or 8.2 where the DuluxGroup Board, acting in good faith, determines:

- (a) after consultation with its financial adviser, that the Competing Proposal is, or could reasonably be expected to become, a Superior Proposal; and
- (b) after receiving advice from its external legal adviser, that failing to respond to the Competing Proposal may constitute a breach of the DuluxGroup Directors' fiduciary or statutory duties.

8.6 Matching right

- (a) DuluxGroup must procure that no DuluxGroup Director publicly changes, withdraws or adversely modifies his or her recommendation in favour of the Scheme to

publicly recommend a Competing Proposal, and must not enter into any agreement to implement a Competing Proposal, unless:

- (i) the DuluxGroup Board has determined, acting in good faith and after consultation with its financial adviser, that the Competing Proposal is, or following the taking of reasonable steps would likely be, a Superior Proposal;
 - (ii) DuluxGroup has provided Nippon Paint in writing with the material terms and conditions of the Competing Proposal (including the identity of the Third Party making the Competing Proposal); and
 - (iii) within 5 Business Days of receiving notice from DuluxGroup under clause 8.6(a)(ii), Nippon Paint does not make an irrevocable offer in writing to DuluxGroup in respect of an amendment to the Scheme Consideration or other terms of the Transaction (**Nippon Paint Counterproposal**) that the DuluxGroup Board determines, acting in good faith and after consultation with its financial adviser, would produce an outcome for DuluxGroup Shareholders that is at least as favourable to them as compared to the outcome that would be produced by the Competing Proposal.
- (b) DuluxGroup acknowledges and agrees that each successive material modification of any Competing Proposal will constitute a new Competing Proposal for the purposes of the requirements under this clause 8.6 and accordingly DuluxGroup must comply with clause 8.6(a) in respect of any such new Competing Proposal.
- (c) If Nippon Paint makes a Nippon Paint Counterproposal before the deadline specified in clause 8.6(a)(iii) and the DuluxGroup Board determines that such Nippon Paint Counterproposal would produce an outcome for DuluxGroup Shareholders that is at least as favourable to them as the outcome that would be produced by the Competing Proposal, then Nippon Paint and DuluxGroup must each use reasonable endeavours to agree any necessary amendments to this deed, the Scheme and the Deed Poll and to agree any other documentation required to implement the Nippon Paint Counterproposal as soon as reasonably practicable.

8.7 Normal provision of information

Nothing in this clause 8 prevents DuluxGroup from:

- (a) providing information to:
 - (i) its Representatives or to any Government Agencies; or
 - (ii) its auditors, customers, financiers, joint venturers and suppliers acting in that capacity in the ordinary course of business;
- (b) fulfilling its continuous disclosure obligations; or
- (c) making presentations to, or responding to bona fide enquiries from, brokers, portfolio investors or analysts in the ordinary course of business or for the purpose of promoting the merits of the Transaction.

9 Break Fees

9.1 Background

This clause 9 has been agreed to in circumstances where:

- (a) each party believes it and its shareholders will derive significant benefits from the implementation of the Scheme;

- (b) each party has incurred and will further incur significant costs in connection with the Scheme, which will include significant opportunity costs if the Scheme is not implemented;
- (c) each party has requested that provision be made for the payment outlined in clause 9.2 or 9.3 (as applicable), and neither of them would have entered into this deed had such provision not been made;
- (d) each party believes that:
 - (i) it is reasonable and appropriate to agree to pay the Break Fee or the Reverse Break Fee (as applicable) to secure the other party's entry into this deed; and
 - (ii) each of the Break Fee and Reverse Break Fee represents a genuine and reasonable estimate of costs that would be incurred by either party (as applicable) if the Scheme is not implemented; and
- (e) each party has received separate legal advice in relation to this deed and the operation of this clause 9.

9.2 Payment of Break Fee

Subject to clauses 9.5 and 9.6, DuluxGroup must pay Nippon Paint the Break Fee, without set-off or withholding, except as required by any law relating to Tax, and within 10 Business Days after receipt of a written demand from Nippon Paint, if any of the following events occur:

- (a) before the Second Court Date, a DuluxGroup Director:
 - (i) changes, withdraws or adversely modifies his or her recommendation that DuluxGroup Shareholders vote in favour of the resolution to approve the Scheme; or
 - (ii) publicly recommends a Competing Proposal,

other than where the Independent Expert has concluded that the Scheme is not or is no longer in the best interests of DuluxGroup Shareholders (including in any updated or supplementary Independent Expert's Report released, or which will be released, to ASX) except where the Independent Expert states that or to the effect that this conclusion is due to the existence of a Competing Proposal;
- (b) Nippon Paint terminates this deed in accordance with clause 12.1(b);
- (c) a Competing Proposal is publicly announced by a Third Party after the date of this deed and before the Second Court Date, and, within 6 months after such announcement, the Third Party making the Competing Proposal acquires all or a majority of the DuluxGroup Shares or otherwise acquires Control of DuluxGroup; or
- (d) at any time before termination of this deed or the Implementation Date, DuluxGroup enters into any arrangement, agreement or understanding (in writing or otherwise) to implement a Competing Proposal,

unless, prior to such occurrence (or, in the case of paragraph (b) only, prior to Nippon Paint giving DuluxGroup notice in accordance with clause 12.1(b)), DuluxGroup has given notice to Nippon Paint in accordance with clause 12.1(b) and the relevant circumstances set out in such notice have not been remedied in accordance with clause 12.1(b)(ii), or notice in accordance with clause 3.5(c).

9.3 Payment of Reverse Break Fee

Subject to clauses 9.5 and 9.6, Nippon Paint must pay DuluxGroup the Reverse Break Fee, without set-off or withholding, except as required by any law relating to Tax, and

within 10 Business Days after receipt of a written demand from DuluxGroup, if DuluxGroup terminates this deed in accordance with clause 12.1(b), unless, prior to DuluxGroup giving Nippon Paint notice in accordance with clause 12.1(b), Nippon Paint has given notice to DuluxGroup in accordance with clause 12.1(b) and the relevant circumstances set out in such notice have not been remedied in accordance with clause 12.1(b)(ii), or notice in accordance with clause 3.5(c).

9.4 Nature of payment

The payment by a party under clauses 9.2 or 9.3 is an amount to compensate the other party for the following costs and expenses:

- (a) external advisory costs (excluding success fees);
- (b) internal costs such as costs of management and directors' time, risk management costs and capital costs;
- (c) out-of-pocket expenses; and
- (d) opportunity costs incurred in pursuing the Transaction or in not pursuing other alternative acquisitions or strategic initiatives which otherwise could have been developed.

9.5 Qualifications to Break Fee and Reverse Break Fee

- (a) No amount is payable by DuluxGroup or Nippon Paint under this clause 9 if the Scheme becomes Effective.
- (b) This clause 9 imposes obligations on DuluxGroup and Nippon Paint only to the extent that the performance of those obligations:
 - (i) does not constitute unacceptable circumstances as declared by the Takeovers Panel;
 - (ii) are not found by a court to constitute a breach of the fiduciary or statutory duties of any DuluxGroup Director or any director of Nippon Paint (as applicable); or
 - (iii) is not otherwise unlawful or held to be unenforceable by a court.
- (c) If the Break Fee or Reverse Break Fee has been paid by DuluxGroup or Nippon Paint (as applicable) and clause 9.5(a) or 9.5(b) applies, the party who received such amount must reimburse all (or the relevant portion specified by a court or the Takeovers Panel, as applicable) of that amount to the payor within 10 Business Days after receipt of a written demand for reimbursement from the payor.
- (d) Any amount payable by DuluxGroup or Nippon Paint (as applicable) under this clause 9 is only payable once.

9.6 Other claims

- (a) Notwithstanding any other provision of this deed, each party acknowledges and agrees that:
 - (i) the payment of the Break Fee by DuluxGroup to Nippon Paint is Nippon Paint's sole and exclusive remedy in respect of the matter giving rise to the payment of the Break Fee and otherwise in respect of this deed and the Scheme and no further damages, fees, expenses or reimbursements of any kind will be payable by DuluxGroup in respect of such matter or otherwise in connection with the Scheme or this deed;
 - (ii) the maximum aggregate amount which DuluxGroup may be required to pay in relation to this deed and the Scheme (including any breach of this deed by

DuluxGroup) is the Break Fee, and in no event will the aggregate liability of DuluxGroup under or in connection with this deed exceed the Break Fee; and

- (iii) if the Break Fee is paid to Nippon Paint in accordance with clause 9.2, neither Nippon Paint nor any of its Related Bodies Corporate may make any claim (of whatsoever nature) against DuluxGroup or any other DuluxGroup Indemnified Party under or in connection with this deed or the Scheme.
- (b) Notwithstanding any other provision of this deed (other than clause 9.6(c)), each party acknowledges and agrees that:
 - (i) the payment of the Reverse Break Fee by Nippon Paint to DuluxGroup is DuluxGroup's sole and exclusive remedy in respect of the matter giving rise to the payment of the Reverse Break Fee and otherwise in respect of this deed and the Scheme and no further damages, fees, expenses or reimbursements of any kind will be payable by Nippon Paint in respect of such matter or otherwise in connection with the Scheme or connection with this deed;
 - (ii) the maximum aggregate amount which Nippon Paint may be required to pay in relation to this deed and the Scheme (including any breach of this deed by Nippon Paint) is the Reverse Break Fee, and in no event will the aggregate liability of Nippon Paint under or in connection with this deed exceed the Reverse Break Fee; and
 - (iii) if the Reverse Break Fee is paid to DuluxGroup in accordance with clause 9.3, neither DuluxGroup nor any of its Related Bodies Corporate may make any claim (of whatsoever nature) against Nippon Paint or any other Nippon Paint Indemnified Party under or in connection with this deed or the Scheme.
- (c) Clause 9.6(b) does not apply to any claim in respect of, and does not limit the liability of Nippon Paint in connection with, any failure to perform the Deed Poll or to fully discharge the obligations under clause 2.2(b)(ii) if the Scheme becomes Effective.

10 Warranties

10.1 DuluxGroup Warranties

DuluxGroup represents and warrants to Nippon Paint each of the DuluxGroup Warranties is true and correct.

10.2 DuluxGroup's indemnity

DuluxGroup agrees to indemnify Nippon Paint against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising that Nippon Paint or any of the other Nippon Paint Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the DuluxGroup Warranties.

10.3 Nippon Paint Warranties

Nippon Paint represents and warrants to DuluxGroup each of the Nippon Paint Warranties is true and correct.

10.4 Nippon Paint's indemnity

Nippon Paint agrees to indemnify DuluxGroup against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising that

DuluxGroup or any of the other DuluxGroup Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the Nippon Paint Warranties.

10.5 Qualifications on DuluxGroup Warranties

- (a) The DuluxGroup Warranties and the indemnity in clause 10.2 are each subject to matters that:
 - (i) are required or permitted by this deed or the Scheme or any transaction contemplated by either;
 - (ii) have been Fairly Disclosed in the Disclosure Materials or Disclosure Letter;
 - (iii) would have been disclosed to Nippon Paint had Nippon Paint conducted the searches referred to in clause 6.1(b)(viii); or
 - (iv) are within the actual knowledge of Nippon Paint as at the date of this deed, which for these purposes will be taken to include and be limited to the facts, matters and circumstances of which the following individuals are actually aware as at the date of this deed:
 - (A) Tetsushi Tado;
 - (B) Yasuyuki Matsumoto;
 - (C) Hiroshi Takenaka;
 - (D) Yutaka Kagami; and
 - (E) Yasumasa Okamoto.
- (b) Any DuluxGroup Warranties that are subject to the awareness, knowledge or belief of DuluxGroup are given by reference to the actual knowledge of any Key Management Personnel (having made reasonable enquiries) as at the date of this deed.

10.6 Qualifications on Nippon Paint Warranties

The Nippon Paint Warranties and the indemnity in clause 10.4 are each subject to matters that are required or permitted by this deed, the Scheme or the Debt Commitment Letter or the Debt Documents (in the form provided to DuluxGroup prior to execution of this deed), or any transaction contemplated by them.

10.7 Survival of Warranties

Each Warranty:

- (a) is severable and separate, and is not limited by reference to any other Warranty or any other provision of this deed;
- (b) survives the termination of this deed; and
- (c) subject to this deed, is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this deed.

10.8 Survival of indemnities

Each indemnity in this deed (including those in clauses 10.2 and 10.4):

- (a) is severable;
- (b) is a continuing obligation;

- (c) constitutes a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this deed; and
- (d) survives the termination of this deed.

10.9 Timing of Warranties

Each Warranty is given:

- (a) at the date of this deed;
- (b) at the date the Scheme Booklet is despatched to DuluxGroup Shareholders; and
- (c) at 8:00am on the Second Court Date,

unless such Warranty is expressed to be given at a particular time, in which case it is given at that time.

10.10 Reliance

The parties acknowledge that Nippon Paint has entered into this deed in reliance on the DuluxGroup Warranties and DuluxGroup has entered into this deed in reliance on the Nippon Paint Warranties.

11 Releases

11.1 Release of DuluxGroup Indemnified Parties

- (a) Subject to clause 11.1(b), Nippon Paint releases any and all rights that it has or may have or that may otherwise accrue to it after the date of this deed, and agrees with DuluxGroup that it will not make any claim (of whatsoever nature), against any DuluxGroup Indemnified Party (other than DuluxGroup) as at the date of this deed in connection with:
 - (i) any breach of any covenant, representation or warranty given by DuluxGroup under this deed;
 - (ii) any disclosures or information provided in connection with this deed or the Scheme containing any statement which is false or misleading (whether by omission or otherwise); or
 - (iii) any failure to provide information in connection with this deed or Scheme, except where such DuluxGroup Indemnified Party has engaged in fraud, wilful concealment or wilful misconduct.
- (b) The releases in clause 11.1(a) are subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.
- (c) DuluxGroup receives and holds the benefit of clause 11.1(a) for each other DuluxGroup Indemnified Party.

11.2 Release of Nippon Paint Indemnified Parties

- (a) Subject to clause 11.1(b), DuluxGroup releases any and all rights that it has or may have or that may otherwise accrue to it after the date of this deed, and agrees with Nippon Paint that it will not make any claim (of whatsoever nature), against any Nippon Paint Indemnified Party (other than Nippon Paint) as at the date of this deed in connection with:
 - (i) any breach of any covenant, representation or warranty given by Nippon Paint under this deed;

- (ii) any disclosures or information provided in connection with this deed or the Scheme containing any statement which is false or misleading (whether by omission or otherwise); or
 - (iii) any failure to provide information in connection with this deed or Scheme, except where such Nippon Paint Indemnified Party has engaged in fraud, wilful concealment or wilful misconduct.
 - (b) The releases in clause 11.2(a) are subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.
 - (c) Nippon Paint receives and holds the benefit of clause 11.2(a) for each other Nippon Paint Indemnified Party.
-

12 Termination

12.1 Termination by DuluxGroup or Nippon Paint

- (a) DuluxGroup or Nippon Paint may terminate this deed at any time before 8:00am on the Second Court Date in accordance with clause 3.5.
- (b) DuluxGroup or Nippon Paint may terminate this deed at any time before 8:00am on the Second Court Date if Nippon Paint (where DuluxGroup is the terminating party) or DuluxGroup (where Nippon Paint is the terminating party) commits a material breach of this deed (including the Warranties), provided that:
 - (i) the terminating party has given written notice to the other parties setting out the relevant circumstances and stating an intention to terminate this deed; and
 - (ii) the relevant circumstances have not been remedied to the reasonable satisfaction of the terminating party within 10 Business Days from the date such notice is given (or any shorter period ending at 5:00pm on the Business Day immediately before the Second Court Date).
- (c) Termination under clause 12.1(b) will take effect at the expiry of the period referred to in clause 12.1(b)(ii).

12.2 Termination by Nippon Paint

Nippon Paint may terminate this deed by notice in writing to DuluxGroup at any time before 8:00am on the Second Court Date if any DuluxGroup director publicly withdraws, changes or adversely modifies his or her recommendation that DuluxGroup Shareholders vote in favour of the resolution to approve the Scheme or publicly recommends a Competing Proposal.

12.3 Termination by DuluxGroup

DuluxGroup may terminate this deed by notice in writing to Nippon Paint at any time before 8:00am on the Second Court Date if all or a majority of DuluxGroup Directors withdraw or change their recommendation in either of the circumstances permitted by clauses 2.3(b)(iii) or 2.3(b)(iv).

12.4 Effect of termination

If this deed is terminated in accordance with this clause 12, this deed will cease to have force and effect without any liability or obligation on the part of any party, except that:

- (a) this clause 12 and clauses 1, 9, 10, 11 and 14 through 18 (inclusive) will survive termination; and
- (b) each party will retain any rights and remedies that accrued prior to termination, including any rights and remedies in respect of any past breach of this deed or (if applicable) in respect of the breach giving rise to termination.

13 Public announcements

Immediately after execution of this deed:

- (a) DuluxGroup must issue a public announcement; and
- (b) Nippon Paint must issue a public announcement,

in each case in a form agreed between the parties, and the parties must consult with each other in good faith in relation to all public announcements relating to the Transaction after the date of this deed to the extent that such announcements contain material information which has not previously been disclosed publicly, except where to do so would prevent either party from complying with its continuous disclosure obligations or other applicable law, and provided that neither party will be required to consult with the other in relation to any public announcement relating to termination of this deed or any Competing Proposal.

14 Confidentiality

- (a) DuluxGroup and Nippon Paint acknowledge and agree that they continue to be bound by the Confidentiality Deed, provided that:
 - (i) this deed prevails to the extent of any inconsistency with the Confidentiality Deed; and
 - (ii) notwithstanding any provision of this deed or the Confidentiality Deed, DuluxGroup will not be required to consult with Nippon Paint in relation to any public announcement relating to termination of this deed or any Competing Proposal.
- (b) The rights and obligations of the parties under the Confidentiality Deed survive termination of this deed.

15 Nominee

- (a) Nippon Paint may nominate any of its wholly-owned subsidiaries (**Nominee**) to acquire the DuluxGroup Shares under the Scheme by giving written notice to DuluxGroup on or before the date that is 5 Business Days before the First Court Date.
- (b) If Nippon Paint gives a notice in accordance with clause 15(a), then:
 - (i) unless the context requires otherwise, any references in this deed, the Deed Poll or the Scheme to Nippon Paint acquiring the Scheme Shares or taking any other action under or in respect of this deed, the Deed Poll or the Scheme are to be read as references to the Nominee doing so, and the parties shall document the necessary modifications to Attachments B and C to this deed prior to the First Court Date;

- (ii) Nippon Paint must procure, and undertakes and warrants to DuluxGroup (in DuluxGroup's own right and separately for the benefit each of the Scheme Shareholders) that it will procure, that the Nominee complies with its obligations under this deed, the Deed Poll and the Scheme; and
- (iii) notwithstanding clauses 15(b)(i) and 15(b)(ii), Nippon Paint will continue to be bound by all of the obligations of Nippon Paint under this deed, the Deed Poll and the Scheme and will not be released from any such obligation. For the avoidance of doubt, Nippon Paint will not be in breach of any obligation under this deed, the Deed Poll or the Scheme if the Nominee fully discharges that obligation in accordance with the terms of this deed, the Deed Poll or the Scheme (as applicable).

16 Duty, costs and expenses

16.1 Duty

Nippon Paint:

- (a) must pay all stamp Duties and any related interest, fines and penalties in respect of this deed, the Transaction, the Scheme or any transaction or steps effected or taken under, or contemplated by, this deed, the Transaction or the Scheme; and
- (b) indemnifies DuluxGroup against any liability arising from or in connection with any failure by Nippon Paint to comply with clause 16.1(a).

16.2 Costs and expenses

Except as otherwise provided in this deed, each party must pay its own costs and expenses in connection with the negotiation, preparation, execution and performance of this deed and the proposed, attempted or actual implementation of the Transaction.

17 GST

- (a) In this clause 17, a word or expression defined in the GST Law has the meaning given to it in the GST Law.
- (b) If a party makes a supply under or in connection with this deed in respect of which GST is payable, the consideration for the supply but for the application of this clause 17(b) (**GST exclusive consideration**) is increased by an amount (**Additional Amount**) equal to the GST exclusive consideration multiplied by the rate of GST prevailing at the time the supply is made.
- (c) If a party must reimburse, compensate or indemnify another party for a loss, cost or expense, the amount to be reimbursed, compensated or indemnified is first reduced by the amount equal to any input tax credit the other party, or the representative member of the GST group of which the other party is a member, is entitled to with respect to the loss, cost or expense, and then increased in accordance with clause 17(b) if such amount is consideration for a taxable supply made under or in connection with this deed.
- (d) A party need not make a payment of the Additional Amount until it receives a tax invoice or adjustment note (as appropriate) for the supply to which the payment relates.

18 General

18.1 Notices

- (a) A notice, consent, approval, waiver or other communication sent by a party under this deed (**Notice**) must be:
- (i) in writing;
 - (ii) sent by an authorised representative of the sender; and
 - (iii) marked for the attention of the person named below, and must be:
- (iv) left at, or sent by commercial courier to, the address set out below; or
 - (v) sent by email to the address set out below.

DuluxGroup

Attention: Simon Black (Company Secretary)

Address: 1956 Dandenong Road, Clayton VIC 3168, Australia

Email: simon.black@duluxgroup.com.au

with a copy (for information purposes only) to npathak@gtlaw.com.au and akaue@gtlaw.com.au

Nippon Paint

Attention: Yasumasa Okamoto (Legal Manager)

Address: 2-1-2 Oyodo Kita, Kita-ku, Osaka 531-8511 Japan

Email: nphdlegal.okamoto@nipponpaint.jp

with a copy (for information purposes only) to Masaki Noda at m_noda@jurists.co.jp and Andrew Walker at awalker@claytonutz.com

- (b) Subject to clause 18.1(c), a Notice is taken to be received:
- (i) if sent by delivery, when it is delivered;
 - (ii) if sent by commercial courier, three days after posting (or seven days after posting if sent from one country to another); or
 - (iii) if sent by email:
 - (A) when the sender receives an automated message confirming delivery; or
 - (B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,whichever happens first.
- (c) If a Notice is taken to be received under clause 18.1(b):
- (i) before 9:00am on a Business Day, it will be taken to be received at 9:00am on that Business Day; or
 - (ii) after 5:00pm on a Business Day or on a non-Business Day, it will be taken to be received at 9:00am on the next Business Day.

18.2 Governing law and jurisdiction

- (a) This deed is governed by the laws of Victoria, Australia.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Victoria, Australia and courts competent to hear appeals from those courts.

18.3 No representation or reliance

- (a) Each party acknowledges that no other party (nor any person acting on behalf of another party) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed and (to the maximum extent permitted by law) all other representations, warranties and conditions implied by statute or otherwise in relation to any matter relating to this deed, the circumstances surrounding the parties' entry into it and the transactions contemplated by it are expressly excluded.
- (b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other person, except for any representation or inducement expressly set out in this deed.

18.4 No merger

The rights and obligations of the parties do not merge on completion of the Transaction. They survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transaction.

18.5 Waivers and consents

- (a) Failure to exercise or enforce, a delay in exercising or enforcing, or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed by any party does not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.
- (b) Any waiver or consent given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of any term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.
- (d) Except where this deed expressly provides otherwise, where the consent of a party is required under this deed, such consent may be given or withheld in that party's absolute discretion.

18.6 Variation

- (a) Subject to clause 18.6(b), this deed may only be varied by a document signed by or on behalf of DuluxGroup and Nippon Paint.
- (b) On and from the Implementation Date, the parties may not amend or vary this deed in a manner that adversely affects any right or benefit conferred on a DuluxGroup Indemnified Party or Nippon Paint Indemnified Party under this deed without the prior written consent of the majority of directors of DuluxGroup or Nippon Paint (as applicable) at the date of this deed.

18.7 Assignment

- (a) A party may not assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior written consent of the other parties.
- (b) Nippon Paint may assign, grant a security interest over, novate or otherwise transfer by way of security, any of its rights or obligations under this deed to a financier or financiers (or a security agent or security trustee thereof) without the prior written consent of DuluxGroup solely for the purpose of obtaining finance or providing security in connection with the Transaction.

18.8 Further action

Each of the parties will do all things and execute all further documents necessary to give full effect to this deed.

18.9 Entire agreement

Subject to clause 14, this deed supersedes all previous agreements, understandings, negotiations or deeds (other than the Confidentiality Deed) in respect of its subject matter and embodies the entire agreement between the parties.

18.10 Severability

- (a) If the whole or any part of a provision of this deed is void, unenforceable or illegal in a jurisdiction, it is severed for that jurisdiction but only to the extent that it is void, unenforceable or illegal and provided that it will have full force and effect in any other jurisdiction.
- (b) Where a provision (or any part thereof) is severed in a jurisdiction, the remainder of this deed will have full force and effect in that (and any other) jurisdiction.
- (c) This clause 18.10 does not apply to any severance that alters the basic nature of this deed or is contrary to public policy.

18.11 Counterparts

This deed may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

Schedule 1 Dictionary

1 Dictionary

Accounting Standards means, at any time:

- (a) the requirements of the Corporations Act about the preparation and contents of financial reports;
- (b) the accounting standards approved under the Corporations Act; and
- (c) generally accepted accounting principles, policies, practices and procedures in Australia to the extent not inconsistent with the accounting standards described in paragraph (b).

Additional Amount has the meaning given in clause 17(b).

Aggregate Scheme Consideration means the Scheme Consideration multiplied by the total number of Scheme Shares.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it.

ATO means the Australian Taxation Office.

Break Fee means \$38,146,525.

Business Day means a day that is not a Saturday, Sunday or public holiday in Melbourne, Australia or Tokyo, Japan.

Competing Proposal means any proposal, offer, agreement, arrangement or transaction which, if entered into or completed substantially in accordance with its terms, would result in a Third Party (either alone or together with one or more Associates) directly or indirectly:

- (a) acquiring a Relevant Interest or economic interest in 15% or more of all DuluxGroup Shares, other than in the ordinary course of trading on ASX;
- (b) acquiring, or acquiring an economic interest in, all or a material part of the assets or business of the DuluxGroup Group (where a material part means assets representing 15% or more of the value of the DuluxGroup Group's total assets); or
- (c) acquiring Control of, or merging with, DuluxGroup, whether by takeover bid, scheme of arrangement or shareholder approved acquisition,

or would otherwise result in the Transaction not being able to be implemented on the basis set out in this deed.

Condition means each condition set out in clause 3.1.

Confidentiality Deed means the confidentiality deed between DuluxGroup and Nippon Paint dated 5 March 2019.

Consultation Notice has the meaning given in clause 3.5(a).

Continuation Period has the meaning given in clause 6.7(a).

Continuing Employees has the meaning given in clause 6.7(a).

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act as agreed in writing between Nippon Paint and DuluxGroup.

Court Documents means the documents required for the purposes of the Court Hearings, including (as applicable) originating process, affidavits, submissions and draft minutes of Court orders.

Court Hearings means the First Court Hearing and Second Court Hearing.

Debt Commitment Letter means the binding, credit-approved, executed commitment letter and accompanying facility agreement from Sumitomo Mitsui Banking Corporation addressed to Nippon Paint and dated on or about the date of this deed.

Debt Document means the facility agreement related to the Debt Financing on terms contemplated by the Debt Commitment Letter.

Debt Financing means the debt financing commitment pursuant to the Debt Commitment Letter.

Deed Poll means the deed poll to be entered into by Nippon Paint in the form of Attachment C.

Disclosure Letter means the letter so entitled from DuluxGroup provided to Nippon Paint before this deed is entered into.

Disclosure Materials means the Disclosure Letter and the written information, documents and responses disclosed or made available to Nippon Paint or its Representatives by or on behalf of DuluxGroup on or before 7:00pm on 15 April 2019 in the "Project Scarlett" virtual data room (an index of which has been initialled by the parties' lawyers before execution of this deed for the purposes of identification).

DuluxGroup Board means the board of directors of DuluxGroup.

DuluxGroup Director means a director of DuluxGroup.

DuluxGroup Group means, collectively, DuluxGroup and its Related Bodies Corporate.

DuluxGroup Indemnified Parties means DuluxGroup and its Related Bodies Corporate and their respective current and former directors, officers, employees and advisers.

DuluxGroup Information means all the information in the Scheme Booklet other than the Nippon Paint Information and the Independent Expert's Report.

DuluxGroup Share means a fully paid ordinary share in the capital of DuluxGroup.

DuluxGroup Shareholder means a holder of one or more DuluxGroup Shares, as shown in the Share Register.

DuluxGroup Warranties means the representations and warranties of DuluxGroup set out in Schedule 2.

Duty means any stamp, transaction or registration duty or similar charge imposed by any Government Agency and includes any interest, fine, penalty charge or other amount imposed in respect of any of them, but excludes any Tax.

EBITDA means earnings of the DuluxGroup Group before interest, tax, depreciation and amortisation calculated in accordance with the accounting policies and practices applied by DuluxGroup as at the date of this deed, excluding non-recurring items and non-operating items and also excluding abnormal items such as the Transaction Costs.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any security interest (as defined in section 12 of the *Personal Property Securities Act 2009* (Cth)).

End Date means the date that is 5 months after the date of this deed or such later date as Nippon Paint and DuluxGroup agree in writing.

Exclusivity Period means the period from the date of this deed until the earlier of:

- (a) the termination of this deed in accordance with clause 12; and
- (b) the End Date.

Fairly Disclosed means, in relation to a matter, that sufficient information about that matter is disclosed in such way to enable a reasonable and sophisticated investor experienced in M&A transactions involving businesses of the same or similar nature to the businesses conducted by the DuluxGroup Group to identify the nature and scope of the relevant matter.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

First Court Date means the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act directing DuluxGroup to convene the Scheme Meeting is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **First Court Hearing**.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).

GST means goods and services tax, or a similar value added tax, levied or imposed in Australia under the GST Law.

GST exclusive consideration has the meaning given in clause 17(b).

GST Law has the meaning given to it in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Implementation Date means the fifth Business Day after the Record Date or such other day as Nippon Paint and DuluxGroup agree in writing.

Incentive Shares means DuluxGroup Shares granted under any Share Incentive Plan, including LTEIP Shares and DuluxGroup Shares granted upon the exercise of Share Rights, the number of which is as set out in Schedule 5.

Independent Expert means the independent expert to be appointed by DuluxGroup to prepare the Independent Expert's Report in accordance with clause 4.1(a).

Independent Expert's Report means the report prepared and issued by the Independent Expert in connection with the Scheme for inclusion in the Scheme Booklet opining on whether the Scheme is in the best interests of DuluxGroup Shareholders, and includes any update or supplement to that report.

Insolvency Event means, in relation to any entity:

- (a) the entity resolving or applying to court for an order that it be wound up or a court making an order for the winding up or dissolution of the entity;
- (b) a liquidator, provisional liquidator, administrator, receiver, receiver and manager, trustee or other insolvency official being appointed to the entity or in relation to the whole, or a substantial part, of its assets;
- (c) the entity executing a deed of company arrangement or other compromise or arrangement with its creditors or any class of them;
- (d) the entity ceases, or threatens to cease to, carry on substantially all the business conducted by it as at the date of this deed;
- (e) the entity is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act (or, if appropriate, legislation of its place of incorporation);
- (f) the entity being deregistered as a company or otherwise dissolved; or
- (g) something having a substantially similar effect to any of the things described in paragraphs (a) to (f) happens in connection with the entity under the law of Australia or any foreign jurisdiction.

Interim Dividend has the meaning given in clause 5.1(a).

Key Management Personnel means the key management personnel of DuluxGroup (excluding non-executive directors) from time to time. As at the date of this deed, such persons are:

- (a) Patrick Houlihan;
- (b) Stuart Boxer;
- (c) Patrick Jones;
- (d) Brad Hordern; and
- (e) Martin Ward.

Listing Rules means the official listing rules of ASX.

LTEIP means the DuluxGroup Long Term Equity Incentive Plan.

LTEIP Loan means, in respect of a loan advanced by DuluxGroup under the LTEIP, the amount outstanding on such loan.

LTEIP Shares means DuluxGroup Shares granted under the LTEIP, the number of which is as set out in Schedule 5.

Material Adverse Change means a Specified Event which (either individually or when aggregated with other Specified Events of the same or substantially similar nature) would be reasonably likely to result in the value of EBITDA of the DuluxGroup Group for the financial year ending 30 September 2019 (**FY19 EBITDA**) being at least \$50 million less than what FY19 EBITDA could reasonably be expected to have been but for the relevant Specified Event(s), provided that:

- (a) the impact of the relevant Specified Event(s) on the value of FY19 EBITDA must be determined after taking into account any matters which offset, or are reasonably likely to offset, the impact of the same Specified Event(s) on the value of FY19 EBITDA, subject to DuluxGroup providing reasonable evidence to Nippon Paint of the impact that such matters will have, or are reasonably likely to have, on the value of FY19 EBITDA; and
- (b) any event, matter or occurrence will be disregarded if it:
 - (i) is required or permitted by this deed or the Scheme or transactions contemplated by either;
 - (ii) would have been disclosed to Nippon Paint had Nippon Paint conducted the searches referred to in clause 6.1(b)(viii);
 - (iii) has been Fairly Disclosed in the Disclosure Materials or Disclosure Letter (which, for the avoidance of doubt, includes undertaking actions and matters Fairly Disclosed in the Disclosure Materials or Disclosure Letter which DuluxGroup is considering or proposing to undertake);
 - (iv) is within the actual knowledge of Nippon Paint as at the date of this deed (as determined in accordance with clause 10.5(a)(iv));
 - (v) is approved, consented to or requested by Nippon Paint or any of its Related Bodies Corporate;
 - (vi) relates to incurring or payment of any Transaction Costs, provided that DuluxGroup must use reasonable endeavours not to materially exceed the estimated amount of Transaction Costs specified in the Disclosure Letter; or
 - (vii) results or arises from or in connection with:
 - (A) any actual or proposed change in any law, regulation or policy, or in any accounting principle or standard, or in the interpretation of any of the foregoing;
 - (B) general economic, business or political conditions or changes in any such conditions (including disruptions to, or fluctuations in, financial markets, or changes in interest rates, foreign currency exchange rates or commodity prices) other than such conditions, or changes in any such conditions, that have a disproportionate effect on the DuluxGroup Group as compared to other participants in the industries in which DuluxGroup Group operates;
 - (C) any act of terrorism, war (whether or not declared) natural disaster or the like; or

- (D) the announcement of, or the entry into or performance of, this deed or the Scheme or the transactions contemplated by either.

Material Contract means any agreement or arrangement to which a member of the DuluxGroup Group is party that requires or may require payments to or by a member of the DuluxGroup Group in excess of \$20 million in aggregate over the life of the agreement or arrangement.

Nippon Paint Counterproposal has the meaning given in clause 8.6(a)(iii).

Nippon Paint Indemnified Parties means Nippon Paint and its Related Bodies Corporate and their respective directors, officers, employees and advisers.

Nippon Paint Information means all information regarding Nippon Paint and its Related Bodies Corporate provided by or on behalf of Nippon Paint to DuluxGroup or its Representatives for inclusion in the Scheme Booklet.

Nippon Paint Warranties means the representations and warranties of Nippon Paint set out in Schedule 3.

Nominee has the meaning given in clause 15(a).

Notice has the meaning given in clause 18.1(a).

OIO means the New Zealand Overseas Investment Office which administers New Zealand's overseas investment laws.

Permitted Dividend means the Interim Dividend or a Special Dividend (as applicable).

Prescribed Occurrence means the occurrence of any of the matters set out in Schedule 4.

Record Date means 7:00pm on the fifth Business Day after the Effective Date of the Scheme, or such other time and date as Nippon Paint and DuluxGroup agree in writing.

Regulatory Approval means an approval, consent or notification required to satisfy the Condition in clause 3.1(a) or 3.1(b).

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Relevant Interest has the meaning given in sections 608 and 609 of the Corporations Act.

Representative means, in respect of a party, an employee, agent, officer, director, adviser or financier of or to that party (or of a Related Body Corporate of that party), and, in the case of advisers and financiers, includes employees, officers and agents of the adviser or financier (as applicable).

Reverse Break Fee means \$38,146,525.

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between DuluxGroup and the Scheme Shareholders, in the form of Attachment B or such other form as agreed in writing between Nippon Paint and DuluxGroup.

Scheme Booklet means the explanatory statement in respect of the Scheme to be prepared by DuluxGroup in accordance with section 412 of the Corporations Act, which

will contain (among other things) the Independent Expert's Report (or a concise version of that report), a notice of meeting in respect of the Scheme Meeting and a proxy form.

Scheme Consideration means, in respect of each Scheme Share, \$9.80 subject to, and as adjusted in accordance with, clauses 5.1(d) and 5.2(d) (if applicable).

Scheme Meeting means the meeting of DuluxGroup Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

Scheme Share means a DuluxGroup Share held by a Scheme Shareholder as at the Record Date.

Scheme Shareholder means a DuluxGroup Shareholder as at the Record Date.

Second Court Date means the first day on which an application made to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Share Incentive Plan means an incentive plan operated by DuluxGroup under which DuluxGroup may grant DuluxGroup Shares and/or Shares Rights (or other securities), including the LTEIP, Employee Equity Plan, Sacrifice Share Acquisition Plan and Employee Share Investment Plan.

Share Register means the register of DuluxGroup Shareholders maintained in accordance with the Corporations Act.

Share Right means a right to acquire a DuluxGroup Share granted under any Share Incentive Plan, with the number of rights (to be exercised in accordance with clause 6.5(b)) set out in Schedule 5.

Special Dividend has the meaning given in clause 5.2(a).

Specified Events means any event, occurrence or matter that:

- (a) occurs after the date of this deed; or
- (b) occurs before the date of this deed but only becomes known to Nippon Paint after the date of this deed.

Standard Tax Conditions means the conditions set out in the list of standard tax conditions published in Guidance Note 47 on the website of the Foreign Investment Review Board and such other Tax-related conditions as are customarily imposed by the Foreign Investment Review Board (including, for the avoidance of doubt, conditions requiring information or confirmations to be provided in respect of matters such as ownership structure, borrowings, capital structure, related party financing, cross border related party financing arrangements, distributions, tax consolidation, arrangements covered by "Taxpayer Alerts" and thin capitalisation rules).

Superior Proposal means a bona fide Competing Proposal which the DuluxGroup Board, acting in good faith and after taking written advice from its legal and financial advisers, determines:

- (a) is reasonably capable of being completed substantially in accordance with its terms; and
- (b) would be more favourable to DuluxGroup Shareholders than the Transaction (as modified by any Nippon Paint Counterproposal) if completed substantially in accordance with its terms.

Takeovers Panel means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

Tax means any tax, levy, charge, impost, fee, deduction, GST, compulsory loan or withholding, that is assessed, levied, imposed or collected by any Government Agency and includes any interest, fine, penalty, charge, fee or any other amount imposed on, or in respect of any of the above, but excludes Duty.

Tax Dispute means a dispute or disagreement between a member of the DuluxGroup Group and a Government Agency in relation to a demand or assessment from that Government Agency requiring the payment of Tax or Duty by that member of the DuluxGroup Group.

Third Party means a person other than DuluxGroup, Nippon Paint and their respective Associates.

Timetable means the indicative timetable for the implementation of the Transaction set out in Attachment A.

Transaction means the acquisition of all of the DuluxGroup Shares by Nippon Paint (or the Nominee) by means of the Scheme.

Transaction Costs means costs and expenses (including GST) incurred by DuluxGroup in connection with the Transaction, being fees payable to external advisers of DuluxGroup, the Independent Expert and costs such as share registry, printing, postage and meeting costs involved in implementing the Transaction (but excluding costs of D&O insurance under clause 6.10 and excluding payments to employees and officers of the DuluxGroup Group permitted by clause 6.1, 6.5 and 6.6).

Transition Committee has the meaning given in clause 6.4(a).

Warranty means a DuluxGroup Warranty or Nippon Paint Warranty (as applicable).

2 Interpretation

In this deed, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this deed.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (e) The words “include”, “including”, “such as”, “for example” and similar expressions are not words of limitation and do not limit what else might be included.
- (f) A reference to:
 - (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
 - (ii) a thing (including a chose in action or other right) includes a part of that thing;
 - (iii) a party includes its successors and permitted assigns;

- (iv) a document includes all amendments or supplements to that document;
 - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this deed (as applicable);
 - (vi) this deed includes all schedules and attachments to it;
 - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
 - (viii) an agreement (other than this deed) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
 - (ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and
 - (x) a monetary amount is in Australian dollars.
- (g) An agreement on the part of two or more persons binds them jointly and severally.
- (h) When the day on which something must be done is not a Business Day, that thing must be done on the following Business Day.
- (i) In determining the time of day where relevant to this deed, the time of day is:
- (i) for the purposes of giving or receiving Notice, the time of day where the party receiving Notice is located; or
 - (ii) for any other purpose under this deed, the time of day in the place where the party required to perform an obligation is located.
- (j) No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this deed or any part of it.

Schedule 2 **DuluxGroup Warranties**

- (a) **Validly existing:** Each member of the DuluxGroup Group is a validly existing corporation registered under the laws of its place of incorporation.
- (b) **Power:** DuluxGroup has full corporate power and lawful authority to execute, deliver and perform this deed and the Scheme.
- (c) **Corporate action:** DuluxGroup has taken the necessary corporate action to authorise the entry into this deed and has taken or will take all necessary corporate action to authorise the performance of this deed and the Scheme.
- (d) **Binding:** This deed is a valid and binding obligation on DuluxGroup, enforceable against DuluxGroup in accordance with its terms.
- (e) **Performance:** The execution and performance by DuluxGroup of this deed and each transaction contemplated by it does not and will not violate or breach any provision of:
 - (i) any writ, order or injunction, judgment, law, rule or regulation to which DuluxGroup is party or by which it is bound; or
 - (ii) DuluxGroup's constitution.
- (f) **Capital structure:**
 - (i) As at the date of this deed, there are 389,250,252 DuluxGroup Shares on issue.
 - (ii) DuluxGroup has not issued or agreed to issue any other DuluxGroup Shares, securities, rights or instruments which are still outstanding and may convert into, or give the holder the right to be issued, DuluxGroup Shares (other than in connection with the Share Rights set out in Schedule 5).
 - (iii) DuluxGroup is not under any obligation to issue, and no person has any right to require or call for the issue of, any DuluxGroup Shares or other securities, rights or instruments issuable by DuluxGroup (whether such obligation or right is conditional or otherwise), other than in connection with the Share Rights set out in Schedule 5.
 - (iv) In connection with the Share Rights and Incentive Shares set out in Schedule 5, DuluxGroup is not under any obligation to issue, and no person has any right to require or call for the issue of, any new DuluxGroup Shares in relation to the exercise of the Share Rights or the vesting of the LTEIP Shares or Incentive Shares pursuant to any Share Incentive Plan or any other arrangement.
- (g) **DuluxGroup Information:** The DuluxGroup Information included in the Scheme Booklet and any supplementary disclosure made to DuluxGroup Shareholders pursuant to clause 4.1(j) (excluding any information provided by Nippon Paint) has been prepared in good faith and, as at the date of the Scheme Booklet or supplementary disclosure (as applicable):
 - (i) is not false or misleading or deceptive in any material respect (whether by omission or otherwise); and
 - (ii) complies in all material respects with the requirements of the Corporations Act and Corporations Regulations, Listing Rules, Takeovers Panel guidance

notes and ASIC published policy (including Regulatory Guide 60), as applicable.

- (h) **Information provided to Independent Expert:** The information provided to the Independent Expert by or on behalf of DuluxGroup has been and will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing the Independent Expert's Report.
- (i) **Solvency:** No member of the DuluxGroup Group is the subject of an Insolvency Event, and an Insolvency Event will not occur to any subsidiary of DuluxGroup prior to implementation of the Scheme.
- (j) **Disclosure:** As at the date of this deed:
 - (i) DuluxGroup is in compliance in all material respects with its continuous disclosure obligations under Listing Rule 3.1; and
 - (ii) except for Nippon Paint's proposal to acquire DuluxGroup, DuluxGroup is not withholding from disclosure to ASX any material information in reliance on Listing Rule 3.1A, and immediately following release of the agreed public announcement pursuant to clause 13(a), DuluxGroup will not be withholding from disclosure to ASX any material information in reliance on Listing Rule 3.1A.
- (k) **Disclosure Materials:** The Disclosure Materials were compiled and made available to Nippon Paint and its Representatives in good faith and, as at the date of this deed, DuluxGroup is not aware of any material information contained in the Disclosure Materials that is false or misleading in any material respect (including by omission). DuluxGroup has not, prior to the date of this deed, intentionally withheld from the Disclosure Materials any information which would reasonably be expected to be material to a reasonable buyer's evaluation of the DuluxGroup Group and the merits of the Transaction.
- (l) **Documents and announcements lodged with Government Agencies:** So far as DuluxGroup is aware, no material information contained in any document or announcement which DuluxGroup or any of its Related Bodies Corporate has lodged or filed with, or otherwise given to, ASIC or the ASX (or which has been so lodged, filed or given on its behalf or on behalf of any of its Related Bodies Corporate) since the date 12 months prior to the date of this deed, and which is currently publicly available or otherwise in the public domain (each a **DuluxGroup Public Document**), was misleading or deceptive in any material respect (whether by omission or otherwise) as at the date the DuluxGroup Public Document was lodged or filed with or given to the Government Agency, or the information contained in the DuluxGroup Public Document was otherwise expressed to be given.
- (m) **DuluxGroup Group:**
 - (i) The corporate structure diagram provided in the Disclosure Materials lists all members of the DuluxGroup Group and the details included are true and accurate in all material respects.
 - (ii) No member of the DuluxGroup Group holds shares, options, units, securities or interests in, or is a member of, any company, trust, partnership, incorporated or unincorporated joint venture or association, or other entity (other than an entity identified in the corporate structure diagram provided in the Disclosure Materials).

- (n) **Material Contracts:** The Disclosure Materials contain true and complete copies of all Material Contracts.
- (o) **Compliance with laws:** So far as DuluxGroup is aware, each member of the DuluxGroup Group has complied with applicable laws and regulations in all material respects and holds all material licences, authorisations and permits necessary for it to conduct its business as presently conducted and is not in material breach of, or material default under, any such licences, authorisations or permits, other than where the failure to comply with such laws and regulations or to hold such licences, authorisations and permits, or where the relevant breach or default, could not be reasonably expected to have a material adverse effect on the financial or operational performance or reputation of the DuluxGroup Group.
- (p) **Financial information:**

DuluxGroup's financial statements for the financial year ended 30 September 2018:

 - (i) comply with applicable statutory requirements and were prepared in accordance with the Corporations Act, the Accounting Standards and all other applicable laws and regulations; and
 - (ii) give a true and fair view of the financial position and the assets and liabilities of the DuluxGroup Group.
- (q) **No defaults:** So far as DuluxGroup is aware, no member of the DuluxGroup Group is in material default under a Material Contract, nor has anything occurred which is or would with the giving of notice or the lapse of time constitute an event of default, prepayment event, review event or similar event or give another party a termination right or right to accelerate any material right or obligation under any Material Contract, in each case other than where the relevant circumstances could not be reasonably expected to have a material adverse effect on the financial or operational performance of the DuluxGroup Group.

Schedule 3 Nippon Paint Warranties

- (a) **Validly existing:** Nippon Paint is a validly existing corporation registered under the laws of its place of incorporation.
- (b) **Power:** Nippon Paint has full corporate power and lawful authority to execute, deliver and perform this deed and the Deed Poll.
- (c) **Corporate action:** Nippon Paint has taken all necessary corporate action to authorise the entry into this deed and has taken or will take all necessary corporate action to authorise the performance of this deed and the Deed Poll.
- (d) **Binding:** This deed is a valid and binding obligation on Nippon Paint, enforceable against Nippon Paint in accordance with its terms.
- (e) **Performance:** The execution and performance by Nippon Paint of this deed and each transaction contemplated by it does not and will not violate or breach any provision of:
 - (i) any writ, order or injunction, judgment, law, rule or regulation to which Nippon Paint is party or by which it is bound; or
 - (ii) Nippon Paint's constitution or other constituent documents.
- (f) **Nippon Paint Information:** The Nippon Paint Information included in the Scheme Booklet, and any other information provided by Nippon Paint pursuant to clause 4.2(f), has been prepared in good faith and, as at the date of the Scheme Booklet or the date on which such information is so provided (as applicable):
 - (i) is not false or misleading or deceptive in any material respect (whether by omission or otherwise); and
 - (ii) complies in all material respects with the requirements of the Corporations Act and Corporations Regulations, Listing Rules, Takeovers Panel guidance notes and ASIC Regulatory Guide 60 (as applicable).
- (g) **Information provided to Independent Expert:** The information provided to the Independent Expert by or on behalf of Nippon Paint has been and will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing the Independent Expert's Report.
- (h) **Insolvency Event:** Neither Nippon Paint nor any of its Related Bodies Corporate is the subject of an Insolvency Event, and an Insolvency Event will not occur in relation to the Nominee (if any) or any subsidiary of Nippon Paint prior to implementation of the Scheme.
- (i) **Regulatory action:** As at the date of this deed, no regulatory action of any nature of which Nippon Paint is aware has been taken or threatened that may prevent or in any way restrict its ability to fulfil its obligations under this deed and the Deed Poll.
- (j) **No other regulatory approvals:** Other than the Regulatory Approvals, no approval, consent, waiver, clearance, concession, allowance, notification or authorisation is required to be obtained from, or made to, any Government Agency in order for Nippon Paint to execute and perform this deed and the Deed Poll.
- (k) **No dealings with DuluxGroup Shareholders:** Neither Nippon Paint nor any of its Associates has any agreement, arrangement or understanding with any

DuluxGroup Shareholder under which that DuluxGroup Shareholder (or an Associate of that DuluxGroup Shareholder):

- (i) would or may be or become entitled to receive:
 - (A) consideration for their DuluxGroup Shares that is different from the Scheme Consideration; or
 - (B) any benefit in connection with the Scheme that is not also offered to all other DuluxGroup Shareholders on the same terms; or
 - (ii) agrees to vote in favour of the Scheme or against any Competing Proposal.
- (l) **No dealings with DuluxGroup directors or employees:** Neither Nippon Paint nor any of its Associates has any agreement, arrangement or understanding with any director, officer or employee of DuluxGroup or any other member of the DuluxGroup Group relating in any way to the Transaction or the business or operations of the DuluxGroup Group after the Effective Date.
- (m) **Debt Commitment Letter:**
- (i) Nippon Paint has delivered to DuluxGroup true, complete and correct copies of the executed Debt Commitment Letter.
 - (ii) The Debt Commitment Letter has been executed by the parties thereto and constitutes legally valid and enforceable obligations on, and rights of, Nippon Paint and (so far as Nippon Paint is aware) Sumitomo Mitsui Banking Corporation that are enforceable in accordance with their terms.
 - (iii) Other than as permitted under this deed, the Debt Commitment Letter has not been:
 - (A) terminated or rescinded, and Nippon Paint is not in default thereunder; or
 - (B) amended in any respect which will, or is reasonably likely to, prejudice Nippon Paint's ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll (and no such amendment has been agreed to by Nippon Paint).
 - (iv) Nippon Paint will enforce its rights under the Debt Commitment Letter to the extent failure to do so may prejudice its ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll.
 - (v) The Debt Financing, together with the internal cash reserves available to Nippon Paint for the Transaction on an unconditional basis, is sufficient to satisfy all of Nippon Paint's payment obligations under this deed and the Deed Poll or otherwise in connection with the Transaction, including paying the Scheme Consideration in accordance with the deed and the Deed Poll and any expenses of Nippon Paint or any of its Related Bodies Corporation in connection with the Transaction.
- (n) **Debt Document:** As at the date on which the Debt Document is entered into and at 8:00am on the Second Court Date, the Debt Document:
- (i) has been duly executed by, and constitutes legally valid and enforceable obligations on, and rights of, Nippon Paint and (so far as Nippon Paint is aware) Sumitomo Mitsui Banking Corporation that are enforceable in accordance with their terms;
 - (ii) other than as permitted under this deed, has not been terminated or rescinded, and no "Certain Funds Default" (as defined in the Debt Document) is subsisting; and

- (iii) other than as permitted under this deed, has not been amended in any respect which will, or is reasonably likely to, prejudice Nippon Paint's ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll (and no such amendment has been agreed to by Nippon Paint),

and Nippon Paint will enforce its rights under the Debt Document to the extent failure to do so may prejudice its ability to pay the Scheme Consideration in accordance with this deed and the Deed Poll.

- (o) **Reasonable basis:** As at the date of this deed, Nippon Paint has a reasonable basis to expect that it will have available to it sufficient cash amounts (whether from internal cash resources or external funding arrangements) to satisfy its obligations to pay the Scheme Consideration in accordance with this deed and the Deed Poll.
- (p) **Availability of funding on Second Court Date:** By 8.00am on the Second Court Date, Nippon Paint will, subject to clause 4.2 (*Further conditions precedent*) and clause 4.3 (*Certain funds*) of the Debt Document (in the form provided to DuluxGroup's advisers prior to signing this deed), have available to it on an unconditional basis (other than conditions relating to the approval of the Court, Scheme becoming Effective or procedural matters or documentary requirements which, by their terms or nature, can only be satisfied or performed after the Scheme becomes Effective) sufficient cash amounts (whether from internal cash resources or external funding arrangements or a combination of both) to ensure that the Scheme Consideration is paid in accordance with this deed and the Deed Poll.
- (q) **Availability of funding for implementation:** On the date that is two Business Days before the Implementation Date, Nippon Paint will have available to it on an unconditional basis sufficient cash amounts (whether from internal cash resources or external funding arrangements or a combination of both) to satisfy Nippon Paint's obligation to pay the Scheme Consideration in accordance with its obligations under this deed, the Scheme and the Deed Poll.
- (r) **No shareholder approvals:** No approvals are required from shareholders of Nippon Paint (or any class of them) in connection with the execution or performance of this deed or the Deed Poll.

Schedule 4 Prescribed Occurrences

- (a) DuluxGroup converting all or any of its shares into a larger or smaller number of shares;
- (b) DuluxGroup resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;
- (c) DuluxGroup:
 - (i) entering into a buy-back agreement; or
 - (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;
- (d) a member of the DuluxGroup Group issuing shares, or granting a performance right or an option over its shares, or agreeing to make such an issue or grant such a performance right or an option other than:
 - (i) on vesting or exercise of, or in respect of, an Incentive Share existing as at the date of this deed; or
 - (ii) to a member of the DuluxGroup Group;
- (e) any member of the DuluxGroup Group issuing, or agreeing to issue, securities convertible into shares or debt securities other than where the securities are issued, or agreed to be issued, to a member of the DuluxGroup Group;
- (f) DuluxGroup declaring, paying or distributing any dividend, distribution, bonus, special payment or other share of its profits or assets, other than the Permitted Dividends;
- (g) a member of the DuluxGroup Group disposing, or agreeing to dispose, of the whole, or a substantial part, of the DuluxGroup Group's business or property;
- (h) a member of the DuluxGroup Group granting, or agreeing to grant, an Encumbrance over the whole, or a substantial part, of the DuluxGroup Group's business or property;
- (i) a member of the DuluxGroup Group resolving that it be wound up;
- (j) a liquidator or provisional liquidator of a member of the DuluxGroup Group being appointed;
- (k) a court making an order for the winding up of a member of the DuluxGroup Group;
- (l) an administrator of a member of the DuluxGroup Group being appointed under the Corporations Act;
- (m) a member of the DuluxGroup Group making any change to its constitution;
- (n) a member of the DuluxGroup Group executing a deed of company arrangement or other compromise or arrangement with its creditors or any class of them; or
- (o) a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the DuluxGroup Group's business or property,

but does not include any occurrence:

- (p) required or permitted by this deed or the Scheme or any transaction contemplated by either;
- (q) Fairly Disclosed in the Disclosure Materials or Disclosure Letter (which, for the avoidance of doubt, includes undertaking actions and matters Fairly Disclosed in the Disclosure Materials or Disclosure Letter which DuluxGroup is considering or proposing to undertake);
- (r) would have been disclosed to Nippon Paint had Nippon Paint conducted the searches referred to in clause 6.1(b)(viii);
- (s) which relates to incurring or payment of any Transaction Costs, provided that DuluxGroup must use all reasonable endeavours not to materially exceed the estimated amount of Transaction Costs specified in the Disclosure Letter;
- (t) within the actual knowledge of Nippon Paint as at the date of this deed, which for these purposes will be taken to include and be limited to the facts, matters and circumstances of which the following individuals are actually aware as at the date of this deed:
 - (i) Tetsushi Tado;
 - (ii) Yasuyuki Matsumoto;
 - (iii) Hiroshi Takenaka;
 - (iv) Yutaka Kagami; and
 - (v) Yasumasa Okamoto; or
- (u) approved, consented to or requested by Nippon Paint or any of its Related Bodies Corporate.

Schedule 5 Share Rights and Incentive Shares

Share Rights	Incentive Shares
38,189 vested Share Rights granted under the Employee Equity Plan	LTEIP 5,999,303 unvested LTEIP Shares 1,540,756 vested LTEIP Shares
	Employee Equity Plan 80,620 vested Incentive Shares
	Sacrifice Share Acquisition Plan 101,866 vested Incentive Shares
	Employee Share Investment Plan 413,390 vested Incentive Shares

Execution page

Executed as a deed.

Signed by Representative Director of **Nippon
Paint Holdings Co., Ltd. (1200-01-072994)** in
the presence of:



Signature of witness

YASUYUKI MATSUMOTO

Name of witness (print)



Signature of Representative Director

TEISUSHI TADO

Name of Representative Director (print)

Signed, sealed and delivered by **DuluxGroup
Limited (ACN 133 404 065)** in accordance with
section 127 of the *Corporations Act 2001* (Cth)
and by:

Signature of director

Name of director (print)

Signature of director/secretary

Name of director/secretary (print)

Execution page

Executed as a deed.

Signed by Representative Director of **Nippon
Paint Holdings Co., Ltd. (1200-01-072994)** in
the presence of:

Signature of witness

Signature of Representative Director

Name of witness (print)

Name of Representative Director (print)

Signed, sealed and delivered by **DuluxGroup
Limited (ACN 133 404 065)** in accordance with
section 127 of the *Corporations Act 2001* (Cth)
and by:



Signature of director

PATRICK HOULIHAN

Name of director (print)



Signature of director/secretary

STUART BOXER

Name of director/secretary (print)

Attachment A Indicative Timetable

Event	Date
Draft Scheme Booklet provided to ASIC	Late May 2019
First Court Hearing	Mid-late June 2019
Scheme Meeting	Late July 2019
Second Court Hearing	Early August 2019
Effective Date	Early August 2019
Record Date	Early to mid August 2019
Implementation Date	Mid August 2019

Attachment B Scheme

Not reproduced here – please see Appendix D of this Scheme Booklet.

Attachment C Deed Poll

Not reproduced here – please see Appendix E of this Scheme Booklet.

APPENDIX D – SCHEME OF ARRANGEMENT



Scheme of arrangement

DuluxGroup Limited

Each person registered as a holder of DuluxGroup Shares as at the Record Date

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Date: [•]

Parties

- 1 **DuluxGroup Limited (ACN 133 404 065)** of 1956 Dandenong Road, Clayton 3168 Victoria, Australia (**DuluxGroup**)
- 2 Each DuluxGroup Shareholder as at the Record Date (**Scheme Shareholders**)

The parties agree

1 Defined terms and interpretation

1.1 Defined terms

A term or expression which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this Scheme.

2 Preliminary matters

- (a) DuluxGroup is an Australian public company limited by shares and DuluxGroup has been admitted to the official list of ASX.
 - (b) As at 17 April 2019 there were 389,250,252 DuluxGroup Shares quoted for trading on ASX. Nippon Paint is a Japanese public company limited by shares.
 - (c) If this Scheme becomes Effective:
 - (i) in consideration for the transfer of each Scheme Share to Nippon Paint, Nippon Paint will provide or procure the provision of the Scheme Consideration in accordance with this Scheme and the Deed Poll; and
 - (ii) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to Nippon Paint and DuluxGroup will enter the name of Nippon Paint in the Share Register in respect of all the Scheme Shares.
 - (d) Nippon Paint and DuluxGroup have entered into the Implementation Deed in respect of (among other things) the implementation of this Scheme.
 - (e) This Scheme attributes actions to Nippon Paint but does not itself impose any obligations on Nippon Paint to perform those actions. By executing the Deed Poll, Nippon Paint has agreed to perform the actions attributed to it under this Scheme.
-

3 Conditions

3.1 Conditions precedent

This Scheme is conditional on and will not become Effective until and unless the following conditions precedent are satisfied:

- (a) all the conditions in clause 3.1 of the Implementation Deed (other than the condition in the Implementation Deed relating to Court approval of this Scheme) are satisfied or waived in accordance with the terms of the Implementation Deed by 8:00am on the Second Court Date;
-

- (b) neither the Implementation Deed nor the Deed Poll is terminated in accordance with its terms before 8:00am on the Second Court Date;
- (c) this Scheme is approved by the Court having made orders under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to DuluxGroup and Nippon Paint (each acting reasonably);
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme as are acceptable to DuluxGroup and Nippon Paint (each acting reasonably) are satisfied or waived; and
- (e) the order of the Court made under section 411(4)(b) of the Corporations Act approving this Scheme becomes Effective.

3.2 Certificates

- (a) Each of DuluxGroup and Nippon Paint will provide a certificate (or such other evidence as the Court may require) to the Court at the Second Court Hearing confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived (but in the case of the condition precedent in clause 3.1(a) only in respect of those conditions in clause 3.1 of the Implementation Deed (other than the condition relating to Court approval of the Scheme) included for that party's benefit).
- (b) The certificates given by DuluxGroup and Nippon Paint under clause 3.2(a) constitute conclusive evidence that the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

3.3 End Date

Without limiting any rights under the Implementation Deed, this Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Implementation Deed or the Deed Poll is terminated in accordance with its terms,

unless Nippon Paint and DuluxGroup otherwise agree in writing (and if required, as approved by the Court).

4 Implementation of this Scheme

4.1 Lodgement of Court orders with ASIC

DuluxGroup must lodge with ASIC an office copy of the order made by the Court under section 411(4)(b) of the Corporations Act approving this Scheme as soon as possible and in any event before 5:00pm on the Business Day immediately following the day on which it receives such office copy or such later date as DuluxGroup and Nippon Paint agree in writing.

4.2 Transfer of Scheme Shares

Subject to the Scheme becoming Effective, on the Implementation Date:

- (a) subject to the provision of the Scheme Consideration in the manner contemplated by clauses 5.2(a), 5.2(b) and 5.2(c), all of the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date, must be transferred to Nippon Paint, without the need for any further act by any Scheme Shareholder (other than acts performed by DuluxGroup (or any of DuluxGroup's

directors, officers, or secretaries) as attorney and agent for Scheme Shareholders under clause 8.5), by:

- (i) DuluxGroup, in its capacity as the attorney and agent of the Scheme Shareholders, duly completing and executing the Scheme Transfer on behalf of the Scheme Shareholders (as transferors), and delivering it to Nippon Paint; and
 - (ii) Nippon Paint duly executing the Scheme Transfer (as transferee), attending to the stamping of the Scheme Transfer (if required) and delivering it to DuluxGroup for registration; and
- (b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a), DuluxGroup must enter, or procure the entry of, the name of Nippon Paint in the Share Register in respect of all the Scheme Shares transferred to Nippon Paint in accordance with this Scheme.

5 Scheme Consideration

5.1 Entitlement to Scheme Consideration

Subject to the terms of this Scheme, on the Implementation Date, in consideration for the transfer to Nippon Paint of the Scheme Shares, each Scheme Shareholder will be entitled to the Scheme Consideration for each Scheme Share.

5.2 Provision of Scheme Consideration

- (a) Nippon Paint's obligation to provide the Scheme Consideration will be satisfied by Nippon Paint depositing (or procuring the deposit) in cleared funds an amount equal to the Aggregate Scheme Consideration into the Trust Account before 12 noon on the date that is two Business Days before the Implementation Date (provided that any interest on the amount so deposited (less bank fees and other charges) (**Accrued Interest**) will accrue for the benefit of Nippon Paint), such amount to be held by DuluxGroup on trust for the purposes of paying the Scheme Consideration to Scheme Shareholders in accordance with clause 5.2(b).
- (b) Subject to Nippon Paint providing the Aggregate Scheme Consideration in accordance with clause 5.2(a), DuluxGroup must, on the Implementation Date and from the Trust Account, pay (or procure the payment to each Scheme Shareholder of) the proportion of the Aggregate Scheme Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Record Date, which obligation will be satisfied by DuluxGroup:
 - (i) where a Scheme Shareholder has, before the Record Date, made an election in accordance with the requirements of the Share Registry to receive dividend payments from DuluxGroup by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or
 - (ii) dispatching, or procuring the dispatch of, a cheque drawn on an Australian bank in Australian currency for the relevant amount to the Scheme Shareholder by prepaid post to their Registered Address, such cheque being drawn in the name of the Scheme Shareholder (or, in the case of joint holders, in accordance with clause 5.3).
- (c) In the event that:
 - (i) either:

- (A) a Scheme Shareholder does not have a Registered Address; or
 - (B) DuluxGroup as the trustee for the Scheme Shareholders believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address,
- and no account has been notified in accordance with clause 5.2(b)(i) or a deposit into such an account is rejected or refunded; or
- (ii) a cheque issued under this clause 5 has been cancelled in accordance with clause 5.5(a),

DuluxGroup as the trustee for the Scheme Shareholders may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of DuluxGroup (**Separate Account**) to be held until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 2008* (Vic). To avoid doubt, if the amount is not credited to a Separate Account, the amount will continue to be held in the Trust Account until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 2008* (Vic).

Until such time as the amount is dealt with in accordance with the *Unclaimed Money Act 2008* (Vic), DuluxGroup must hold the amount on trust for the relevant Scheme Shareholder, but any interest or other benefit accruing from the amount will be to the benefit of Nippon Paint. An amount credited to the Separate Account or Trust Account (as applicable) is to be treated as having been paid to the Scheme Shareholder when credited to the Separate Account or Trust Account (as applicable). DuluxGroup must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

- (d) To the extent that there is a surplus in the amount held by DuluxGroup as the trustee for the Scheme Shareholders in the Trust Account, that surplus may be paid by DuluxGroup as the trustee for the Scheme Shareholders to Nippon Paint following the satisfaction of DuluxGroup's obligations as the trustee for the Scheme Shareholders under this clause 5.2.
- (e) DuluxGroup must pay any Accrued Interest to any account nominated by Nippon Paint following satisfaction of DuluxGroup's obligations under clause 5.2(b).

5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Share Register as at the Record Date; and
- (b) any other document required to be sent under this Scheme will be forwarded to the holder whose name appears first in the Share Register as at the Record Date.

5.4 Fractional entitlements and splitting

Where the calculation of the Scheme Consideration to be issued to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded down to the nearest whole cent.

5.5 Cancellation and re-issue of cheques

- (a) DuluxGroup may cancel a cheque issued under this clause 5 if the cheque:
 - (i) is returned to DuluxGroup; or

- (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to DuluxGroup (or the Share Registry) (which request may not be made until the date which is 5 Business Days after the Implementation Date), a cheque that was previously cancelled under clause 5.5(a) must be reissued.

5.6 Unclaimed monies

- (a) The *Unclaimed Money Act 2008* (Vic) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act 2008* (Vic)).
- (b) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of Nippon Paint.

5.7 Orders of a court or Government Agency

If written notice is given to DuluxGroup (or the Share Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that:

- (a) requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which sum would otherwise be payable to that Scheme Shareholder by DuluxGroup in accordance with this clause 5, then DuluxGroup will be entitled to make that payment (or procure that it is made) in accordance with that order or direction; or
- (b) prevents DuluxGroup from making a payment to a particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, DuluxGroup will be entitled to retain an amount, in Australian dollars, equal to the amount of the relevant payment until such time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

and the payment or retention by DuluxGroup will constitute full discharge of DuluxGroup's obligations under clause 5.2(b) with respect to the amount so paid or retained until, in the case of clause 5.7(b), it is no longer required to be retained.

6 Dealings in DuluxGroup Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in DuluxGroup Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant DuluxGroup Shares at or before the Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Record Date at the place where the Share Register is kept,

and DuluxGroup must not accept for registration, nor recognise for any purpose (except a transfer to Nippon Paint pursuant to this Scheme and any subsequent transfer by Nippon Paint or its successors in title), any transfer or transmission application or other request received after the Record Date, or received prior to the Record Date but not in registrable or actionable form.

6.2 Share Register

- (a) DuluxGroup must register registrable transmission applications or transfers of DuluxGroup Shares in accordance with clause 6.1(b) at or before the Record Date, provided that nothing in this clause 6.2(a) requires DuluxGroup to register a transfer that would result in a DuluxGroup Shareholder holding a parcel of DuluxGroup Shares that is less than a 'marketable parcel' (as defined in the operating rules of ASX).
- (b) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and DuluxGroup will be entitled to disregard any such disposal, purported disposal or agreement.
- (c) For the purpose of determining entitlements to the Scheme Consideration, DuluxGroup must maintain the Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) All statements of holding for DuluxGroup Shares (other than statements of holding in favour of Nippon Paint) will cease to have effect after the Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Share Register (other than entries in respect of Nippon Paint) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the DuluxGroup Shares relating to that entry.
- (e) As soon as possible after the Record Date, and in any event within 2 Business Days after the Record Date, DuluxGroup will ensure that details of the names, Registered Addresses and holdings of DuluxGroup Shares for each Scheme Shareholder as shown in the Share Register as at the Record Date are available to Nippon Paint.

7 Quotation of DuluxGroup Shares

- (a) DuluxGroup will apply to ASX to suspend trading in DuluxGroup Shares with effect from the close of trading on the Effective Date.
- (b) DuluxGroup will apply:
 - (i) for termination of the official quotation of DuluxGroup Shares on the ASX; and
 - (ii) to have itself removed from the official list of ASX,in each case with effect on and from the close of trading on the trading day immediately following the Implementation Date.

8 General Scheme provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) DuluxGroup may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Nippon Paint has consented (provided that Nippon Paint may not unreasonably withhold or delay its consent to any alterations or conditions made or imposed by the Court); and

- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for DuluxGroup has consented.

8.2 Scheme Shareholders' agreements and warranties

- (a) Each Scheme Shareholder:
 - (i) agrees to the transfer of their Scheme Shares together with all rights and entitlements attaching to those shares (other than any right to receive the Interim Dividend or the Special Dividend) in accordance with this Scheme;
 - (ii) agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;
 - (iii) agrees to, on the direction of the Nippon Paint, destroy any share certificates relating to their Scheme Shares; and
 - (iv) acknowledges that this Scheme binds DuluxGroup and all Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting),

without the need for any further act by the Scheme Shareholder.

- (b) Each Scheme Shareholder is taken to have warranted to Nippon Paint, and appointed and authorised DuluxGroup as its attorney and agent to warrant to Nippon Paint, that:
 - (i) all their Scheme Shares (including any rights and entitlements attaching to their Scheme Shares) which are transferred under this Scheme will, at the time of transfer of them to Nippon Paint, be fully paid and free from all:
 - (A) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (B) restrictions on transfer of any kind;
 - (ii) they have full power and capacity to transfer their Scheme Shares to Nippon Paint together with any rights attaching to those Scheme Shares; and
 - (iii) as at the Record Date, they have no existing right to be issued any other Scheme Shares or any other form of DuluxGroup securities,

and DuluxGroup shall give such warranties to Nippon Paint as agent and attorney of each Scheme Shareholder.

8.3 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme will, at the time of transfer of them to Nippon Paint, vest in Nippon Paint free from all:
 - (i) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (ii) restrictions on transfer of any kind.
- (b) On the provision of the Scheme Consideration in the manner contemplated by clause 5, Nippon Paint will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by DuluxGroup of Nippon Paint in the Share Register as the holder of the Scheme Shares. Nippon Paint's

entitlement to be registered in the Share Register as the holder of the Scheme Shares arises on the Implementation Date in accordance with clause 4.2.

8.4 Appointment of sole proxy

On the provision of the Scheme Consideration in the manner contemplated by clause 5 and until DuluxGroup registers Nippon Paint as the holder of all Scheme Shares in the Share Register, each Scheme Shareholder:

- (a) is deemed to have appointed Nippon Paint as attorney and agent (and directed Nippon Paint in each such capacity) to appoint any director, officer, secretary or agent nominated by Nippon Paint as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution whether in person, by proxy or by corporate representative;
- (b) must not attend or vote at any shareholders' meetings or sign any shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Nippon Paint reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers conferred by clause 8.4(a), Nippon Paint and any director, officer, secretary or agent nominated by Nippon Paint under that clause may act in the best interests of Nippon Paint as the intended registered holder of the Scheme Shares.

8.5 Authority given to DuluxGroup

On and from the Effective Date, each Scheme Shareholder, without the need for any further act, irrevocably appoints DuluxGroup and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purposes of:

- (a) enforcing the Deed Poll against Nippon Paint; and
- (b) executing any document, or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including executing the Scheme Transfer,

and DuluxGroup accepts such appointment. DuluxGroup, as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

8.6 Binding effect of this Scheme

This Scheme binds DuluxGroup and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of DuluxGroup.

9 General

9.1 Stamp duty

Nippon Paint will:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to Nippon Paint pursuant to this Scheme or the Deed Poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

9.2 Consent

Each Scheme Shareholder consents to DuluxGroup doing all things necessary or incidental to give full effect to the implementation of this Scheme and the transactions contemplated by it.

9.3 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to DuluxGroup, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at DuluxGroup's registered office or at the office of the Share Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a DuluxGroup Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law and jurisdiction

- (a) This Scheme and any dispute arising out of or in connection with the subject matters of this document is governed by the laws in force in Victoria, Australia.
- (b) Each party irrevocably:
 - (i) submits to the non-exclusive jurisdiction of the courts of Victoria, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this Scheme; and
 - (ii) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 9.4(b)(i).

Schedule 1 Dictionary

1 Dictionary

Accrued Interest has the meaning given in clause 5.2(a).

Aggregate Scheme Consideration means the Scheme Consideration multiplied by the total number of Scheme Shares.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it.

Business Day means a day that is not a Saturday, Sunday or public holiday in Melbourne, Australia or Tokyo, Japan.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited and ASX Clear Pty Limited.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia (Victoria Registry).

Deed Poll means the deed poll dated [13] June 2019 under which, among other things, Nippon Paint covenants in favour of Scheme Shareholders to provide the Scheme Consideration in accordance with the terms of this Scheme.

DuluxGroup Share means a fully paid ordinary share in the capital of DuluxGroup.

DuluxGroup Shareholder means a holder of one or more DuluxGroup Shares, as shown in the Share Register.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date means the date that is 5 months after the date of the Implementation Deed or such later date as Nippon Paint and DuluxGroup agree in writing.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).

Implementation Date means the fifth Business Day after the Record Date or such other day as Nippon Paint and DuluxGroup agree in writing.

Implementation Deed means the scheme implementation deed dated 17 April 2019 between Nippon Paint and DuluxGroup relating to, among other things, the implementation of this Scheme.

Interim Dividend means the interim dividend of \$0.15 per DuluxGroup Share declared on 15 May 2019 in accordance with clause 5.1(a) of the Implementation Deed.

Listing Rules means the official listing rules of ASX.

Nippon Paint means Nippon Paint Holdings Co., Ltd. 1200-01-072994 of 2-1-2 Oyodo Kita, Kita-ku, Osaka 531-8511 Japan.

Record Date means 7:00pm on the fifth Business Day after the Effective Date of the Scheme, or such other time and date as Nippon Paint and DuluxGroup agree in writing.

Registered Address means, in relation to a Scheme Shareholder, the address shown in the Share Register as at the Record Date.

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Scheme means this scheme of arrangement, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Nippon Paint and DuluxGroup.

Scheme Consideration means, in respect of each Scheme Share, \$9.80 subject to, and as adjusted in accordance with, clauses 5.1(d) and 5.2(d) of the Implementation Deed (if applicable).

Scheme Meeting means the meeting of DuluxGroup Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

Scheme Share means a DuluxGroup Share held by a Scheme Shareholder as at the Record Date.

Scheme Shareholder means a DuluxGroup Shareholder as at the Record Date.

Scheme Transfer means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be or include a master transfer of all or part of the Scheme Shares.

Second Court Date means the first day on which an application made to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Separate Account has the meaning given in clause 5.2(c).

Share Register means the register of DuluxGroup Shareholders maintained in accordance with the Corporations Act.

Share Registry means Computershare Investor Services Pty Limited (ACN 078 279 277).

Special Dividend means the special dividend of \$0.28 per DuluxGroup Share declared on 15 May 2019 in accordance with clause 5.2(a) of the Implementation Deed.

Trust Account means an Australian dollar denominated trust account which is operated by DuluxGroup as trustee for the Scheme Shareholders.

2 Interpretation

In this Scheme, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this Scheme.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (a) The words “include”, “including”, “such as”, “for example” and similar expressions are not words of limitation and do not limit what else might be included.
- (e) A reference to:
 - (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
 - (ii) a thing (including a chose in action or other right) includes a part of that thing;
 - (iii) a party includes its successors and permitted assigns;
 - (iv) a document includes all amendments or supplements to that document;
 - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this Scheme (as applicable);
 - (vi) this Scheme includes all schedules to it;
 - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
 - (viii) an agreement (other than this Scheme) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
 - (ix) a reference to a date or time is to that date or time in Melbourne, Victoria, Australia;
 - (x) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and
 - (xi) a monetary amount is in Australian dollars.
- (b) An agreement on the part of two or more persons binds them jointly and severally.
- (c) When the day on which something must be done is not a Business Day, that thing must be done on the following Business Day.
- (d) In determining the time of day where relevant to this Scheme, the time of day is:
 - (i) for the purposes of giving or receiving Notice, the time of day where the party receiving Notice is located; or

- (ii) for any other purpose under this Scheme, the time of day in the place where the party required to perform an obligation is located.
- (e) No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this Scheme or any part of it.

Deed poll

Nippon Paint Holdings Co., Ltd.

In favour of each person registered as a holder of DuluxGroup Shares as at the Record Date

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Date: 13 June 2019

Parties

- 1 **Nippon Paint Holdings Co., Ltd. 1200-01-072994** of 2-1-2 Oyodo Kita, Kita-ku, Osaka 531-8511 Japan (**Nippon Paint**)
- In favour of each person registered as a holder of DuluxGroup Shares as at the Record Date (**Scheme Shareholders**)

Background

- A Nippon Paint and DuluxGroup have entered into the Implementation Deed, under which Nippon Paint has agreed to:
- (i) enter into this deed poll; and
 - (ii) pay or procure the provision of the Scheme Consideration, in consideration for the acquisition of all of the Scheme Shares by Nippon Paint, in accordance with the Scheme;
- B Nippon Paint is entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to undertake the actions attributed to Nippon Paint under the Scheme.

1 Defined terms and interpretation

1.1 Defined terms

Unless the context otherwise requires:

- (a) **DuluxGroup** means DuluxGroup Limited (ACN 133 404 065) of 1956 Dandenong Road, Clayton 3168 Victoria, Australia.
- (b) **First Court Date** means the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act directing DuluxGroup to convene the Scheme Meeting is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard);
- (c) **Implementation Deed** means the scheme implementation deed dated 17 April 2019 between Nippon Paint and DuluxGroup relating to (among other things) the implementation of this Scheme;
- (d) **Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between the Scheme Shareholders and DuluxGroup, in the form of Attachment A to this deed poll, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act (and agreed to by the Nippon Paint and DuluxGroup, each acting reasonably); and
- (e) terms defined in the Scheme have the same meaning when used in this deed poll.

1.2 Interpretation

Clause 2 of Schedule 1 of the Scheme applies to the interpretation of this deed poll, except that references to 'Scheme' are to be read as references to 'deed poll'.

1.3 Nature of deed poll

Nippon Paint acknowledges and agrees that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with the terms of this deed poll even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder irrevocably appoints DuluxGroup and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Nippon Paint.

2 Conditions

2.1 Conditions

The obligations of Nippon Paint under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of Nippon Paint under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme does not become Effective by the End Date, unless Nippon Paint and DuluxGroup otherwise agree in writing.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2:

- (a) Nippon Paint is released from its obligations to further perform this deed poll except those obligations under clause 6.1; and
- (b) in addition and without prejudice to any other available rights, powers or remedies available to the Scheme Shareholders, each Scheme Shareholder retains the rights they have against Nippon Paint in respect of any breach of this deed poll which occurs before it was terminated.

3 Scheme obligations

Subject to clause 2, Nippon Paint undertakes in favour of each Scheme Shareholder to:

- (a) deposit or procure the deposit of the Aggregate Scheme Consideration into the Trust Account in cleared funds before 12 noon on the date that is two Business Days before the Implementation Date;
- (b) provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme; and
- (c) undertake or procure the undertaking of all other actions attributed to Nippon Paint under the Scheme, as if named as a party to the Scheme,

in each case subject to and in accordance with the terms of the Scheme.

4 Warranties

Nippon Paint represents and warrants in favour of each Scheme Shareholder that:

- (a) it is a corporation validly existing under the laws of Japan;

- (b) it has the legal right and full corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance by it of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets (or any event under any law which is analogous to, or which has a substantially similar effect to, any of the events referred to in this paragraph);
- (e) this deed poll is valid and binding on it and is enforceable against it in accordance with the terms of this deed poll; and
- (f) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Nippon Paint has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

6 General

6.1 Stamp duty

Nippon Paint must:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to Nippon Paint pursuant to the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 6.1(a).

6.2 Notices

- (a) Any notice or other communication to Nippon Paint in connection with this deed poll must be:
 - (i) in legible writing in English;
 - (ii) signed by the person making the communication or that person's duly authorised agent; and
 - (iii) given by hand delivery, pre-paid post or email in accordance with the details set out below:

Attention: Yasumasa Okamoto (Legal Manager)

Address: 2-1-2 Oyodo Kita, Kita-ku, Osaka 531-8511 Japan

Email: nphdlegal.okamoto@nipponpaint.jp

with a copy (for information purposes only) to Masaki Noda at m_noda@jurists.co.jp and Andrew Walker at awalker@claytonutz.com

- (b) Subject to clause 6.2(c), any notice or other communication given in accordance with clause 6.2(a) will be deemed to have been duly given as follows:
 - (i) if delivered by hand, on delivery;
 - (ii) if sent by pre-paid post, on receipt; and
 - (iii) if sent by email:
 - (A) when the sender receives an email from the recipient confirming receipt of the email; or
 - (B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,whichever happens first.
- (c) Any notice or other communication that, pursuant to clause 6.2(b), would be deemed to be given:
 - (i) before 9:00am on a Business Day, it will be taken to be received at 9:00am on that Business Day; or
 - (ii) after 5:00pm on a Business Day or on a non-Business Day, it will be taken to be received at 9:00am on the next Business Day,where references to time are to time in the place the recipient is located.

6.3 Cumulative rights

The rights, powers and remedies of Nippon Paint and each Scheme Shareholder under this deed poll are cumulative with and do not exclude the rights, powers or remedies provided by law independently of this deed poll.

6.4 Waiver

- (a) A party waives a right under this deed poll only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.
- (b) Failure to exercise or enforce, a delay in exercising or enforcing or the partial exercise or enforcement of:
 - (i) any right, power or remedy provided by law or under this deed poll; or
 - (ii) any right, power, authority, discretion or remedy created or arising upon default under this deed poll,by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed poll.

6.5 Variation

A provision of this deed poll may not be varied unless:

- (a) if before the First Court Date, the variation is agreed to by DuluxGroup in writing; or

- (b) if on or after the First Court Date, the variation is agreed to by DuluxGroup in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event Nippon Paint must enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

6.6 Governing law and jurisdiction

- (a) This deed poll is governed by the laws in force in Victoria, Australia.
- (b) Nippon Paint irrevocably:
 - (i) submits to the non-exclusive jurisdiction of the courts of Victoria, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this Scheme; and
 - (ii) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 6.6(b)(i).

6.7 Assignment

- (a) The rights created by this deed poll are personal to Nippon Paint and each Scheme Shareholder, and must not be dealt with at law or in equity.
- (b) Any purported dealing in contravention of clause 6.7(a) is invalid.

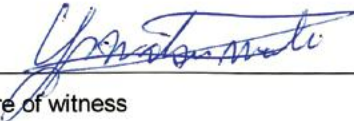
6.8 Further action

Nippon Paint must, at its own expense, promptly do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

Execution page

Executed as a deed.

Signed, sealed and delivered by **Nippon Paint Holdings Co., Ltd. 1200-01-072994** in the presence of:



Signature of witness

YASUYUKI MATSUMOTO
Name of witness (print)



Signature of Representative Director

TETSUSHI TADO
Name of Representative Director (print)

Attachment A Scheme

Not reproduced here – please see Appendix D of this Scheme Booklet.

APPENDIX F – CORPORATE DIRECTORY

DuluxGroup Limited (ACN 133 404 065)

1956 Dandenong Rd,
Clayton, Victoria 3168, Australia
PO Box 60, Clayton South, Victoria 3169
Telephone: +613 9263 5678
Facsimile: +613 9263 5030

DuluxGroup Directors

Graeme Liebelt – Chairman
Patrick Houlihan – Managing Director and Chief Executive Officer
Stuart Boxer – Executive Director and Chief Financial Officer
Joanne Crewes – Non-Executive Director
Jane Harvey – Non-Executive Director
Andrew Larke – Non-Executive Director
Judith Swales – Non-Executive Director

DuluxGroup Registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, Victoria 3001

Financial Adviser

Macquarie Capital (Australia) Limited
Level 23, 101 Collins Street
Melbourne, Victoria 3000

Legal Adviser

Gilbert + Tobin
Level 22, 101 Collins Street
Melbourne, Victoria 3000

Independent Expert

Grant Samuel & Associates Pty Limited
Level 6, 1 Collins Street
Melbourne, Victoria 3000

DuluxGroup Shareholder Information Line

1300 352 256 (within Australia)
+61 3 9415 4223 (outside Australia)
8:30am to 5:30pm (AEST)
Monday to Friday

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