DuluxGroup Limited

ABN 42 133 404 065

# ASX Announcement

**Friday 14 November 2014**

## 2014 ANNUAL REPORT

Following is the final 2014 Annual Report for DuluxGroup Limited.

Please note that the Appendix 4E for the financial year ended 30 September 2014, released to the market on 12 November 2014, contained an immaterial clerical error in the total contained in the second table in Note 18. The correct version of this table has been included in the final 2014 Annual Report.

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# ANNUAL REPORT 2014

DuluxGroup

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

## Our Core Purpose

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

# Imagine a Better Place

## Our Values

**Be customer focused and consumer driven**

**Value people, work safely and respect the environment**

**Innovate and grow – unleash our potential**

**Run the business as your own**

Driven by these values, DuluxGroup people continue to find smarter, market leading solutions for consumers and our retail and trade customers.

## Our Strategy

1. **Continue to build on our market leading positions in our core ANZ paint, specialty coatings and adhesives business**
2. **Focus on capability-led growth in adjacent premium branded, consumer home improvement, categories**
3. **Build on our niche coatings and adhesives positions offshore for the longer term**

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## Our Near Term Focus

1. **Extend our market leadership positions**
2. **Deliver on Alesco upside**
3. **Lock down medium term growth opportunities**
4. **Pursue business improvement opportunities**
5. **Maximise organisational leverage**

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## DuluxGroup's Strengths:

- **Premium brands and marketing**
- **Innovation and technology**
- **Leading customer service**
- **Broad product portfolio**
- **Comprehensive distribution and customer relationships across trade and retail channels**
- **Financial discipline**
- **Our people and our culture**


**THIS PAGE**
Dulux Weathershield colours shine at Melbourne's *Upper West Side* project, by Mim Design. A 2014 Dulux Colour Awards Finalist. Photo by Peter Clarke.

## 2014 Highlights

# A strong operating result, driven by profitable sales growth in strengthening Australian and New Zealand markets and effective margin improvement initiatives while investing for growth.

| SALES REVENUE | NET PROFIT AFTER TAX (NPAT), BEFORE NON-RECURRING ITEMS* | EARNINGS BEFORE INTEREST AND TAX (EBIT), BEFORE NON-RECURRING ITEMS |
|---|---|---|
| $1.6b | $111.9m | $183.8m |
| ▲ 8.5% | ▲ 21.4% | ▲ 19.4% |

**STRONG CASH GENERATION, WITH NET DEBT TO EBITDA AT 1.53X, COMPARED WITH 1.98 IN 2013.**

1.53x ✓

**FINAL DIVIDEND OF 10.5 CENTS PER SHARE, TAKING THE FULL YEAR DIVIDEND TO 20.5 CENTS FULLY FRANKED, WHICH REPRESENTS A 17.1% INCREASE ON THE 2013 EQUIVALENT AND A 70% PAYOUT RATIO ON NPAT, BEFORE NON-RECURRING ITEMS.**

20.5 cents

▲ 17.1%

**EXCELLENT SAFETY AND SUSTAINABILITY PERFORMANCE, MAKING GOOD PROGRESS TOWARDS OUR VISION OF 'A FUTURE WITHOUT HARM'.**

✓

### Resilience and financial discipline

- Solid earnings growth across all reporting segments
- Very good margin improvement, driven by a strategic focus on higher margin market segments, internal efficiency initiatives and continued cost control
- Strong cash generation and debt management
- Delivered $9 million of Alesco corporate cost synergies since acquisition

### Investing for growth:

- Continued to invest in the fundamentals of brands, innovation and customer service to build on our premium branded, market leading positions in core markets
- Invested in sales and marketing capability in recently acquired businesses such as B&D garage doors and openers and Lincoln Sentry cabinet and architectural hardware
- Formed the new Consumer and Construction Products division, consisting of the Selleys and Parchem businesses, using their collective expertise as a stronger platform from which to pursue growth in construction, engineering and infrastructure markets
- Continued to invest in the China business to capitalise on growth opportunities for Selleys, AcraTex and paints over the medium to long term
- Made excellent progress in targeted business improvement initiatives, including margin improvement for Yates and China

* Details of non-recurring items can be found on page 34.

# DuluxGroup's brands are trusted and relied upon for their quality. This reputation is built on close to 100 years of history, rigorous attention to detail, product innovation and investment. Brands such as Dulux, Selleys, Yates, Cabot's and B&D are household names with the highest consumer awareness in their respective markets.

## PAINTS AND COATINGS ANZ

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

EBIT
$138.9m
+12.1%

SALES
$821.6m
+6.1%

## CONSUMER AND CONSTRUCTION PRODUCTS ANZ

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

Parchem is a leading manufacturer and supplier of construction chemicals, decorative concrete products and related equipment for the Australian and New Zealand civil engineering, industrial, commercial, infrastructure, mining and residential construction markets.

EBIT
$29.8m
+3.1%*

SALES
$265.9m
-0.4%*

## GARAGE DOORS AND OPENERS

Australia and New Zealand's leading manufacturer of garage doors and automatic openers for residential, commercial and industrial markets.

EBIT
$18.2m
+4.6%*

SALES
$169.8m
+5.8%*

## CABINET AND ARCHITECTURAL HARDWARE

Lincoln Sentry is one of Australia's leading distributors of premium quality hardware and components to the cabinet making, window, door and glazing industries. They are suppliers of highly coveted brands including Blum, Hera, SecureView, Assa Abloy and Breezway.

**

EBIT
$8.9m
+25.4%*

SALES
$159.6m
+8.5%*

* On a pro forma basis compared with 12 months of 2013 sales and EBIT.

** Distributed brands.

**THIS PAGE** Bruno Mendes and Isabel Letham of Woods Bagot Architects – inspired by Dulux's *World of Colour Atlas* to create a green oasis at the Knox Innovation, Opportunity & Sustainability Centre (KIOSC) east of Melbourne.

## OTHER BUSINESSES

DuluxGroup's Other Businesses include:

- Yates, which is Australia and New Zealand's leading manufacturer and marketer of products for home gardening and small scale commercial horticulture. Products include seeds, pest and disease control, lawn care, fertilisers, pots, potting mix and organic gardening products.
- the Dulux paints business in Papua New Guinea.
- the DGL Camel business in China and Hong Kong and the DGL International business in South East Asia. These businesses have targeted niche positions across categories, including decorative and specialty coatings, adhesives, sealants and paint accessories.

EBIT[1]

**$12.2m**

+34.1%[2]

SALES[1]

**$207.7m**

-5.2%

1. Excluding non-recurring items (outlined on page 34).
2. Excludes non-recurring items outlined on page 34 and Robinhood in 2013.

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

# DuluxGroup has continued to grow and increase profits; and we have further shaped the business for ongoing growth.

## DEAR FELLOW SHAREHOLDERS

I am pleased to report that DuluxGroup has continued to grow and increase profits this year, with excellent results across all segments. At the same time we have continued to shape the business to capture growth in our core Australian and New Zealand markets, and further refined our China and South East Asian positions for longer term growth opportunities.

### Market conditions

Our core Australian and New Zealand paints and coatings markets experienced solid growth, largely driven by investment in existing and new residential housing. The enduring strength of consumer investment in the maintenance and improvement of existing homes was reflected in strong growth across our retail and trade customer channels. Approximately two thirds of DuluxGroup's business is derived from this market, which continues to prove its resilience throughout economic conditions. Although of less overall significance to group earnings, the strong growth in new building construction, also had a positive impact on the result.

Non-residential construction continued to be negatively affected by declining investment in the mining and industrial sectors. With new infrastructure investment yet to fill the gap, there was some revenue impact on those parts of our business more exposed to these sectors.

### The result

A 21 per cent increase in group net profit after tax, before non-recurring items, was driven by strong profitable sales growth in mostly improving markets and disciplined financial management.

Good underlying cash generation and excellent return on capital employed reflect ongoing focus on generating shareholder value. Our net debt to EBITDA ratio is at the lower end of our range and approaching levels in place prior to the acquisition of the Alesco businesses in 2012. During the year, we successfully completed the issuance of US Private Placement notes. The issue was heavily over-subscribed, and we have locked-in maturity dates of 7, 10 and 12 years from September 2014. This has provided the security of a longer term debt maturity profile while maintaining our overall cost of debt funding.

### Shareholder returns

The Board has declared a final dividend of 10.5 cents per share, taking the total dividend for the year to 20.5 cents per share fully franked, which represents a 70% payout ratio on NPAT before non-recurring items. The record date for the final dividend is 27 November 2014 and the dividend payment date is 17 December 2014. DuluxGroup's Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend, and a discount of 2.5% will apply to shares subscribed for under the DRP for the final dividend.

Since emerging as a separate, publicly listed, company in 2010, total shareholder return (TSR) has been 162%[2] compared with 46% for the ASX 200.

### Strategy focus

A strong performance from the acquired Alesco businesses, which collectively delivered solid pro forma earnings growth, reinforces our confidence that this has been a value-generating acquisition for shareholders. The integration of these businesses is complete and cost synergies – greater than initially targeted – have been delivered.

DuluxGroup's core paints, specialty coatings and adhesives businesses have market leading positions in Australia, New Zealand and Papua New Guinea. Collectively they represent about three quarters of group revenue. DuluxGroup has successfully stimulated organic growth across its existing core market leadership positions. The addition of the Alesco businesses has broadened our end market and product focus into categories where we can leverage DuluxGroup's existing capabilities – as expert marketers and innovators of premium branded products distributed through extensive retail and direct trade channels.

The combination of the Selleys and Parchem businesses to form the new Consumer and Construction Products division was an important step to realise a range of joint growth initiatives in the broader construction chemicals market. While this segment has been impacted by the lull in mining and industrial construction investment this year, we see compelling growth opportunities and there has been a strong emphasis on targeting profitable customer segments.

1. Excluding non-recurring items.
2. Up to 30 September 2014, and not including the 2014 final dividend.

The Alesco acquisition has also created opportunities in a broader range of premium branded and consumer focussed product categories in resilient Australian and New Zealand residential home improvement markets. The B&D garage doors and openers and the Lincoln Sentry cabinet and architectural hardware businesses complement our more long standing Yates garden care business. They each allow us to leverage DuluxGroup's key capabilities to add value. Much of the focus this year has been on increasing investment in marketing, innovation, customer service and sales capability. These businesses have all delivered excellent results this year, with very pleasing improvements in performance.

Sales growth in our China business was below the level in our business plan to support the goodwill of the business. This, combined with the weakened growth outlook for China and Hong, has led to a non-cash impairment charge of $9.2 million (before and after tax) being recognised against the intangible assets relating to our 51% owned DGL Camel business. This follows an impairment charge of $10.2 million in 2013. DuluxGroup's goodwill associated with DGL Camel has now been fully written off. Although growth in our targeted Asian markets has been slow, we remain confident in the medium to long term growth opportunities. During the year we divested the Opel wood coatings business to increase our focus on our core paint, texture coatings and adhesives product segments. This provides a stronger footing from which to grow.

Looking forward, DuluxGroup will continue to focus on generating profitable growth from within our existing businesses, while assessing value generating acquisitions that are aligned to our capabilities and strengths.

## Our people and operations

DuluxGroup has made excellent progress against its safety and sustainability measures during the year. The number of recordable employee injuries is at historically low levels and this year there was a significant decrease in injuries, with the newer Alesco businesses showing a tremendous improvement in this area.

We also continued to reduce our waste generation, water and energy consumption during the year.

DuluxGroup now employs approximately 4,000 people throughout the world. One of their core values is to feel a strong sense of ownership in DuluxGroup and its success. During the year we completed our survey of employee engagement. More than 90% of employees responded to the survey, which is an extremely high response by global standards. It revealed that our employees overall feel a very strong commitment to going the 'extra mile' to deliver superior results for our customers, consumers, the community and ultimately our shareholders.

This strong sense of ownership is reflected in the fact that more than 70% of eligible employees choose to join you as shareholders of DuluxGroup.

Likewise, our executives continue to build their personal shareholdings in DuluxGroup following the extension of minimum shareholding requirements to senior managers last year. This is consistent with the Board's commitment to ensuring a strong alignment between remuneration, company performance and shareholders' interests. The full details of the Remuneration Framework are outlined in the Remuneration Report on page 64.

A significant area of focus this year has been to increase the diversity of DuluxGroup's workforce, and in particular to increase the number of women employed overall and appointed to leadership roles. We made good progress this year. Managers are recruiting proportionally more women into DuluxGroup and we welcomed two additional women to the DuluxGroup Executive this year. The recent Employee Engagement Survey revealed that one of the things employees value most about working at DuluxGroup is the strong commitment to creating a diverse, tolerant and flexible workplace which provides truly merit-based opportunities.

This is a worthy reflection of the positive leadership provided by Patrick Houlihan and his management team. I would like to thank them and all employees for their contribution to a very successful year at DuluxGroup.

On behalf of Board members I would like to thank our shareholders for your continued support.

I look forward to the next opportunity to update you on your company's performance.

**PETER KIRBY**
12 NOVEMBER 2014

# Overall this has been a very successful year, with strong performances across all of our segments.

## DEAR SHAREHOLDERS

I am pleased to report that this year DuluxGroup has continued to perform well and deliver further profit growth.

### Group performance

2014 net profit after tax (NPAT) was $111.9 million, an increase of 21.4% (excluding non-recurring items) compared with the 2013 equivalent NPAT of $92.2 million.

The result was driven by strong profitable sales growth in strengthening Australian and New Zealand markets, the contribution of a full 12 months of Alesco earnings and effective margin improvement initiatives.

Sales revenue increased 8.5% to $1.6 billion, assisted by a full 12 months of Alesco earnings compared with 10 months in 2013. Including a full 12 months of 'pro forma' Alesco contribution in 2013, sales grew 3.6%.

Earnings before interest and tax (EBIT), excluding non-recurring items[1], was $183.8 million, an increase of 19.4% on the prior year, and an increase of 12.0% on a pro forma basis.

A successful year was once again underpinned by ongoing investment in marketing, innovation and customer service to build on our core market leadership positions and establish solid foundations for further growth options in our expanded end product and customer markets. Strong financial discipline was also reflected in the form of good cash generation and tight management of pricing and input costs.

### Segment performance

DuluxGroup's largest operating segment, Paints and Coatings Australia and New Zealand, grew sales by 6.1% to $821.6 million and EBIT by 12.1% to $138.9 million. Market growth of approximately 4% was driven by increased housing activity in both Australia and New Zealand. Double digit earnings growth reflects DuluxGroup's strategic focus on higher value, profitable market segments and disciplined cost control.

Consumer and Construction Products, comprising the Selleys and Parchem businesses in Australia and New Zealand, grew pro forma EBIT by 3.1% to $29.8 million on flat pro forma sales. A strong performance from Selleys offset the slight decline in Parchem earnings, which were affected by the continued downturn in engineering construction markets.

The Garage Doors and Openers business, comprising B&D and other brands, grew pro forma sales by 5.8% and pro forma EBIT by 4.6%. Excluding net insurance gains in the prior year, EBIT actually grew by 8.9%. This strong result was achieved while the business increased its advertising and implemented a strategic move away from lower margin, non-aligned customer channels. Australian and New Zealand market growth was strongest in the new housing sector, where the B&D business has less of a focus.

Cabinet and Architectural Hardware grew pro forma sales by 8.5% and pro forma EBIT by 25.4% to $8.9 million, driven by market share gains and cost reductions from a restructured business model. Profitable market share gains were underpinned by continued investment in sales effectiveness and new customer marketing programmes.

DuluxGroup's Other Businesses segment – comprising the Yates garden care business and DuluxGroup's Papua New Guinea (PNG), China, Hong Kong and South East Asia businesses – grew EBIT[2] by 34.1% to $12.2 million, on sales[2] that declined 5.2%. EBIT growth was driven by a strong performance from Yates, improved earnings in China and margin improvement initiatives generally. The PNG business remains a profitable market leader in decorative paints, but was impacted by slowing investment in industrial and mining sectors.

Overall this has been a very successful year, with strong performances across all of our segments.

### Near term strategic priorities

We have also made very good progress on our near term strategic imperatives during the year.

We have delivered revenue and profit growth across all of the 'heritage DuluxGroup' businesses to maintain and extend our market leadership positions.

We have largely integrated the new businesses, delivering $9 million in synergies since acquisition. At the same time, we have made good strategic progress across

1. Non-recurring items are outlined on page 34 of the Annual Report.
2. Sales and EBIT comparisons with prior period exclude 10 months of sales in 2013 from the divested Robinhood business and the non-cash impairment charge in 2013 and 2014 relating to DuluxGroup's business in China.

these businesses, tightening the focus on profitable segments and reducing exposure to low-margin sectors. We are also beginning to see the benefits from a more efficient, fit-for-purpose cost base and increased focus on the fundamentals of marketing, sales capability and customer service.

The development of the broader Construction Chemicals platform is well underway. The business has been structured to leverage the combined customer market, technology and marketing expertise of the Selleys and Parchem businesses. It now has a more solid foundation from which to pursue growth opportunities in construction, engineering and infrastructure markets, and we expect to see further progress in 2015.

In China we exited the loss-making Opel wood coatings business to focus our efforts on further growing our strong footholds for Selleys, AcraTex and Camel paint in Hong Kong and China.

Excellent progress was made in targeted business improvement initiatives, including margin improvement for Yates and supply chain efficiency projects.

## Our people

All of our employees, irrespective of geography, job role or seniority, are guided by DuluxGroup's Values and Behaviours. They unite us in helping our end consumers to 'Imagine a Better Place' and achieving our strategic goals with integrity and with respect for the trust placed in us by our colleagues, customers, shareholders and our communities.

These values are:

- Be customer focused and consumer driven
- Innovate and grow – unleash our potential
- Value people, work safely and respect the environment
- Run the business as your own

Our recent Employee Engagement Survey received an overwhelming degree of support, with more than 90% of our 4100 employees responding. One of the things they most recognise and value about working at DuluxGroup is our unrelenting focus on ensuring that DuluxGroup is a safe place to work, while committing to the highest levels of customer service. A key focus of our integration of the new businesses has been improving efforts to work safely. The new businesses have made tremendous progress over the past 12 months and we have seen a significant reduction in injury rates and incidents that have the potential to cause serious harm. Our level of recordable injuries across DuluxGroup decreased by 15% during 2014. We continue to focus on our four pillars of process safety, fatality prevention, personal safety and sustainability.

This year, our employees have once again played an active role in our communities and increased efforts to 'leave our environment better than we found it'. A range of company initiatives during the year provided opportunities to help in our local communities. Berger's partnership with Legacy Australia to protect and improve the homes of war widows, Dulux New Zealand's ongoing support to help Habitat for Humanity in providing better homes for disadvantaged communities, and Yates' support for Junior Landcare are just some of the examples.

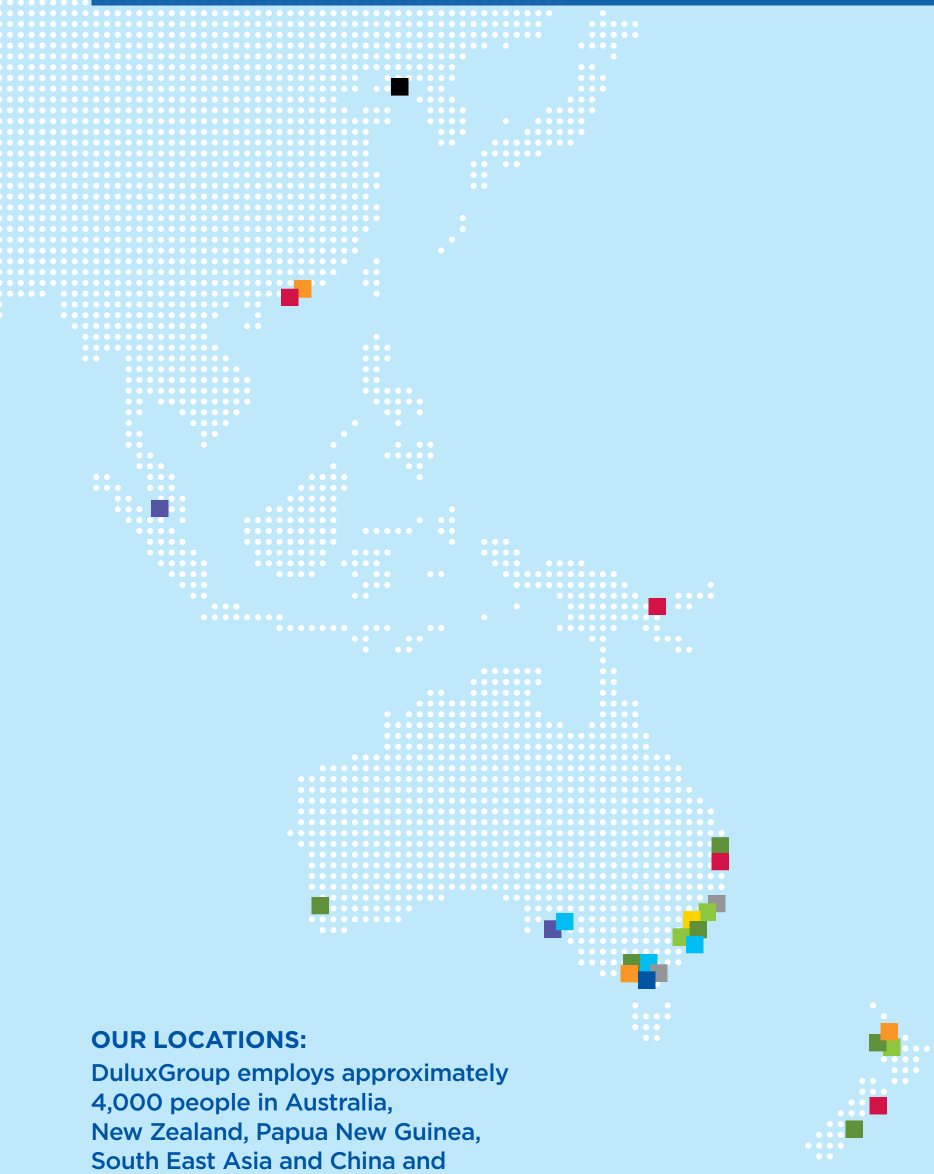
During the year we welcomed four new people to our DuluxGroup Executive team. Penny Lovett joined DuluxGroup as Executive General Manager, DuluxGroup Human Resources. Jennifer Tucker was promoted to the role of Executive General Manager, Yates. Martin Ward re-joined DuluxGroup in the role of General Manager, Strategic Marketing, and was subsequently appointed to the new role of Executive General Manager, Consumer and Construction Products. Richard Hansen was promoted to Executive General Manager, Dulux New Zealand. Additionally, Julia Myers, who was already on the Executive as General Manager of Dulux New Zealand, moved to the role of Executive General Manager, Selleys.

Our employees at all levels have made a significant contribution to a successful year at DuluxGroup and I would like to thank each of them for their efforts.

I would like to thank the DuluxGroup Board for its ongoing guidance, and I thank you, our shareholders for your continued support for DuluxGroup.

**PATRICK HOULIHAN**
12 NOVEMBER 2014

# DuluxGroup is an Australian based marketer and manufacturer of premium branded products, predominantly focussed on home improvement.



**AUTOMATIC OPENERS**
Dalian, China

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

**CONSTRUCTION CHEMICALS AND EQUIPMENT**
Wyong, New South Wales, Australia
Brunswick, Victoria, Australia

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

**WOODCARE**
Dandenong, Victoria, Australia

**YATES**
Wyee, New South Wales, Australia
Mt Druitt, New South Wales, Australia
Auckland, New Zealand

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

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

**SELLEYS**
Padstow, New South Wales, Australia

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

**OUR LOCATIONS:**
**DuluxGroup employs approximately 4,000 people in Australia, New Zealand, Papua New Guinea, South East Asia and China and has a comprehensive, world-class, scalable manufacturing base and supply chain across:**

- 21 Main Manufacturing Sites
- 21 Distribution Centres
- more than 120 company owned trade outlets

### OUR BRANDS:

DuluxGroup's brands are trusted and relied upon for their quality. This reputation is built on more than 100 years of history, rigorous attention to detail, product innovation and investment. Brands such as Dulux, Selleys, Yates, Cabot's and B&D are household names with the highest consumer awareness in their respective markets. Dulux was recently recognised in the well regarded, independent, Reader's Digest consumer survey as the fourth overall most trusted brand in Australia, for the second year in a row.

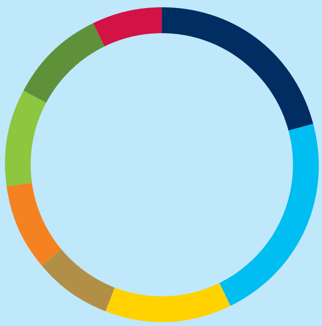
### OUR PRODUCTS:

DuluxGroup's product range centres around paint, specialty coatings and adhesives, which collectively account for approximately 70% of revenue. The company also has businesses in the garage doors and openers, garden care and cabinet hardware sectors.

***2014 SALES BY BUSINESS SECTORS***

- **Retail Paints 21%**
- **Trade Paints 22%**
- **Specialty Coatings 13%**
- **Parchem Construction Chemicals and Equipment 8%**
- **Selleys Home Care 9%**
- **Garage Doors and Openers 10%**
- **Cabinet and Architectural Hardware 10%**
- **Yates Garden Care 7%**

*"A broad portfolio of products and markets."*



### OUR END MARKETS:

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

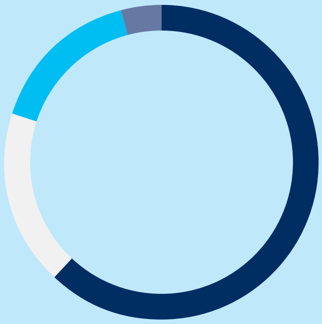
DuluxGroup also has some focus on new housing, with a bias towards the premium end of the market where consumer choice of brands plays a greater role. When consumers are deciding which products to use in their own living spaces – whether it be in an existing or a new home – they seek out brands they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

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

***2014 SALES BY END MARKET***

- **Maintenance and Home Improvement 62%**
- **New Housing 18%**
- **Commercial Infrastructure 16%**
- **Industrial 4%**

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



### OUR CUSTOMER CHANNELS:

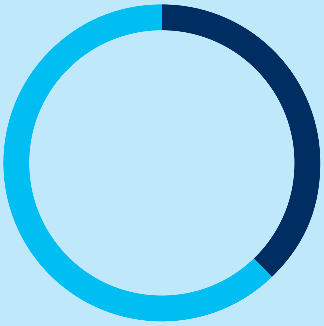
Almost two thirds of DuluxGroup's business is delivered via trade channels, comprising an extensive network of customers including, painters, specifiers, architects, engineers, designers, builders, concreters, cabinet makers, garage door dealers, and project and facilities managers.

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

***2014 SALES BY CUSTOMER CHANNEL***

- **Retail 38%**
- **Trade 62%**

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



# Strategy and Growth

DuluxGroup has pursued a strategy to build a portfolio of businesses with leading positions in premium market categories and segments in Australia, New Zealand and Papua New Guinea, predominantly focussed on home improvement. We have also developed emerging market positions in China and South East Asia.

## Growth strategy

DuluxGroup aims to generate growth by continuing to build on the core and establish longer term growth opportunities. The key components of this (which we sometimes refer to as our 'strategic playing fields') are as follows:

- Paint, specialty coatings and adhesives in Australia, New Zealand and Papua New Guinea
- Capability-led home improvement businesses in Australia and New Zealand
- Offshore coatings and adhesives

The diagram below describes this further.

### Our strategy is to build on and leverage the core and establish longer term growth options

**PAINT, SPECIALTY COATINGS & ADHESIVES (ANZ, PNG)**

- Continue to build on premium, branded, market leading positions via retail (DIY) and trade (do-it-for-me) channels focussed primarily on residential homes (bias to the larger, higher value and more profitable existing home segment)
- Extend into the wider construction chemicals and speciality coatings markets

PAINTS & COATINGS ANZ | CONSUMER & CONSTRUCTION PRODUCTS | PAPUA NEW GUINEA

**+**

**CAPABILITY-LED HOME IMPROVEMENT (ANZ)**

- Focussed on premium, branded consumer products for residential home improvement
- Value-add through leveraging existing 'go-to-market' capabilities (e.g. premium brand consumer marketing, retail hardware expertise, trade distribution model – stores, tradesmen, specification)

GARAGE DOORS & OPENERS | CABINET & ARCHITECTURAL HARDWARE | YATES GARDEN CARE

**+**

**OFFSHORE COATINGS AND ADHESIVES**

- Grow our positions in China and SE Asia
- Consider growth opportunities in other markets as they arise

CHINA | SOUTH EAST ASIA

**Underpinned by brands, innovation and customer service**

Operating Segment [ ] Part of 'Other Businesses' segment

## AUSTRALIA, NEW ZEALAND AND PAPUA NEW GUINEA

In Australia, New Zealand and Papua New Guinea, where we have well-established businesses, we are pursuing growth through:

1. Profitable market share growth in our existing businesses;
2. Logical extensions of our brands and businesses into adjacent products; and
3. Growth into new product areas where we believe DuluxGroup's capabilities can be utilised to generate sustainable growth.

### 1) Profitable market share growth

Whilst many of our businesses have achieved profitable increases in market share over recent years, we continue to see further opportunities. Our strategy here is centred around our **Brands, Innovation and Customer Service**:

- Brands: Continuing to build strong relationships with consumers through further investment in DuluxGroup's brands
- Innovation: Further investment in the Company's research and technology centres, taking input from consumers and customers, local and international technology partners to develop innovative customer solutions
- Customer service: Reinforcing the strength of the Company's sales force and maintaining strong focus on continuous improvement to its supply chain to ensure market leading customer service to our retail and trade (professional contractor) customers

Our success has also been supported by tight financial discipline, particularly around pricing and input costs, to ensure that market share growth generates sustainable profits.

### 2) Extensions into adjacent markets and products

Over the years the company has expanded its decorative paints business into adjacent categories, such as protective coatings, texture coatings and, more recently, specialty coatings such as rust protection.

We continue to see further opportunities of this nature, particularly in our newly formed Consumer and Construction Products division, which was formed through the combination of Selleys and Parchem.

### 3) Capability-led growth

We have been pleased with the strategic, operational and financial improvement that we have achieved in our recently acquired B&D garage doors and openers business and Lincoln Sentry cabinet and architectural hardware business. Much of the improvement has been achieved by leveraging DuluxGroup's sales, marketing and supply chain capabilities. Similarly, we are also pleased with the progress that Yates continues to make in the garden care market, leveraging DuluxGroup's go to market model in retail hardware.

Whilst our current focus is to continue to grow these businesses, we may also consider other opportunities of this nature in retail and/or trade channels in the future.

## CHINA AND SOUTH EAST ASIA

DuluxGroup has a 51% share of DGL Camel International, which is focussed on decorative and industrial coatings and Selleys products in Hong Kong (where it holds strong market positions in decorative paint under the 80 year old Camel brand and with Selleys Liquid Nails construction adhesive) and in Southern China. DGL Camel's objective is to further build on its Hong Kong market position and to develop over the medium term its small Camel decorative paint and Selleys construction adhesives business in China.

DuluxGroup has operated in South East Asia for more than 20 years, largely with a limited range of premium Selleys products. Our strategy is to expand our product range (predominantly in adhesives and lubricants) in selected markets such as Indonesia and Vietnam.

## TARGETED INVESTMENT

DuluxGroup's organic growth strategies may be supported by acquisitions where logical. Consistent with DuluxGroup's disciplined approach, the Company will typically seek to invest in businesses that are aligned with the Company's broader growth strategy and have the potential to generate attractive financial returns.

DuluxGroup will also continue to appropriately invest in its manufacturing and distribution base.

## NEAR TERM STRATEGIC IMPERATIVES

Last year we outlined our five near term key strategic imperatives. These imperatives remain largely valid, though we have since broadened the fourth point from 'Address performance hot spots' to 'Pursue business improvement opportunities'. The five imperatives are:

- Extend our market leadership positions
- Deliver on Alesco upside
- Lock down medium term growth opportunities
- Pursue business improvement opportunities
- Maximise organisational leverage

We are happy with our progress during the year. In particular:

- The revenue and profit growth across most of the 'heritage DuluxGroup' businesses in Australia and New Zealand has reflected our continued focus on maintaining and extending our market leadership positions;
- The integration of the Alesco businesses is materially complete, with $9m of synergies delivered, and good strategic progress has been made across all three businesses;
- Considerable development work in relation to the broader Construction Chemicals market continues. We expect visible traction in FY15. In China, we are focussing our energies on the growth of Selleys and Camel paint in Hong Kong and China. The divestment of the loss-making Opel business during the year has left the business on a stronger footing from which to grow;
- Yates achieved an improved margin in FY14, and various other business improvement projects across supply chain in particular are progressing; and
- In FY14 we have focussed on stepping up strategic marketing and digital capability, with a central team largely appointed.

Further detail on specific achievements within individual businesses is included later in this report.

## Material Business Risks

# The DuluxGroup Board and management have established controls that are designed to safeguard the Company's interests and the integrity of its reporting.

These include accounting, financial reporting, safety and sustainability, crisis management, fraud and corruption control, delegations of authority and other internal control policies and procedures.

The Board has also established practices for the oversight and management of key business risks. In particular, DuluxGroup maintains a risk management framework that includes the development and maintenance of risk registers within each business and at a consolidated group level for the most material risks. The Board reviews this consolidated risk register annually, with input as appropriate from the relevant Board committee, and individual risks are discussed by the Group Executive on a rotating basis across the year.

The material business risks that have the potential to impact the achievement of the company's future financial prospects and strategic imperatives are outlined below, together with mitigating actions undertaken to minimise these risks.

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

| RISK | NATURE OF RISK | ACTION/PLANS TO MITIGATE |
|---|---|---|
| **Key customer relationships** | DuluxGroup's largest retail customers represent a significant portion of total revenue. Loss of revenue from key customers could impact the Group's profitability | • Ongoing investment in iconic brands (marketing and innovation) to drive consumer activity into our key retail channels and assist our customers in succeeding<br>• Continued focus on providing superior customer service<br>• Maintain a broad base of retail and trade customers |
| **Catastrophic event/hazard in manufacturing and distribution operations** | DuluxGroup's operations could be impacted by accidents, natural disasters or other catastrophic events that have the potential to materially disrupt its operations<br><br>DuluxGroup has a concentrated manufacturing approach across many of its products, including decorative paint | • Disaster recovery plans are in place for all major sites. Disaster recovery plans for decorative paint in Australia were utilised successfully following the Queensland floods in January 2011<br>• Rigorous safety and hazard identification, audits and prevention systems at key sites<br>• Consideration of potential investment in the manufacturing and distribution base to reduce risk and/ or increase back-up capacity<br>• Significant investment in hazard prevention and safety improvement projects<br>• Insurance policies including business interruption cover |
| **Competitive threats** | There is a risk that DuluxGroup's existing or future multinational competitors could bring new levels of innovation or lower cost to the Australian market, threatening DuluxGroup's market share and/or operating margins | • Strong, established brands supported by ongoing marketing investment<br>• Use of multinational suppliers for key decorative paint raw materials to reduce potential technology exposure<br>• Active international research program to monitor market developments and benchmark product costs in key markets (e.g. US, UK)<br>• Significant investment in local innovation and product formulation capability to ensure products and services are well-suited to our markets |

| RISK | NATURE OF RISK | ACTION/PLANS TO MITIGATE |
|---|---|---|
| **Erosion of brand equity** | DuluxGroup's portfolio of iconic brands are relied upon for their quality and premium performance. A significant loss of brand equity could have a material adverse effect on revenue and profit | • Active product stewardship focus<br>• Systematic quality assurance and testing process<br>• Investment in product innovation<br>• Investment in brands |
| **Product liability or other litigation** | Litigation relating to product liability, regulatory controls or environmental practices could result in a materially adverse financial impact | • Investment in quality assurance and governance practices<br>• Well developed customer service and complaints response processes<br>• Insurance policies |
| **Raw material supply** | Supply disruption and/or non-availability of key input materials could impact revenue and/or price volatility could impact operating margins | • Utilisation of a range of suppliers<br>• Robust supplier selection processes<br>• Contingency supply arrangements<br>• Insurance policies including business interruption<br>• Active raw material cost and gross margin forecasting processes |
| **Regulatory – safety** | A death or major injury in the workplace would be devastating for employees and families and could jeopardise DuluxGroup's reputation as a first-choice employer | • Heavy focus on process safety, fatality prevention and personal safety<br>• Significant investment in dedicated safety resources, training and audits<br>• *Refer to the Safety and Sustainability report on page 36 for further information* |
| **Inability to access debt and/or equity markets** | Failure to replace existing funding as it matures and/or secure additional funding for growth initiatives may inhibit future growth and restrict DuluxGroup's business prospects | • Existing debt financing arrangements are with a syndicate of Australian and international banks and US Private Placements, and have a staggered maturity profile<br>• Debt levels are well within established banking covenants<br>• Active bank and investor relations program |

# DuluxGroup Limited results for the financial year ended 30 September 2014

## Result summary

- **Sales revenue** of $1,611.5m increased by $126.9m (+8.5%) on the prior year corresponding period ('pcp'). On a pro forma basis (including a full 12 months Alesco contribution in the pcp), sales grew 3.6%.
- **EBIT**[3] of $175.1m, increased by 40.2%. Excluding non-recurring items, EBIT was $183.8m, an increase of $29.9m (+19.4%) on the pcp and an increase of 12.0% on a pro forma basis.
- **Net profit after tax (NPAT)**[5] was $104.5m, an increase of 39.4%. NPAT before non-recurring items[6] was $111.9m, an increase of 21.4% over the pcp equivalent of $92.2m.
- **Operating cash flow** was $120.2m, an increase of 1.7%. Excluding non-recurring items, operating cash flow increased 7.2%.
- **Net debt to EBITDA**[8,9] ended the period at 1.53 times, which represents an improvement from 1.98 times in the pcp.
- A **final dividend** of 10.5 cents per share, taking total dividends for the year to 20.5 cents, an increase of 17.1% on the pcp.

| RESULTS[1] | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 ACTUAL | 2013[1] ACTUAL | % CHANGE |
| Sales revenue | 1,611.5 | 1,484.6 | 8.5 |
| EBITDA[2] | 210.3 | 157.2 | 33.8 |
| **EBIT[3]** | **175.1** | **124.9** | **40.2** |
| *EBIT before non-recurring items[4]* | *183.8* | *153.9* | *19.4* |
| Net interest expense | (26.2) | (28.1) | 6.8 |
| Tax expense | (46.1) | (33.2) | (38.9) |
| Non-controlling interests | 1.7 | 11.4 | (85.1) |
| **Net profit after tax (NPAT)[5]** | **104.5** | **75.0** | **39.4** |
| *NPAT before non-recurring items[6]* | *111.9* | *92.2* | *21.4* |
| Operating cash flow | 120.2 | 118.2 | 1.7 |
| *Operating cash flow before non-recurring items[7]* | *143.5* | *133.8* | *7.2* |
| Net debt[8] (closing) | 345.7 | 388.7 | 11.1 |
| Net debt to EBITDA[9] | 1.53 | 1.98 | 22.7 |
| Diluted earnings per ordinary share (EPS) (cents) | 27.5 | 20.1 | 36.8 |
| *Diluted EPS before non-recurring items (cents)[10]* | *29.4* | *24.7* | *19.0* |
| Final dividend per share (cents) | 10.5 | 9.5 | 10.5 |
| Total dividend per share (cents) | 20.5 | 17.5 | 17.1 |

Note: Numbers in this profit report are subject to rounding.

1. Other than as indicated in subsequent footnotes, the financial information contained in this document is directly extracted or calculated from the financial statements included in the Financial Report which has been subject to audit. Please note that the pcp has been restated as a result of a change in accounting standard for employee benefits. Refer to note 1 in the Financial Report for details.
2. EBITDA – represents 'profit from operations' plus 'depreciation and amortisation expense' per the Financial Report.
3. EBIT – the equivalent of 'Profit from operations' per the Financial Report.
4. EBIT before non-recurring items – represents 'profit from operations', excluding the non-recurring items outlined on page 34. Directors believe that the result excluding these items provides a better basis for comparison from year to year.
5. Net profit after tax (NPAT) – represents 'Profit for the year attributable to ordinary shareholders of DuluxGroup Limited'.
6. NPAT before non-recurring items – represents NPAT, excluding the non-recurring items per page 34. Directors believe that the result excluding these items provides a better basis for comparison from year to year.
7. Operating cash flow before non-recurring items – the equivalent of 'Net cash inflow from operating activities' per the Financial Report, less the cash component of the non-recurring items outlined on page 34, and as further outlined on page 22.
8. Net debt – represents 'interest bearing liabilities' less 'cash and cash equivalents'.
9. Net debt to EBITDA – is calculated by taking closing net debt (adjusted to include the asset balance relating to the cross currency interest rate swap established to hedge the USD currency and interest rate exposures relating to the US Private Placement debt), as a percentage of the most recent twelve months of EBITDA before non-recurring items. For 2013, this has been calculated on a pro forma basis (i.e. taking twelve months EBITDA from the Alesco businesses).
10. Diluted EPS before non-recurring items – represents EPS adjusted for the non-recurring items outlined on page 34.

As the statutory results in 2013 include only ten months of operating performance for the Alesco businesses, pro forma results (excluding non-recurring items) are presented for 2013 below, and throughout this report, to provide a more meaningful comparative to the 2014 performance. Please note that whilst the 2013 statutory numbers include the result from the Robinhood business, the pro forma numbers exclude Robinhood, given it was divested at the end of 2013.

The following table provides a reconciliation from the reported sales and EBIT for the year to pro forma EBIT, excluding non-recurring items which are explained below.

| COMPONENTS OF SALES AND EBIT | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 ACTUAL | 2013 ACTUAL | % CHANGE |
| **Sales revenue** | | | |
| Sales revenue as reported | 1,611.5 | 1,484.6 | 8.5 |
| *add* pro forma adjustment for Alesco businesses | – | 87.1 | nm |
| *less* Robinhood sales | – | (16.7) | nm |
| **Pro forma sales revenue** | **1,611.5** | **1,555.0** | **3.6** |
| **EBIT** | | | |
| EBIT as reported | 175.1 | 124.9 | 40.2 |
| *add* pro forma adjustment for Alesco businesses | – | 8.4 | nm |
| *add* Robinhood EBIT loss | – | 1.7 | nm |
| **Pro forma EBIT, including non-recurring items** | **175.1** | **135.0** | **29.7** |
| *less* non-recurring items (costs) | (8.7) | (29.0) | nm |
| **Pro forma EBIT, excluding non-recurring items** | **183.8** | **164.1** | **12.0** |

## Non-recurring items

Non-recurring items for 2014 and 2013 are detailed on page 34. The major items are:

### 2014: Adverse impact of $8.7m pre-tax; $7.4m post-tax

- Alesco integration costs totalling $5.3m (pre-tax) and the reversal of an excess tax provision relating to the New Zealand Inland Revenue Department proceedings of $5.9m (pre-tax); and
- A non-cash impairment charge of $9.2m (pre and post-tax) relating to our investment in China (refer page 33).

### 2013: Adverse impact of $29.0m pre-tax ($20.7m DuluxGroup share); $17.2m post-tax

- The profit on sale of the O'Connor site in Western Australia following a reconfiguration of DuluxGroup's state warehouse footprint ($8.1m pre-tax);
- A non-cash impairment charge of $18.5m ($10.2m DuluxGroup equity share) relating to our investment in China; and
- Alesco acquisition related costs: transaction and integration costs totalling $15.9m (pre-tax), purchase price allocation (PPA) adjustments of $1.7m (pre-tax) and a loss on sale of Robinhood of $1.1m (pre-tax).

## Other items

**Net interest expense**[1] of $26.2m reflects an average all-in cost of debt of 5.8% (including commitment fees and amortisation of facility establishment fees, but excluding discounting of provisions). Interest expense was $1.9m lower than the pcp due to a combination of lower prevailing interest rates and lower average debt throughout the year compared to the pcp.

**Income tax expense** of $46.1m. Excluding non-recurring items, the effective tax rate was 30.1%. This is consistent with our future expected rate of approximately 30%.

**Final dividend** of 10.5 cents per share fully franked, taking the full year total to 20.5 cents fully franked, which represents a 70.2% payout ratio based on NPAT before non-recurring items.

Note: nm = not meaningful.

1. Net interest expense – represents 'net finance costs' per the Financial Report.

# Result Summary

The following table shows segment sales and EBIT results before non-recurring items. Alesco results for 2013 are shown on a pro forma basis, excluding Robinhood. These are discussed later in the report from page 24.

| SALES AND EBIT BY SEGMENT | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 ACTUAL | 2013 ACTUAL/ PRO FORMA[1] | % CHANGE |
| **Sales revenue** | | | |
| Paints & Coatings ANZ | 821.6 | 774.2 | 6.1 |
| Consumer & Construction Products ANZ | 265.9 | 267.0 | (0.4) |
| Garage Doors & Openers | 169.8 | 160.5 | 5.8 |
| Cabinet & Architectural Hardware | 159.6 | 147.1 | 8.5 |
| Other businesses | 207.7 | 219.2 | (5.2) |
| Eliminations | (13.0) | (13.1) | 0.8 |
| **Total sales revenue** | **1,611.5** | **1,555.0** | **3.6** |
| **EBIT, excluding non-recurring items** | | | |
| Paints & Coatings ANZ | 138.9 | 123.9 | 12.1 |
| Consumer & Construction Products ANZ | 29.8 | 28.9 | 3.1 |
| Garage Doors & Openers | 18.2 | 17.4 | 4.6 |
| Cabinet & Architectural Hardware | 8.9 | 7.1 | 25.4 |
| Other businesses | 12.2 | 9.1 | 34.1 |
| **Business EBIT** | **208.1** | **186.6** | **11.5** |
| Corporate | (24.3) | (22.5) | (8.0) |
| **Total EBIT, excluding non-recurring items** | **183.8** | **164.1** | **12.0** |

'nm' = not meaningful

1. Excludes Robinhood results in 2013.

## Balance sheet

- **Trade working capital**[1] (TWC) increased by $9.8m from September 2013, reflecting the higher level of sales. TWC as a percentage to sales at year end remained at a similar level to the pcp at 14.5%.
- **Rolling TWC to rolling sales**[2,3] was 15.1% at September 2014, marginally unfavourable to both the half year result (15.0%) and the pcp (15.0%).
- **Intangible assets** decreased by $10.9m, largely as a result of the write down in DGL Camel due to impairment.
- The **defined benefit fund liability** increased by $6.2m from the pcp, due to the outcome of the annual actuarial reassessment of the fund liability at September 2014.
- **Provisions (excluding tax)** have decreased by $8.5m from the pcp, largely due to the settlement of the New Zealand OCN tax matter during the year.
- **Net other assets** have increased by $11.9m, which is mainly due to the recognition of a non-current derivative financial asset associated with the hedging of the USD principal and interest rate exposures relating to the recently completed US private debt placement.
- **Brand names** – we remind shareholders that the values of a number of DuluxGroup's brands, including Dulux and Selleys, are not reflected on the balance sheet.

**BALANCE SHEET**

| A$M | SEPT 2014 ACTUAL | SEPT 2013 ACTUAL |
|---|---|---|
| Inventories | 203.7 | 195.8 |
| Trade debtors | 227.9 | 221.9 |
| Trade creditors | (197.4) | (193.3) |
| Total trade working capital[1] | 234.2 | 224.4 |
| Non trade debtors[4] | 15.8 | 15.3 |
| Tax balances (net) | 20.4 | 16.2 |
| Property, plant & equipment | 262.0 | 263.8 |
| Intangible assets | 224.9 | 235.8 |
| Investments | 5.4 | 4.7 |
| Non trade creditors[5] | (54.2) | (55.1) |
| Defined benefit fund liability | (14.5) | (8.3) |
| Provisions (excluding tax) | (68.9) | (77.4) |
| Net debt | (345.7) | (388.7) |
| Net other assets | 12.2 | 0.3 |
| **Net Assets** | **291.7** | **231.0** |
| Total equity attributable to ordinary shareholders of DuluxGroup Limited | 289.7 | 226.2 |
| Non-controlling interest in controlled entities | 1.9 | 4.7 |
| **Total Shareholders' Equity** | **291.7** | **231.0** |

1. Trade working capital (TWC) – represents the trade receivables portion of 'trade and other receivables' plus 'inventory', less the trade payables portion of 'trade and other payables' per the Financial Report.
2. Rolling TWC – the 12 month rolling average of month end TWC balances.
3. Rolling TWC to rolling sales – calculated as the rolling TWC (above) divided by the most recent 12 months sales revenue. This figure is not directly extracted from the Financial Report.
4. Non trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets' per the Financial Report.
5. Non trade creditors – represents the 'other payables' portion of 'trade and other payables', per the Financial Report.

## Cash flow

The operating cash flow for both the current period and pcp have been impacted by non-recurring items, summarised as follows and detailed later in this report:

- **2014** ($23.3m adverse): Alesco integration costs, the payment of the New Zealand Inland Revenue Department OCN tax penalty, and creditors paid and other costs relating to the divested of Opel business in DGL China (offset by the sale proceeds included within investing cash flows); and
- **2013** ($15.7m adverse): Alesco integration and transaction costs.

Excluding these non-recurring amounts (which impacted a number of different lines on the cash flow), operating cash flow was $9.7m higher, with higher EBITDA partly offset by a larger TWC movement and higher cash tax and interest payments. Key drivers:

- **TWC movement** (approximately $6m unfavourable compared to the pcp excluding non-recurring items in both periods);
- **Income tax payments** (approximately $13m unfavourable to the pcp excluding non-recurring items) – in 2014 we have paid two months' extra tax instalments compared to the pcp due to the legislated change from quarterly to monthly PAYG tax payments, combined with the tax on higher earnings and an extra two months of earnings from the Alesco businesses; and
- **Interest paid** (approximately $2m unfavourable compared to the pcp) – this differs to the interest expense variance in the income statement ($1.9m favourable) due to payment timing changes and some establishment costs associated with the US private placement debt.

Cash conversion excluding these non-recurring items is at 84%, marginally below the pcp and above our guidance of approximately 80%.

Key drivers of the remainder of the cash flow are:

- Investing cash outflows decreased by $142.3m, due largely to the acquisition of Alesco in the pcp, whilst the current year includes $10.8m gross proceeds from the disposal of the Opel business in China and other minor asset disposals; and
- Capital expenditure increased by $1.6m on the pcp, with a full year of Alesco business capital spend in the current period, compared to ten months in the pcp, contributing to the increase.

| STATEMENT OF CASH FLOWS | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 ACTUAL | 2013 ACTUAL | % CHANGE |
| **Net operating cash flows** | | | |
| EBIT | 175.1 | 124.9 | 40.2 |
| *less:* Profit on sale of major assets (investing)[1] | – | (8.2) | nm |
| *less:* (Profit)/loss and disposal of business (investing)[2] | (3.7) | 1.1 | nm |
| *add:* Depreciation | 27.7 | 26.6 | 4.1 |
| *add:* Amortisation | 7.5 | 5.7 | 31.6 |
| Adjusted EBITDA | 206.6 | 150.1 | 37.6 |
| Trade working capital movement | (14.7) | (1.9) | nm |
| Non trade working capital movement | (0.4) | (5.3) | nm |
| Other non cash | 2.0 | 28.8 | nm |
| Income taxes paid | (48.0) | (30.6) | (56.9) |
| Net interest paid | (25.3) | (23.1) | (9.5) |
| **Operating cash flow** | **120.2** | **118.2** | **1.7** |
| **Net investing cash flows** | | | |
| Capital expenditure[3] | (30.6) | (28.9) | (5.9) |
| Acquisitions[4] | (0.2) | (145.4) | nm |
| Disposals[5] | 11.2 | 12.5 | (10.4) |
| Dividends received | 0.3 | 0.3 | – |
| **Investing cash flow** | **(19.3)** | **(161.6)** | 88.1 |
| **Financing cash flow before debt movement** | **(42.1)** | **(37.2)** | (13.2) |
| **Total cash flow before debt movement** | **58.8** | **(80.7)** | nm |
| **Operating cash flow before non-recurring items** | **143.5** | **133.8** | **7.2** |
| **Cash conversion[6] (%)** | **79%** | **95%** | |
| **Cash conversion excluding non-recurring items (%)** | **84%** | **85%** | |

'nm' = not meaningful

1. Profit on sale of major assets – represents 'net profit on sale of property, plant and equipment' per note 5 of the Financial Report. This represents profit on disposal of the O'Connor site in Western Australia in the pcp.
2. (Profit)/loss on disposal of business – represents 'profit on disposal of a business' per note 5 of the Financial Report and 'loss on disposal of a business' per note 6 of the Financial Report. This represents profit on disposal of the Opel business in China in the current year, and loss on sale of the Robinhood business in the pcp.
3. Capital expenditure – represents the 'payments for property, plant and equipment' and 'payments for intangible assets'.
4. Acquisitions – represents 'payments for purchase of businesses and controlled entities, net of cash acquired', net of 'proceeds from price adjustment on purchase of controlled entities' per the Financial Report.
5. Disposals – represents 'proceeds from disposal of business' and 'proceeds from sale of property, plant and equipment' per the Financial Report.
6. Cash conversion – is calculated as EBITDA, add/less movement in working capital and other non cash, less minor capital spend (capital project spend less than A$5M), as a percentage of adjusted EBITDA.

**THIS PAGE** A rainbow of colours in Dulux Wash and Wear at the Apical office project, by Duckbuild Architect Simon Cookes and Norwood Constructions. Photo by Peter Bennetts.

# Business Segment Detail

# Paints and Coatings Australia and New Zealand

Double-digit earnings growth in positive markets.

EBIT
**$138.9m**

UP BY
**+12.1%**

**Australia and New Zealand's leading marketer and manufacturer of premium branded decorative paints, woodcare coatings, texture coatings, protective coatings, and industrial and powder coatings.**

**With a heritage dating back almost a century, Dulux has grown to become the number one brand in Australia for home owners, renovators and trade professionals alike. Strong investment in marketing and new product innovation is recognised in industry leading brand recognition. Dulux is regularly named as one of Australia's 'most trusted' brands.**

| PAINTS & COATINGS ANZ | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 ACTUAL | 2013 ACTUAL | % CHANGE |
| Sales revenue | 821.6 | 774.2 | 6.1 |
| EBITDA | 156.5 | 140.6 | 11.3 |
| EBIT | 138.9 | 123.9 | 12.1 |
| *EBIT % Sales* | 16.9% | 16.0% | |

## Sales revenue up $47.4m (+6.1%)

- Market growth of approximately 4% driven by increased housing activity in both Australia and New Zealand. Protective coatings remained soft, given the slow down in mining and infrastructure investment.
- In the Australian decorative paint market, existing homes (75% of market volume) grew approximately 2.5%, new housing (20% of market volume) grew approximately 10%, and commercial (5% of market volume) grew approximately 3.5%.
- Consistent with our long term strategy, we have continued to focus on higher value, more profitable market segments, biased to renovations of existing homes with premium paint.
- In Australia, we held share within our aligned decorative paint channels and preferred target markets. Overall share reduced slightly with the key driver being the disproportionate growth of new housing, a less profitable sector, where our share is strategically lower than our overall average.
- New Zealand share was flat overall.
- The stronger New Zealand dollar contributed approximately 1.5 points of the revenue increase.

## EBIT growth of $15.0m (+12.1%)

- Following the short term input cost relief in the first half, input costs in the second half increased broadly in line with inflation, as foreshadowed.
- Margin improvement was also driven by procurement benefits resulting from internal efficiency programs, continued cost control and, importantly, our continued focus on profitable market segments.

## 2014 achievements

- New products released during the year included Dulux Wash & Wear pre-tinted in its top 5 colours, coloured chalkboard paint, British Paints Paint & Prime, Dulux Steriguard hospital coatings and Dulux Fast Finish, a range of spray-only coatings for professional painters.
- Two major initiatives continued in 2014: Dulux's sponsorship of Surf Life Saving Australia, helping to restore and protect Australia's surf club buildings (more than 160 clubs have now been provided with paint since the start of the sponsorship in 2012); and the Berger 'Paint for a Mate' initiative, a community focussed initiative where Berger & Inspirations have joined forces with Legacy to paint homes of service people and their families.
- The Dulux iPhone app – 'Dulux Colour Capture' was introduced, allowing people to capture and convert their favourite colours into a Dulux colour. The 'Dulux Colour' app with 'Colour Capture' contains the entire Dulux colour offer and is available on smart devices and tablets.
- Other initiatives included Dulux's sponsorship of the Virgin Australia Melbourne Fashion Festival and Australia's leading blog 'Design Files', partnerships with fashion labels Gorman and Romance and the Dulux 80th year promotion featuring vintage cans and a retro calendar.
- Dulux New Zealand undertook a major nationwide relaunch of consumer colour selectors and relaunched the very popular 'Dulux Colours of New Zealand' range.
- Dulux Powder Coatings launched 'Dulux RapidCure' in Australia, with the encouraging results reinforcing Dulux's pre-eminence as the industry innovator.

**THIS PAGE** Sea Cliff Bridge, New South Wales, Australia. Roads and Maritime Services New South Wales used Fosroc's Dekguard S protective coatings provided by Parchem.

# Consumer and Construction Products Australia and New Zealand

EBIT growth driven by improvement in Selleys, offset by a small decline in Parchem as a result of adverse engineering construction market conditions.

EBIT
**$29.8m**

UP ON PRO FORMA 2013 EBIT BY
**+3.1%**

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

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

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

| CONSUMER & CONSTRUCTION PRODUCTS ANZ | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 | 2013 | % CHANGE |
| Statutory (10 months in 2013) | | | |
| Sales revenue | 265.9 | 243.2 | |
| EBITDA | 33.8 | 29.9 | |
| EBIT | 29.8 | 26.2 | |
| *EBIT % Sales* | *11.2%* | *10.8%* | |
| Pro forma (12 months in 2013) | | | |
| Sales revenue | 265.9 | 267.0 | (0.4) |
| EBITDA | 33.8 | 33.1 | 2.1 |
| EBIT | 29.8 | 28.9 | 3.1 |
| *EBIT % Sales* | *11.2%* | *10.8%* | |

## Sales revenue down $1.1m (-0.4%) on pro forma 2013 revenue

- Selleys sales revenue grew in Australia and New Zealand in markets that grew modestly.
- Parchem revenue was adversely impacted, especially in the second half, by the significant decline in engineering construction markets, together with a decision to exit some low margin volumes in the decorative concrete resurfacing business.

## EBIT growth of $0.9m (+3.1%) on pro forma 2013 EBIT

- Selleys grew profit due to revenue growth, margin control and tight fixed cost management.
- Parchem profit declined slightly, with procurement and other fixed cost savings largely offsetting the impact of revenue declines.

## 2014 achievements

- A major re-launch of Selleys brands within the household consumer adhesives category took place throughout large retailers. This major strategic brand project asserts Selleys' continued market leadership position in this category for our key hardware and retail customers. 2014 also saw the launch of a new Selleys floor cleaning range.
- Focussed investment on Selleys' core sub-brands with TV commercials for brands such as Liquid Nails, No More Gaps, and BBQ Tough Wipes. This included new television commercials to support key product innovations including Selleys Wet Area Araldite and Talon Ant Killer.
- Parchem's new product launches included SewperCoat, a product used for the protection of waste water infrastructure, and the development of uniquely formulated sealants that are fire and acoustic rated for the multi-residential and commercial construction markets. These were specified for a number of large commercial projects in Victoria as well as the Royal Adelaide Hospital development.

**THIS PAGE** B&D's *Design-A-Door* – a stylish continuation of B&D's rich heritage as an icon of suburban landscapes.

# Garage Doors and Openers

Solid result achieved during significant strategic changes and given insurance income in pcp. Improved detached new housing growth was tempered by subdued renovation activity.

EBIT
**$18.2m**

UP ON PRO FORMA 2013 EBIT BY
**+4.6%**

B&D (and other brands) garage doors and openers in Australia and New Zealand.

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

| GARAGE DOORS & OPENERS | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 | 2013 | % CHANGE |
| **Statutory (10 months in 2013)** | | | |
| Sales revenue | 169.8 | 130.4 | |
| EBITDA | 24.5 | 17.8 | |
| EBIT | 18.2 | 12.3 | |
| *EBIT % Sales* | *10.7%* | *9.4%* | |
| **Pro forma (12 months in 2013)** | | | |
| Sales revenue | 169.8 | 160.5 | 5.8 |
| EBITDA | 24.5 | 24.0 | 2.1 |
| EBIT | 18.2 | 17.4 | 4.6 |
| *EBIT % Sales* | *10.7%* | *10.8%* | |

### Sales revenue up $9.3m (+5.8%) on pro forma 2013 revenue

- The Australian market grew, driven by slight growth in alterations and additions (approximately 52% of revenue) and an improving new housing market (approximately 31%). The New Zealand market grew more strongly due to Christchurch rebuild activity and strong growth in Auckland.
- Australian market share outcomes in the garage doors business were slightly negative in Australia due to a strategic decision to exit low margin, non-aligned business. Share grew in the remaining strategically aligned customer base (e.g. the B&D Accredited Dealer network). Share also grew in New Zealand and in industrial openers.
- Positive price impacts resulted from increases implemented to manage the impact of input cost pressures (higher steel prices and weaker Australian dollar) and the exit of low margin business.

### EBIT growth of $0.8m (+4.6%) on pro forma 2013 EBIT

- The prior year was positively impacted by net insurance gains resulting from the Christchurch earthquake of $0.7m. Excluding this impact, EBIT grew by $1.5m (8.9%).
- The result included an increase in advertising of approximately $1m, with B&D advertising on television with the first national campaign in many years. Total marketing expenditure was only slightly higher than prior year.

### 2014 achievements

- The business has driven innovation through consumer led new product development during the year. This included launching in New Zealand the option of insulating our sectional door range, which improves thermal and acoustic properties for the door and is available in a range of styles and colours. The Negative Detail door was also launched, which provides a shadow line appearance at the panel joints with a smooth flat panel profile and is well suited to modern and architecturally designed homes.
- Investment in the B&D brand was stepped up through television advertising to build on its leadership position with home owners.
- The business is building a stronger footprint of highly branded accredited dealers with inspirational product selection showrooms opened during 2014.

**THIS PAGE** Lincoln Sentry seeks and distributes the world's leading premium brands when it comes to form and function in cabinet and architectural hardware. A dream kitchen starts at Lincoln Sentry.

# Cabinet and Architectural Hardware

EBIT growth was driven by market share gains and cost reductions from a restructured business model.

EBIT
**$8.9m**

UP ON PRO FORMA 2013 EBIT BY
**+25.4%▲**

**Lincoln Sentry cabinet and architectural hardware distribution business.**

**From its establishment in Brisbane in 1986, Lincoln Sentry has evolved to become one of Australia's leading distributors of premium quality hardware and components to the cabinet making, window, door and glazing industries. They are proud suppliers of quality brands including Blum, Hera, SecureView, Assa Abloy and Breezway.**

| CABINET & ARCHITECTURAL HARDWARE | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 | 2013 | % CHANGE |
| **Statutory (10 months in 2013)** | | | |
| Sales revenue | 159.6 | 117.6 | |
| EBITDA | 11.4 | 5.9 | |
| EBIT | 8.9 | 4.1 | |
| *EBIT % Sales* | *5.6%* | *3.5%* | |
| **Pro forma (12 months in 2013)** | | | |
| Sales revenue | 159.6 | 147.1 | 8.5 |
| EBITDA | 11.4 | 9.2 | 23.9 |
| EBIT | 8.9 | 7.1 | 25.4 |
| *EBIT % Sales* | *5.6%* | *4.8%* | |

### Sales revenue up $12.5m (+8.5%) on pro forma 2013 revenue

- The impact of strong growth in the new residential housing market was somewhat offset by a slower recovery in the residential alterations and additions market.
- Continued investment in sales effectiveness and innovative marketing programs delivered market share gains, particularly in the Cabinet Hardware business.

### EBIT growth of $1.8m (+25.4%) on pro forma 2013 EBIT

- Cost of goods was adversely impacted by the decline in the Australian dollar against the Euro and US dollar.
- Fixed costs were lower than the pcp due to tight cost control and a restructure to a lower cost, national business model.

### 2014 achievements

- Launch of the Finista brand has enabled the business to bring exclusive, innovative and quality products to market, including waste management systems, storage systems, a handle range and high end window hardware.
- Delivered innovative marketing programs including a comprehensive catalogue. Lincoln Sentry's 'Open House' display at the AWISA trade show showcased our comprehensive product offering to the cabinet and furniture making industry participants.
- Strengthened the sales and service capabilities with investment in targeted training programs and talent acquisition. Restructured into a national operation with a greater focus on the customer.

* Distributed brands.

LINCOLN SENTRY Finista blum* Hera* LOCKWOOD ASSA ABLOY* SECUREVIEW* breezway*

# Other Businesses

EBIT growth driven by strong performance in Yates, EBIT improvement in China, partially offset by market softness in Papua New Guinea.

**EBIT**
**$12.2m**

**UP ON PRO FORMA 2013 EBIT BY**
**+34.1%**

DuluxGroup's Other Businesses include:

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

| OTHER BUSINESSES | FULL YEAR ENDED 30 SEPTEMBER | | |
|---|---|---|---|
| A$M | 2014 | 2013 | % CHANGE |
| **Statutory (includes 10 months of Robinhood in 2013 and China impairment)** | | | |
| Sales revenue | 207.7 | 232.3 | |
| EBITDA | 6.2 | (8.1) | |
| EBIT | 3.0 | (12.1) | |
| *EBIT % Sales* | *1.4%* | *(5.2)%* | |
| **Excluding Robinhood and China impairment** | | | |
| Sales revenue | 207.7 | 219.2 | (5.2) |
| EBITDA | 15.4 | 12.9 | 19.4 |
| EBIT | 12.2 | 9.1 | 34.1 |
| *EBIT % Sales* | *5.9%* | *4.2%* | |
| **Robinhood and China impairment** | | | |
| Robinhood EBIT (pro forma in 2013) | – | (1.7) | nm |
| Robinhood loss on sale | – | (1.1) | nm |
| China impairment – 100% | (9.2) | (18.5) | nm |
| China impairment – equity share | (9.2) | (10.2) | nm |

Note: nm = not meaningful

Statutory results for this segment were impacted by the inclusion of ten months of results from Robinhood in the pcp, which was disposed of on 16th September 2013; and the recognition of an impairment expense in both periods in relation to the intangible assets of the DGL Camel business.

- **Yates ANZ** revenue declined marginally compared to the pcp, largely due to proactive product mix initiatives. EBIT grew due to improved margins and fixed cost management, despite an increase in marketing spend.
- **DGL Camel** revenue declined by 11.4%, due to the disposal of the Opel Woodcare business in the first half of the year, partly offset by favourable foreign exchange translation benefits. Excluding Opel sales, revenue was broadly in-line with the pcp in local currency. EBIT improved on the pcp, with margin improvements the major contributor.
- The **Papua New Guinea** ('PNG') business was impacted by the slowing economy and devaluation of the local currency (Kina), particularly in the first half, with a more stable outcome in the second half of the year. Despite a decline in both sales revenue and EBIT, this business remains the premium, profitable market leader in the decorative paints segment in PNG.
- The **South East Asian** business produced a flat operating EBIT result on higher sales, due to investment in fixed costs to broaden the distribution base.

## China impairment

A non-cash impairment charge of $9.2m (pre and post-tax) has been recognised in 2014 against the intangible assets relating to our 51%-owned DGL Camel business in China and Hong Kong. This follows an impairment charge of $10.2m (DuluxGroup share) in 2013.

DuluxGroup's goodwill associated with DGL Camel has now been fully written off.

Property, plant and equipment (A$3.3m), working capital (A$1.8m) and the Camel brand name (A$1.8m) remain on the balance sheet, partially offset by our joint venture partner's 49% non-controlling interest share (A$3.4m).

Strategic progress has been made during the year, including the divestment of the loss-making Opel Woodcare business and further localisation of the Selleys Liquid Nails range. Financial performance has improved, with EBIT improving largely due to higher margins.

However, the sales growth outcome in the period was below the level in the business plan that was required to support the goodwill. In addition, the growth outlook for both China and Hong Kong has softened. These two factors led to the impairment of the goodwill.

DuluxGroup remains committed to the China business, and continues to focus on achieving a break even profit outcome and growth opportunities in Selleys and coatings in Hong Kong and China.

## 2014 achievements

- New products launched in Yates included 'Yates Thrive Liquids', 'Zero Rapid' and 'Yates Buffalo Pro Weed'n'Feed', the first Buffalo lawn specific weed and feed hose-on in the Australian market, and the launch of Zero weed killers into the New Zealand market.
- Yates continues to lead the industry with its direct consumer engagement programs, with the launch of the Yates My Garden app. The app was an entrant in the 2014 Australian Mobile & App Design Awards and was winner in three categories; Best New App, Best Home & Garden App, Best Digital Experience.
- Dulux PNG continued to focus on protecting its market leading decorative paints position in PNG through strong promotional activity and working closely with their key customers, and made significant inroads into the marine market sector with sales increasing by over 20%.
- In China, the underperforming Opel Woodcare business in Shanghai was sold during the year, which has put the business on a firmer financial footing. The business launched a locally manufactured Selleys construction adhesive range and continued to invest in the Camel decorative paint brand.

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

# Corporate Costs and Non-recurring Items

### Corporate costs of $24.3m, up 8.0% on pro forma 2013 costs.

| CORPORATE COSTS A$M | FULL YEAR ENDED 30 SEPTEMBER 2014 ACTUAL | 2013 ACTUAL/ PRO FORMA | % CHANGE |
|---|---|---|---|
| Corporate costs | (24.3) | (22.5) | (8.0) |

- Corporate costs increased by $1.8m. The increase reflects fringe benefits tax relating to the debt forgiveness for relevant corporate employees on the close-out of the 2010 Long Term Equity Incentive Plan ($1.5m) and $0.9m of costs relating to share matching for the Employee Share Investment Plan, partly offset by further Alesco corporate cost synergies.
- Additionally, changes in accounting standards have impacted the balances of DuluxGroup's defined benefit superannuation scheme. This charge is reflected in both the current period as well as the pcp. Further details are provided in note 1 of the Financial Report.

### Non-recurring items

The non-recurring items are detailed below:

| NON-RECURRING ITEMS A$M | YEAR ENDED 30 SEPTEMBER EBIT | NPAT | OPERATING CASH FLOW |
|---|---|---|---|
| 2014 | | | |
| Alesco integration costs | (5.3) | (3.7) | (5.9) |
| Reversal of excess NZ OCN tax matter provision | 5.9 | 5.5 | (8.4) |
| China impairment – equity share | (9.2) | (9.2) | – |
| Sale of Opel Woodcare | – | – | (9.0) |
| **Total** | **(8.7)** | **(7.4)** | **(23.3)** |
| 2013 | | | |
| Non-recurring Alesco PPA adjustments | (1.7) | (1.2) | – |
| Alesco transaction costs | (6.3) | (5.9) | (6.3) |
| Alesco integration costs | (9.6) | (6.7) | (9.3) |
| Robinhood loss on sale | (1.1) | (1.3) | – |
| Gain on sale of O'Connor site, net of disposal costs | 8.1 | 8.1 | – |
| China impairment – equity share | (10.2) | (10.2) | – |
| China impairment – non-controlling interests share | (8.3) | – | – |
| **Total** | **(29.0)** | **(17.2)** | **(15.7)** |

**Alesco integration costs** refer to the costs associated with integrating the Alesco businesses into DuluxGroup. Costs largely relate to IT and finance shared service integration activities. Total integration costs are in line with previous guidance of $15m.

The **reversal of the excess NZ OCN tax matter provision** relates to a reversal of the excess portion of a contingent liability provision that was held in relation to an Optional Convertible Note (OCN) matter with the New Zealand Commissioner of Inland Revenue. The matter was settled during the first half of the year, and A$5.9m of this provision was written back to the profit and loss during the year.

The **China impairment** relates to the impairment charges against the intangible assets of the DGL Camel business.

The **sale of Opel Woodcare** relates to the operating cash flows associated with the divestment of the Opel Woodcare business in China. These costs are more than offset by the proceeds from disposal (investing cash flows).

**Non-recurring Alesco PPA adjustments** refer to the non-recurring component of the Purchase Price Allocation adjustments that were made in the pcp as part of the Alesco acquisition accounting process. These primarily relate to the fair value adjustment to finished goods inventory sold in the period.

**Alesco transaction costs** refer to the transaction costs associated with the acquisition of Alesco, incurred in the pcp. These costs total $9.9m over 2012 and 2013, within the previously supplied guidance of $9m to $10m. No further costs have been incurred.

The **Robinhood loss on sale** largely relates to adviser costs, site exit costs and redundancy payments associated with the sale of this business.

The **gain on sale of the O'Connor site** refers to the profit made upon disposal of the O'Connor site in Western Australia.

## Future Financial Prospects

# DuluxGroup has a history of outperforming the markets in which it operates, while maintaining profitability, and will continue to seek to do this across all businesses.

DuluxGroup considers a range of external indicators in assessing outlook. These include the market performance, raw material prices and other cost drivers.

### Market

Overall, DuluxGroup's end market exposure is biased to the existing home, with 62% of revenue relating to residential renovation and improvement. DuluxGroup also has a meaningful exposure to new construction, with 18% of revenue relating to new residential housing and 16% relating to commercial and infrastructure construction. The remaining 4% of revenue relates to industrial markets.

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

In Australia, this existing homes segment has proven in recent years to be resilient and more profitable. This resilience is expected to continue.

The new housing market in Australia is expected to remain strong, while share growth for DuluxGroup is likely to be limited in this lower margin segment due to pricing discipline and 'top end' focus. We note also that DuluxGroup's exposure to this segment is late cycle.

The outlook for commercial and infrastructure is less positive. In Australia, the outlook for major engineering and infrastructure projects is weak as major capital expenditure projects (particularly in the mining sector) wind down, and the pipeline of new infrastructure projects is still some time away.

In New Zealand, market growth is also expected to continue, given underlying growth in housing and other construction, underpinned by continued rebuilding activity in Christchurch.

The Papua New Guinea market stabilised in the second half of 2014, following a decline over the prior year. The short-term outlook is for flat to low growth, with the market expected to pick up late in 2015 in line with the general economy. Medium term this market is expected to continue to grow, supported by expected future investment in energy and mining projects.

In China, growth expectations have tempered, with our markets expected to be relatively soft, while the longer term outlook remains positive, (supported by GDP growth projections), albeit at lower growth levels than previously expected. The Hong Kong outlook remains challenging with GDP growth of under 2% per annum expected in the short term.

### Raw materials and other costs

DuluxGroup has a wide range of raw materials. The two largest are latex resin and titanium dioxide, both of which are key ingredients in decorative paint, and accounts for 43% of group revenue.

On the whole, input cost increases appear to be manageable and are expected to increase more broadly in line with inflation overall.

Approximately 20-30% of input costs have a direct or indirect link to other currencies, such as the US dollar and the Euro. If there is a material weakening of the Australian dollar during the year, then input costs may be adversely affected.

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

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

### Overall outlook

Subject to economic conditions and excluding non-recurring items, we expect that 2015 net profit after tax will be higher than the 2014 equivalent of $111.9m.

## Our Strategy

An integrated approach to management of risk means that all DuluxGroup businesses operate within a common safety and sustainability strategic framework.

## Our Vision

# A Future Without Harm

## Our Priorities

**PEOPLE**
- Fatality Prevention
- Personal Safety
- Health and Well-being
- Community Engagement

**OPERATIONS**
- Process Safety
- Waste Generation
- Water Consumption

**PRODUCTS**
- Solvents (VOCs)
- Chemicals of Concern
- Non-renewable Resources
- Post-consumer Waste

## Our Risk Profile

**PROCESS SAFETY**
Prevention of major disasters (with potential for multiple fatalities) in our factories that handle chemical process hazards such as flammable solvents.

**FATALITY PREVENTION**
Prevention of fatalities from common significant hazards across all businesses such as forklifts, working at height and driving.

**PERSONAL SAFETY**
Prevention of injuries from everyday workplace hazards such as manual handling and sharp objects.

**SUSTAINABILITY**
Prevention of community and environmental harm from all business activities.

## Our Approach

This differentiated strategic approach recognises that a singular management focus on everyday injuries does not prevent high consequence events such as major fires, fatalities or environmental legacies.

These strategies are underpinned by a focus on risk management basics (e.g. incident reporting and investigation, management of change) and most importantly, leadership and culture.

The strategies are linked to a continuous improvement focus, reinforced by targeted improvement plans and measurable performance indicators.

# Welcome to the 2014 DuluxGroup Safety and Sustainability Report. During the year we continued to make good progress in improving management of significant risks to prevent harm across all areas of the business, with some excellent outcomes achieved in several areas.

## GOVERNANCE

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

- A Board Safety and Sustainability Committee. The Committee meets quarterly to review performance, objectives and strategies.
- A Group Executive Safety and Sustainability Council. The Council meets quarterly to review performance, develop and approve strategy, lead implementation, and review significant findings.
- An annual safety and sustainability assurance and planning process whereby all businesses report on improvement progress and develop improvement plans for the coming year.
- An ongoing safety and sustainability audit program of all businesses to assess effectiveness of risk management.

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

## PERFORMANCE

### 1. PEOPLE

#### Fatality prevention

During 2014 we continued our dedicated focus to continually improving management of common fatality risks in order to protect our people and ensure we sustain our current fatality free performance of more than 20 years. While this excellent performance is particularly pleasing, we know that it cannot be taken for granted and that we need to constantly improve. The foundations of our fatality prevention strategy remain near miss reporting, auditing of significant risks, risk management basics (e.g. permit to work, management of change), and development of protocols that prescribe higher levels of mandatory risk controls than traditional standards.

Across the B&D, Parchem and Lincoln Sentry businesses, a key focus was the continued implementation of audit actions from the 2013 integration process, which focussed on significant risks. These audits identified a number of improvement opportunities relating to common fatality risks such as traffic management, lifting equipment, forklifts and racking. All sites made excellent progress throughout the year, plus we commenced formal implementation of the driver safety, forklift and racking fatality prevention protocols to identify and sustain critical controls for these risks.

The Dulux, Selleys and Yates businesses continued to implement and finalise significant improvement works associated with implementation of forklift and racking fatality prevention protocols that commenced in 2013. This has included a number of capital projects to physically separate forklifts and pedestrians, upgrade forklift equipment and improve racking protection.

Serious near miss incidents associated with fatality hazards decreased 30% during the year, with particular improvement observed in forklifts and racking where significant improvement work has been completed over the last two years. Our heritage businesses achieved a 15% improvement in total hazard and near miss reporting levels (‘General Learning Incidents’) to an average of 3.00 per employee, which is the fifth consecutive year of reporting improvement. We also focussed on development and improvement of hazard and near miss reporting across the Camel and former Alesco businesses, resulting in an encouraging total group rate of an average of 2.90 General Learning Incidents per employee.

**FATALITY PREVENTION**

During 2014 we maintained our dedicated focus to continually improving management of common fatality risks in order to protect our people and ensure we sustain our current fatality free performance of more than 20 years.

# DuluxGroup Safety and Sustainability Report

**RECORDABLE CASE RATE**
Per 200,000 hours

Our group Recordable Case Rate (per 200,000 hours) decreased 15% to 1.53. It was particularly pleasing to see a 54% reduction in recordable injuries across the new businesses to a rate of 2.56, while the heritage businesses achieved a rate of 1.19. This latter result was an increase over the historically best ever rate of 0.82 in 2013, but remains a significantly lower level than historic performance levels.

**CATEGORY 3 SERIOUS RECORDABLE INJURIES**
Injuries involving more than 10 days of lost and/or restricted work days

**15%**

## Personal safety

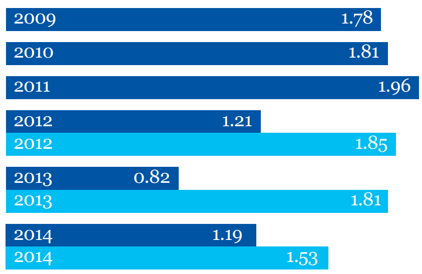
We achieved good improvement in injury rates across the group during the year, resulting in fewer employees experiencing common injuries such as slips and falls, cuts and strains.

During 2014 we maintained our focus on key activities introduced in recent years including ergonomic risk reduction, risk assessment and training, together with near miss reporting. Investment to reduce risk was undertaken at a number of sites, including installation of vacuum lifters at Dulux Beverley to eliminate manual handling of raw material bags, installation of an automated assembly system at B&D Kilsyth to eliminate manual handling of roller door axles and upgrading of mixer machine guarding at Selleys Padstow to improve effectiveness.

Our group Recordable Case Rate (per 200,000 hours) decreased 15% to 1.53. It was particularly pleasing to see a 54% reduction in recordable injuries across the former Alesco businesses to a rate of 2.56, while the heritage businesses achieved a rate of 1.19. This latter result was an increase over the historically best ever rate of 0.82 in 2013, but remains a significantly lower level than historic performance levels. It was also pleasing to see a 15% reduction in our Category 3 serious recordable injuries (injuries involving more than 10 days of lost and/or restricted work days).

## Recordable Case Rate

The Recordable Case Rate is the number of recordable injuries and illnesses (requiring time off work, restricted duties or medical treatment) per 200,000 hours worked (US OSHA system), which is equivalent to the percentage of employees and contractors injured. The majority of our recordable injuries are strain injuries from manual handling, cuts and injuries from slips, trips and falls. The group Recordable Case Rate for 2014 was 1.53 compared with 1.81 in 2013.




■ Heritage businesses (excl. Camel and Alesco)
■ All businesses (incl. Camel and Alesco)

## Health and wellbeing

Hygiene monitoring programs to measure potential hazardous substances exposure were conducted at our Dulux, Selleys and Yates manufacturing sites, with 97% of results below the occupational exposure limits. Health assessment monitoring programs to proactively monitor employees working with hazardous substances or high-risk activities (e.g. driving forklifts) were fully completed. Introduction of hygiene and health monitoring programs into the B&D, Parchem and Lincoln Sentry businesses commenced on a prioritised basis during 2014, with all planned assessments and tests completed.

A number of local well-being initiatives were conducted across sites and businesses during the year, including examples such as employees participating in the 16 week Global Corporate Challenge to promote walking and fitness, R U OK? Day to raise mental health awareness, skin health checks, and bowel cancer awareness month.

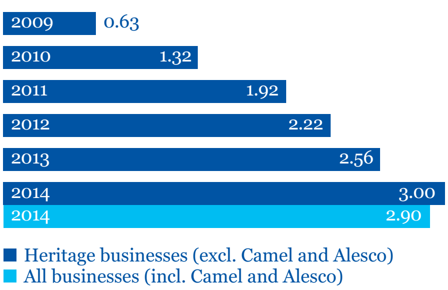

Berger volunteers team up with Inspirations paint stores to support Legacy Australia in painting the home of Mrs Alva Jones. Mrs Jones has lived in the home, built by her late husband, since 1937. "I couldn't believe it when I found out what they wanted to do. They did a wonderful job."

## Leadership development

Continuing to develop the safety and sustainability leadership capability of our managers remained an important priority during the year, including further delivery of our new Safety and Sustainability Management Program which provides managers with the contemporary understanding of how to apply our strategies and processes in order to manage risk effectively. This program was launched in 2013 and more than 100 managers have completed the program over the last 18 months. During the year we also piloted a Safety and Sustainability Leadership Program for team leaders and safety representatives at Dulux Rocklea. This program is a tailored version of the leadership program delivered to more than 80 senior managers during 2012 and 2013 that focuses on enhancing development of critical safety and sustainability leadership skills (e.g. communication, leading by example). An evaluation of program suitability for other operations sites across the group will be completed in the coming year. Our continued commitment to safety and sustainability management and leadership development recognises that management actions and behaviours at all organisational levels create our culture and thereby determine the ultimate success of any improvement strategies and processes we implement.

### Total General Learning Incidents (per employee, per year)

We encourage our employees to report incidents that have the potential to cause harm. General Learning Incidents are near miss incidents and hazards that allow identification and correction of potential hazards before harm occurs. Total General Learning Incidents reported per employee across our heritage businesses (excluding Camel and Alesco) increased for the fifth consecutive year to 3.00 during 2014, while our overall reporting level including Camel and Alesco for the first time was 2.90.




## Community engagement

Participating in, and engaging with, the communities where we work remained an important priority during the year. Our focus is on supporting these communities with our products and resources to enable our safety and sustainability vision of 'A Future Without Harm'. The company formally adopted a community participation program during 2012 whereby all employees can undertake half a day per year of volunteer work supported by the company. Some examples of community engagement activities across our businesses during 2014 include:

- Dulux Australia extended its partnership with Surf Life Saving Clubs Australia for a further three years with the objective of every SLSC being protected by Dulux Paint.
- Dulux Australia partnered with Kids Under Cover to provide paint for studios created to help prevent youth homelessness.
- Dulux New Zealand continued its three year partnership with the Department of Conservation to paint and protect 973 lodges and huts across the country. More than 10,000 litres of paint was donated during the year.
- DuluxGroup businesses and employees donated time and resources to work on a variety of community projects, including examples such as B&D, Selleys and Yates employees in Christchurch painting dog kennel blocks at the local Society for Prevention of Cruelty to Animals (SPCA), while Auckland Selleys and Yates employees created raised garden beds for local community residents using wheelchairs.
- Selleys, Yates, Dulux and Parchem employees from Padstow participated in the Clean Up Australia program for the 15th consecutive year, cleaning up neighbouring Salt Pan Creek Reserve.

Dulux is helping to protect every surf life saving club in Australia with Dulux Weathershield. Protecting our communities, Tamarama Surf Life Saving Club, NSW (right).

Far right: Dulux New Zealand has been partnering with Habitat for Humanity since 1995, providing paint and support to improve the living conditions of those most in need. As a result, more than 430 New Zealand families are now in safe, comfortable homes.

**WATER CONSUMPTION**
Kilolitres per tonne of production

Water consumption decreased from 0.78 kL/t in 2013 to 0.69 kL/t, largely due to efficiency improvements at Dongguan sites. Including the new businesses who reported for the first time in 2014, our water consumption was 0.68 kL/t.

**0.69 kL/t▼**

## 2. OPERATIONS

### Process safety

Our critical focus on prevention of high consequence incidents such as a major fire or explosion from chemical process hazards in our factories (e.g. flammable solvents, combustible dusts) remained a high priority during the year.

The key improvement activity in this area, our five yearly in-depth Periodic Hazard Study process that involves a deep multi-month analysis of high consequence risks and identification of the critical controls, was completed at two more sites (Cabot's/ Dulux Protective Coatings Dandenong, Dulux Rocklea) during the year. All sites where such studies have been completed in recent years, continued to make good progress on the identified improvement actions (e.g. capital projects, improving rigour of operating procedures, training and competency) to ensure effective critical risk controls are sustained. We also continued use of our new process safety lead indicator scorecard introduced in 2013 to help these sites monitor and track their progress in management of these major risks, together with annual reviews against the requirements of our process safety protocols, which specify minimum basic control standards for flammable solvents and combustible dusts.

There were no serious process safety incidents (e.g. chemical fires or spills with potential for more serious consequences) across the Australian and New Zealand factories during the year. This is the fourth consecutive year without such an incident in these factories and is a notable improvement over historic performance levels. There were two serious process safety incidents in our China factories, both of which were minor fires and rapidly brought under control, however had potential for a more serious outcome. Full investigations of each incident were conducted and learnings identified for both the sites involved and the broader group. A Periodic Hazard Study will commence at Dongguan in early 2015 to help drive further improvements in the identification and management of high consequence risks.

### Acquisition integration

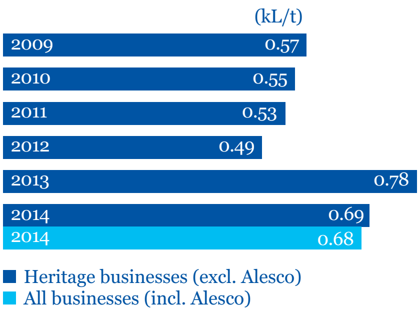
Integration of acquisitions, especially the former Alesco businesses acquired in December 2012, continued during the year. All of the former Alesco businesses made excellent progress in implementing the targeted improvements identified via the 2013 integration process (e.g. audits of significant risks, standards gap analysis, environmental contamination review, resources and structure alignment). This approach was developed in order to deliver short term improved control of high consequence risks (e.g. process safety, fatality prevention), together with medium term alignment of standards, processes and culture.

Progress was monitored regularly and reviewed by the Board Safety and Sustainability Committee and the Group Executive Safety and Sustainability Council throughout the year. This targeted integration approach has been reflected in the safety and sustainability performance of the former Alesco businesses during the year, with no serious process safety incidents involving chemicals (e.g. flammable solvents), a 48% reduction in serious near misses involving fatality risks (e.g. forklifts, work at heights), and a 54% reduction in recordable injuries (e.g. strains, cuts, slips/falls).

## Resources and environment

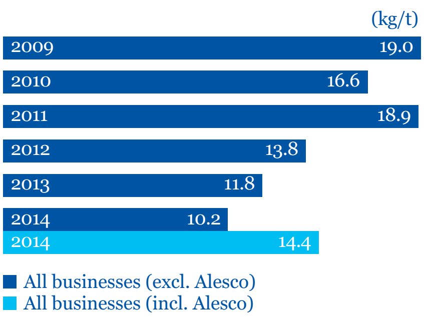
### Water consumption

Water consumption (kilolitres per tonne of production), excluding the former Alesco businesses, decreased 12% from 0.78 kL/t in 2013 to 0.69 kL/t, largely due to efficiency improvements at DGL Camel Dongguan sites. This follows the significant increase in 2013 group consumption from inclusion of the Dongguan sites for the first time. Including the former Alesco businesses who reported for the first time in 2014, our water consumption was 0.68 kL/t. More than 40% of water consumed across our Australian and New Zealand coatings manufacturing sites is used as raw material in the formulation of water based products.




### Waste generation

Waste to landfill (kilograms per tonne of production), excluding the former Alesco businesses, decreased 14% from 11.8 kg/t in 2013 to 10.2 kg/t, largely due to reduction improvement projects at Selleys Padstow and Dulux Rocklea. During the year Rocklea successfully trialled and commenced implementation of a segregation and recycling system for one tonne raw material bulk bags that represent the single largest waste stream for the group. Including the former Alesco businesses who reported for the first time in 2014, our waste generation was 14.4 kg/t.




### Energy consumption

Total energy consumption (gigajoules per tonne of production), excluding the former Alesco businesses, decreased 6% from 0.71 GJ/t to 0.67 GJ/t, primarily due to variations in product mix. Including the former Alesco businesses who reported for the first time in 2014, our energy consumption was 0.75 GJ/t.

DuluxGroup meets the Australian National Greenhouse and Energy Reporting System (NGERS) reporting criteria, primarily due to use of solvents as raw materials. Excluding raw material use, the operational energy consumption and greenhouse gas emissions from our Australian sites and businesses are below the NGERS reporting thresholds. The total greenhouse gas emissions (Scope 1 and 2) from our Australian sites and business activities were 33,337 tonnes ($CO_2$-e or equivalent carbon dioxide emissions), 3% higher than 2013. Total energy consumed was 539,642 GJ, 4% higher than 2013. These increases were primarily due to variations in product mix and the solvents consumed in formulation.

## Regulatory compliance

There was one prohibition notice received during the year relating to operation of a machine press with an expired service certification. The incident was fully investigated and rectified. This compares with no regulatory prosecutions, prohibition notices or penalty infringement notices received during 2013.

## Legacy issues

The company has undertaken a number of investigations in prior years to ensure potential soil and groundwater contamination issues are identified and managed. No significant new issues or developments were identified during the year.

**WASTE GENERATION**
Kilograms per tonne of production

Waste generation decreased from 11.8 kg/t in 2013 to 10.2 kg/t, largely due to reduction improvement projects at Selleys Padstow and Dulux Rocklea.

**10.2 kg/t▼**

**TOTAL ENERGY CONSUMPTION**
Gigajoules per tonne of production

Total energy consumption decreased from 0.71 GJ/t to 0.67 GJ/t. Including the new businesses who reported for the first time in 2014, our energy consumption was 0.75 GJ/t.

**0.67 GJ/t▼**

* Excluding the former Alesco businesses.

DuluxGroup's team at Padstow in New South Wales has been volunteering for 'Business Clean Up Australia Day' for 15 years. This year, the Dulux team at Rocklea (right) in Queensland helped clean up the local Stable Swamp Creek as part of the annual 'Business Clean Up Australia Day'.

## 3. PRODUCTS

### Product stewardship

Our strong heritage of product stewardship focus continued during the year, with the Dulux, Selleys, Yates and DGL Camel businesses continuing to apply the new product risk assessment and improvement planning processes that were implemented in 2012. These new processes have improved our ability to identify and implement product improvements that further reduce the potential for harm. Some examples implemented during the year include:

- **Post consumer waste:** Dulux Australia continued to work with Sustainability Victoria and the Australian Paint Manufacturers' Federation in development of a national product stewardship scheme for waste paint. This follows a successful trial in 2013 that provided collection, treatment and disposal of more than 120 tonnes of waste paint from trade painters over a six month period.
- **Post consumer waste**: Dulux Acratex implemented a recycling model for collection and recycling of Exsulite light weight cladding off cuts and waste from commercial building projects.
- **Chemicals of concern:** Cabot's reformulated a water based timber stripper (Intergrain Liquid 8) to replace a commonly used hazardous solvent, thereby eliminating any potential for harm from inadvertent exposure during use.
- **Consumer safety:** Selleys reformulated another sealant product (Kwik Grip) to eliminate a solvent that can be used for deliberate vapour inhalation.
- **Carbon:** Dulux Powder Coatings expanded the Rapidcure range of products to include the full colour range following a successful launch and trial of selected colours during 2013. Rapidcure enables customers to use less energy (e.g. lower oven temperatures) during the curing process.

The product stewardship process was implemented across the B&D, Parchem and Lincoln Sentry businesses during the year, including establishment of 2015 improvement plans.

### Community safety

The company's emergency response service responded to 693 calls during the year, compared with 599 calls in the prior year, primarily due to the increased prominence of the emergency contact number across our range of products. This service provides emergency support 24 hours a day, with more than 98% of calls involving minor human and animal exposures to products during consumer use. None of the calls received during 2014 involved serious harm or damage.

There were no serious distribution incidents during the year, compared with one such incident in 2013.

## Key Focus Areas 2015

DuluxGroup's key priorities during 2015 will be the continued focus on our four primary improvement strategies and supporting elements. Significant planned actions include:

### Process Safety

Completion of new periodic hazard studies at two additional sites, together with continued implementation and review of improvement actions from studies completed to date.



### Fatality Prevention

Continued focus on near miss reporting and implementation of fatality prevention protocols across all businesses, with particular focus on work at heights, electrical safety and machine guarding.




### Personal Safety

Finalisation and implementation of new targeted risk reduction plans for the key operating sites that account for the majority of injuries and workers compensation claims across the group.



### Sustainability

Continued implementation of product stewardship and waste reduction plans, including identification of reduction opportunities at the largest sites in the former Alesco businesses.




### Leadership

Continued delivery of our leadership and management programs, including delivery of new programs tailored for operations team leaders and trade store managers.

# Board Members

**Peter Kirby**
*BEc (Hons), MA (Econ), MBA*

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

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

**Patrick Houlihan**
*BSc (Hons), MBA*

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

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

**Stuart Boxer**
*BEng (Hons)*

Chief Financial Officer and Executive Director since July 2010.

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

**Garry Hounsell**
*BBus (Accounting) FCA, CPA*

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

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

### Gaik Hean Chew
*BPharm (Hons)*

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

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

### Andrew Larke
*LLB, BCom, Grad Dip (Corporations & Securities Law)*

Non-Executive Director since October 2010.

Andrew has spent more than 20 years in corporate strategy, mergers, acquisitions, legal and commercial roles in global companies including Orica Limited since 2002, where he is currently Global Head – Chemicals & Strategy. Previously, Andrew was General Manager, Mergers, Acquisitions and Strategy at North Limited.

### Judith Swales
*BSc Microbiology and Virology*

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

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

### Simon Black
*LLB, BCom, Cert Gov (Admin), CSA (Cert)*

General Counsel and Company Secretary since July 2010.

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

# Group Executive

**Patrick Houlihan**
***BSc (Hons), MBA***
Managing Director and Chief Executive Officer

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

**Stuart Boxer**
***BEng (Hons)***
Executive Director and Chief Financial Officer

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

**Patrick Jones**
***BBus (Hons), CPA***
Executive General Manager, Dulux Paints Australia

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

**Richard Hansen**
***BBus (Marketing and Management)***
Executive General Manager, Dulux Paints New Zealand

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

**Tony Bova**
***BCom (Accounting & Management), CPA***
Executive General Manager, B&D Garage Doors and Openers

Tony was appointed to his current role in April 2013. Prior to that, Tony was DuluxGroup Manager of Growth and Business Development including working on the Alesco acquisition and integration. During his 15 years at DuluxGroup, Tony has held various commercial roles, including as Business Manager of Selleys ANZ. Prior to joining DuluxGroup, Tony held various finance and planning roles at BHP.

**Alan Preston**
***BBus (Marketing), MBA***
Executive General Manager, DGL International Asia

Alan has more than 17 years' paints industry experience and has held a number of domestic and international roles with DuluxGroup including General Manager of Paints New Zealand, Cabot's General Manager, CEO of ICI Paints Philippines and General Manger of Sales, Marketing and R&D for ICI Paints Asia. Alan left the business in 2004 to pursue other business interests and then rejoined DuluxGroup in his current role in February 2011. Prior to joining DuluxGroup, Alan had various roles in fast moving consumer goods with Bowater Scott and Rexona.

**Martin Ward**
Executive General Manager, Consumer and Construction Products

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

**Julia Myers**
*BSc (Hons)*
Executive General Manager, Selleys Australia and New Zealand

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

**Stephen Cox**
*BBus (Marketing)*
Executive General Manager, Parchem Construction Chemicals and Equipment

Stephen joined DuluxGroup in his current role in December 2012 coming to the business via the Alesco acquisition. Stephen has been General Manager of the Parchem business since 2003 and, before this role, was Sales and Marketing Manager for the Swedish based company, ITT Flygt. Stephen has previously held a variety of technical, commercial and business management roles in industrial and business-to-business organisations.

**Jennifer Tucker**
*LLB, BCom*
Executive General Manager, Yates

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

**Penny Lovett**
*BCom, MBA, Grad Dip (Human Resources Management)*
Executive General Manager, DuluxGroup Human Resources

Penny joined DuluxGroup in her current role in December 2013. Prior to that, Penny was at BUPA for more than a decade, where she held senior human resources roles covering the Asia Pacific region, culminating in the leadership of Human Resources for BUPA in Australia and New Zealand. Her earlier career was at Pitcher Partners, ANZ Bank and the Bank of Melbourne.

**Brad Hordern**
*BEng (Hons)*
Executive General Manager, DuluxGroup Supply Chain

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

# Corporate Governance Report

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

DuluxGroup's directors and management are committed to conducting business in an ethical, fair and transparent manner in accordance with high standards of corporate governance in the countries in which we operate.

As a Board, we believe that a strong corporate governance framework – with a focus on transparency, both internally and externally, and on continuous improvement – translates to a strong company.

We, together with the management team, lead by example. We are confident that we have a best practice framework in place. We are committed to ensuring that it is respected and that, as an organisation, we act in accordance with the spirit of good governance. During the 2014 financial year, DuluxGroup's corporate governance framework (details of which can be found on our website at www.duluxgroup.com.au) was consistent with the 2nd edition of the recommendations in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (**ASX Principles**).

## GOVERNANCE SNAPSHOT – 2014 FINANCIAL YEAR

The Board works to keep our governance framework 'alive'.

Each year, the Board agrees a calendar of activities and initiatives aimed at enhancing the Board's effectiveness and its organisational oversight. These are considered and agreed having regard to factors including the Company's strategic plan and its current risk profile.

This year, we have continued to provide more meaningful disclosure in relation to these activities by providing the following 'snapshot' in respect of the 2014 financial year.

Details of the Company's broader governance framework are set out on pages 56 to 58 of this annual report.

# 2014 Snapshot

## THE BOARD

### COMPOSITION

- The Board is currently comprised of seven directors with five non-executive directors (including the Chairman) and the Managing Director and Chief Financial Officer as executive directors.
- Details of the length of tenure, skills, experience and expertise of each director (as well as the period that each director has held office) are set out on pages 44 and 45 of this annual report.

### ENHANCING EFFECTIVENESS – BOARD REVIEW

- During 2014, the Board undertook a review of its performance and of individual directors. This performance review was facilitated by the chairman and included feedback from directors and senior management.
- This review confirmed that the Board comprises directors with an effective mix of skills and experience, is working very effectively with a productive relationship between Board and management, and is focussing on the right strategic issues with appropriate oversight.
- As part of the review, the Board recognised (among other things) the importance of continued consideration of Board succession, continued oversight of the talent succession and the diversity agenda, and tapping into broader market perspectives relevant to the Company.

### CONTINUOUS DEVELOPMENT ACTIVITIES

- The Board has an active development program in place that comprises internal presentations, discussions with key external subject matter experts, customers and/or suppliers as well as visits to DuluxGroup sites and other places of interest.
- During 2014, this program included, among other things:
  - focussed sessions at each Board meeting addressing topical issues facing one or more of the business units or functions;
  - a visit to a refurbished Dulux Trade Centre;
  - a visit to the B&D manufacturing site in Revesby, New South Wales, including a customer dinner;
  - a study tour of Europe to visit key partners and give the Board insight into relevant global market trends;
  - a presentation from an expert in macro-economic and demographic trends; and
  - discussions on topical corporate governance issues with external governance advisory firms.

## ORGANISATIONAL OVERSIGHT

### STRATEGY

- In 2014, the Board continued its focus on ensuring DuluxGroup delivered solid growth and strong cash flows from its existing businesses while developing further options for growth in a measured, low risk manner. Further details of the Company's strategy and 2014 initiatives can be found on pages 14 and 15 of this annual report.
- Key Board activities during the year included an in-depth strategy planning session, continued focus on the newly acquired construction chemicals, garage doors and openers and Lincoln Sentry businesses, and ongoing analysis of supply chain improvements and growth opportunities.

### LEADERSHIP AND CULTURE

- We recognise that our people are what make our Company. Accordingly, development and succession planning is an important consideration at Board level. Our Board also recognises that our people may be attractive to others in the market given the Company's strong performance.
- As a Company, we address this through our culture, development opportunities that we provide our people and also through our remuneration framework.
- Key activities and initiatives during the 2014 financial year included:
  - a continued focus on the remuneration structures within the Company (see pages 64 to 87 for further details);
  - a culture survey of the whole organisation, being the first since the integration of the Alesco businesses;
  - a Board review of the performance of the CEO and CFO as well as review and evaluation of the performance agreements for the executive management team;
  - a review of management talent and succession planning; and
  - a continued commitment to promoting diversity within the Company (see pages 54 to 56 for further details of our progress during the year).

### RISK

- The Board believes that effective risk management will support the Company's ability to grow. In particular, the Board recognises the importance of risk management practices across all businesses and operations and also acknowledges that effective risk management provides a framework to achieve and deliver the Company's strategy and key objectives.
- We take risk oversight seriously and we have robust crisis management and disaster recovery plans in place.
- In addition to its usual oversight of risk management and internal control processes, during the 2014 financial year:
  - the Board's Audit and Risk Committee (ARC) met with Company's IT director as well as the finance managers of various business units to discuss risk management processes and controls within their function or business;
  - the executive management team, ARC and the Board separately reviewed and updated the Company's Risk Register;
  - the key risks on the Company's Risk Register were regularly monitored including the status of key actions targeted at mitigating those risks; and
  - a theoretical and Company specific crisis management exercise was carried out with the assistance of external consultants to test the Company's crisis management and disaster recovery plans.

## 1. AN EFFECTIVE BOARD – ROLE AND COMPOSITION

### Role of the Board

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

Charters have been established for the Board, the Board Committees, the Chairman and the Managing Director which clearly describe their respective functions and responsibilities.

The Board's responsibilities include appointing the Managing Director, DuluxGroup Executive succession planning, approving major strategic plans, monitoring the integrity and consistency of management's control of risk, agreeing business plans and budgets, approving major capital expenditure, approving acquisitions and divestments, approving funding plans and capital raisings, agreeing corporate goals and reviewing performance against approved plans.

Responsibility for managing, directing and promoting the profitable operation and development of the Company, consistent with the primary objective of enhancing long term shareholder value, is delegated to the Managing Director who is accountable to the Board.

### Role of the Chairman

The Chairman, Peter Kirby, is responsible for facilitating the effective contribution of non-executive directors, including ensuring they receive accurate, timely and clear information so that they may effectively discharge their duties and responsibilities. The Chairman is also responsible for fostering constructive relations between executive and non-executive directors.

Mr Kirby's qualifications and experience are set out on page 44.

### Role of the Company Secretary

The Company Secretary, Simon Black, reports directly to the Board through the Chairman, and all directors have access to the Company Secretary. The Company Secretary's role in respect of matters relating to the proper functioning of the Board includes advising the Board and its Committees on governance matters, monitoring that Board and Committee policies and procedures are followed, coordinating all Board business, acting as a point of reference for dealings between the Board and management, retaining independent professional advisors at the request of the Board, Board Committee or as permitted under the Board Charter and helping to organise and facilitate the induction and professional development of Directors.

Mr Black's qualifications and experience are set out on page 45.

### Composition and planning for succession

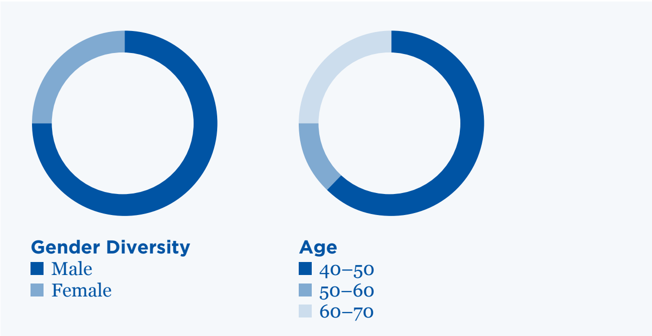
The directors are conscious of the need for Board members to possess the diversity of skills and experience required to fulfil the obligations of the Board.

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

The Remuneration and Nominations Committee has primary responsibility for conducting assessments of the current mix of skills and experience of existing directors, the business and strategic needs of the Company, as well as broader succession planning issues.

The current Board represents a diverse range of professional backgrounds and perspectives. The Board's collective skills and experience include:

- Paints industry
- Manufacturing/Industrial
- Finance/Accounting
- Marketing/Branding
- M&A/Strategy
- Capital markets/Management
- Governance/Legal
- Remuneration
- CEO/Chairman experience
- International experience




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

The Board continues to consider the issue of Board succession driven partly by the fact that our directors were all appointed on, or shortly after, DuluxGroup's demerger from Orica Limited in 2010. In addition, the Board's succession plan is focussed on identifying suitable candidates for future appointment to the Board, having regard to the Board's current skills mix, to ensure that Board renewal occurs in an orderly manner over time.

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

### Director appointment and election

Directors (other than the Managing Director) appointed by the Board must stand for election at the annual general meeting following their appointment and are subject to shareholder re-election by rotation at least every three years. Further, re-appointment of non-executive directors to the Board at the conclusion of their three year term is not automatic. Prior to the Board endorsing a director for re-election, the individual's performance as a director is reviewed in accordance with processes agreed by the Board from time to time.

All directors must obtain the Chairman's prior approval before accepting directorships or other significant appointments.

### Induction of new directors

New directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement with committee work.

New directors also participate in a formal induction program which includes site visits, one-on-one meetings with relevant members of management and provision of relevant policies, charters and other materials.

### Independence

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

> The Board has determined that, in respect of the 2014 financial year, the Chairman and all non-executive directors are independent of executive management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement or compromise their ability to act in the best interests of the Company.

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

The Board has adopted guidelines based on the factors set out in the ASX Principles in assessing the independent status of a director. In summary, the test of whether a relationship could, or could be perceived to, materially interfere with the independent exercise of a director's judgement is based on the nature of the relationship and the circumstances of that director. The independence of each director is considered on a case by case basis from the perspective of both the Company and the director. Materiality is assessed by reference to each director's individual circumstances, rather than by applying general materiality thresholds. Each director is obliged to immediately inform the Company of any fact or circumstance which may affect the director's independence.

The Board assesses the independence of its new directors upon appointment and will review all directors' independence as appropriate.

## 2. MAXIMISING EFFECTIVENESS IN THE BOARDROOM

> The Board typically holds at least eight meetings per year, unless the business of the Company requires additional meetings. One additional meeting of the full Board was held during the 2014 financial year.

### Board meetings

Directors receive comprehensive Board papers in advance of the Board meetings. As well as holding regular Board meetings, the Board sets aside a two day meeting annually to comprehensively review Company strategy. Directors also receive regular updates in relation to key issues facing DuluxGroup's businesses from time to time. The Board calendar also includes site visits to DuluxGroup operations to meet with employees, customers and other stakeholders. Details for 2014 are set out in the Governance Snapshot on page 49.

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

## Board and Executive performance

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

The Board has a formal Board Evaluation Policy, under which it carries out an evaluation of its performance against agreed Board objectives each year. This process is overseen by the Chairman. It is the Board's general practice that this is externally facilitated every third year. As noted in the Snapshot, the Board undertook an internal review of its performance during the year.

Each Board committee also reviews its performance annually against the responsibilities set out in the committee's charter and against its annual objectives. As appropriate, the Board may also provide feedback from time to time as to the effectiveness with which it considers the Board committees assist the Board in the discharge of its functions.

> The Board evaluated the performance of Mr Peter Kirby and Ms Judith Swales, who are standing for re-election at the Company's 2014 Annual General Meeting, prior to the Board endorsing their nomination for re-election. In addition to reviewing the skills, knowledge and experience that Mr Kirby and Ms Swales bring to the Board, the Board also considered their overall performance, their attendances and participation at Board and Committee meetings, and their contributions to matters discussed. In particular, Mr Kirby's extensive experience in the paints industry is highly valued by the Board. Similarly, Ms Swales retail, sales and marketing background is highly regarded.

The non-executive directors are responsible for regularly evaluating the performance of the Managing Director based on specific criteria including the Company's business performance, short and long term strategic objectives and the achievement of personal objectives agreed annually with the Managing Director.

All DuluxGroup executives are subject to an annual performance review. The review involves an executive being evaluated by their immediate superior by reference to their specific performance contract for the year, including the completion of key performance indicators and contribution to specific business and Company plans. This review is aligned to the Company's remuneration framework and is considered for, among other things, the purposes of determining any increases to fixed remuneration and outcomes under the Company's short term incentive plan.

## Directors' fees and Executive remuneration

The remuneration report on page 64 sets out details regarding the Company's remuneration policy, fees paid to directors and specific details of executive remuneration. Other than statutory superannuation contributions, the Company does not operate any schemes for the payment of retirement benefits to non-executive directors.

## Board Committees

> Consistent with the Board's standard practice, the Board reviewed the Charter for each standing committee, together with the objectives set for each committee, in October 2014.

The Board has established the following standing committees to advise and assist the Board in the effective discharge of its responsibilities:

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

These committees, generally, review matters on behalf of the Board and refer matters to the Board for decision with a recommendation from the committee.

The materials of committee meetings (including minutes of meetings) are circulated to the Board members. Additionally, any director is welcome to attend any committee meeting.

In addition to the standing committees, the Board may also establish special or ad hoc committees to oversee or implement significant projects as they arise. For example, the Board established a special committee during the 2014 financial year to assist the Board with the Company's United States Private Placement (USPP) transaction. This committee was wound up following completion of the USPP transaction in August 2014.

## Access to information and independent advice

All directors have unrestricted access to employees of DuluxGroup and, subject to the law, access to all relevant Company records and information held by DuluxGroup employees and external advisers.

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

Pursuant to a deed executed by the Company and each director, a director also has the right to have access to all documents which have been presented to meetings or made available to the Board or any committee whilst in office, including materials referred to in those documents, for a term of ten years after ceasing to be a director or such longer period as is necessary to determine relevant legal proceedings that commenced during this term.

## Conflicts of interest

Directors are required to avoid conflicts of interest and immediately inform their fellow directors should a conflict of interest arise. Directors are also required to advise the Company of any relevant interest that may result in a conflict.

The Board has adopted the use of formal standing notices in which directors disclose any material personal interests and the relationship of these interests to the affairs of the Company. A director is required to notify the Company of any new material personal interest or if there is any change in the nature or extent of a previously disclosed interest.

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

Details of the membership, composition and responsibilities of each committee are as follows:

<table>
<tr><th></th><th>AUDIT AND RISK COMMITTEE</th><th>REMUNERATION AND NOMINATIONS COMMITTEE</th><th>SAFETY AND SUSTAINABILITY COMMITTEE</th></tr>
<tr><td rowspan="2">Members</td><td>Mr Garry Hounsell (Chair)<br>Mr Peter Kirby<br>Ms Judith Swales<br>Mr Andrew Larke</td><td>Mr Peter Kirby (Chair)<br>Mr Garry Hounsell<br>Ms Gaik Hean Chew<br>Mr Andrew Larke</td><td>Ms Gaik Hean Chew (Chair)<br>Mr Patrick Houlihan<br>Ms Judith Swales</td></tr>
<tr><td colspan="3">Details of qualifications and experience of each member are set out on pages 44 and 54 of this annual report.</td></tr>
<tr><td rowspan="2">Composition and key responsibilities</td><td>The committee is to comprise of at least three non-executive directors, all of whom satisfy the criteria for independence and who have relevant financial, commercial and risk management experience.</td><td>The committee is to comprise of at least three non-executive directors, all of whom satisfy the criteria for independence.</td><td>The committee is to comprise at least two directors including at least one non-executive director and the managing director.</td></tr>
<tr><td colspan="3">Full details of requirements for composition and key responsibilities are set out in the committee's charters which are available at www.duluxgroup.com.au.</td></tr>
<tr><td>Key activities during 2014</td><td>• Reviewed the full year and half year financial reports of the group, including review of the accounting policies and practices of the group<br>• Monitored and assessed the adequacy of the systems for financial and operating controls, risk management and legal compliance<br>• Oversaw the scope and conduct of external and internal audits (including internal and external audit programs, independence of external auditor and auditor performance)<br>• Reviewed and assessed non-audit services provided by the external auditor<br>• Made recommendations to the Board on the appointment, performance and remuneration of the external auditor</td><td>• Oversaw the adoption of a clawback policy to apply in the event of a material misstatement of financial results or serious misconduct<br>• Undertook a review of the long term equity incentive plan rules<br>• Reviewed and made recommendations to the Board on:<br>– the total level of remuneration of non-executive directors<br>– the remuneration arrangements of executive directors and direct reports to the Managing Director (including short term and long term incentive arrangements and performance targets)<br>• Considered the Group organisational strategy, and reviewed the plan for CEO and senior leadership succession<br>• Oversaw measurement of performance against agreed diversity objectives</td><td>• Considered safety and sustainability issues that may have strategic, financial and reputational implications for the Group (including identifying key risks and appropriate mitigation strategies)<br>• Reviewed the effectiveness of the Group's safety and sustainability objectives, targets and strategies<br>• Oversaw compliance with legal and regulatory safety and sustainability requirements<br>• Reviewed significant safety incident reports and made recommendations to the Board on necessary changes to procedures<br>• Ensured the Board is periodically updated in relation to compliance with best practice safety standards</td></tr>
<tr><td>Attendance</td><td colspan="3">Details of meeting attendance for members of each committee are set out in the Directors' Report on page 60 of this annual report.</td></tr>
</table>

# DuluxGroup Diversity Snapshot

## Our gender diversity objectives

**1** **Increase the number of women in DuluxGroup**

**2** **Increase the number of women in leadership positions in DuluxGroup**

**3** **Build awareness of the business case for Diversity within DuluxGroup**

## Our diversity initiatives

**To ensure that we attract, retain and maximise career opportunities for women at DuluxGroup, we have put in place a number of initiatives, including:**

- Increased paid maternity leave from six to 12 weeks (full pay)
- Mandatory representation of at least one woman on all short lists for executive role recruitment
- Compulsory training for all line managers on flexible work practices and managing requests for managing work and care responsibilities
- Training for managers on recognising and challenging 'unconscious bias'.
- Compulsory 'Appropriate workplace behaviour' training for all employees
- Return to work coaching and mentoring for new parents to ease the transition back to DuluxGroup
- Coaching on the importance of Diversity to DuluxGroup's ongoing success is integral to all graduate and leadership development programmes

## Our progress

- Women make up 30% of DuluxGroup's workforce
- Of the five non-executive directors on the DuluxGroup Board, two (or 40%) are women
- 25% of the DuluxGroup Executive team are women
- Of the four new individuals to join the DuluxGroup Executive team during 2014, two (50%) are women
- Managers now recruiting proportionally more women into DuluxGroup
- 50% of current graduates recruited over the past five years are female.

**"From the Board and the CEO down, there is a drive right throughout DuluxGroup to increase the number of women overall and to increase the number of women in leadership positions. Our ongoing success hinges on attracting the best people from the most diverse talent pool. We have made tangible improvements this year, and we are committed to pushing even harder for sustainable change".**

*Peter Kirby, DuluxGroup Chairman*

## What do our employees say?

**Our recent (September 2014) employee engagement survey was completed by 91% of our 4100 employees. Among the top things our employees value most about working at DuluxGroup are:**

- firstly, our strong commitment to creating a safe workplace and our commitment to customer service, closely followed by our strong commitment to creating a diverse, tolerant and flexible workplace;
- the zero tolerance for gender bias and strong commitment and leadership for fostering an inclusive, diverse workforce where people have truly merit-based opportunities; and
- that DuluxGroup encourages workplace flexibility so that employees are able to manage work and home caring commitments.

## 3. DIVERSITY

A core value of DuluxGroup is to Value People, Work Safely and Respect the Environment. To support this, everyone at DuluxGroup commits to 'Behave with respect and integrity, embrace diversity'. DuluxGroup strongly believes that an inclusive culture and diverse workforce results in better business outcomes and helps ensure a safe, productive and engaging workplace for employees. Both the Board and management are committed to providing an environment for employees that is inclusive and promotes diversity of backgrounds and thought – one where employees feel safe to perform at their very best.

### About DuluxGroup's approach to diversity

DuluxGroup has a well established Diversity Council chaired by the Chief Executive Officer. The Council established measurable objectives with respect to gender in 2011. The Council meets quarterly and reviews progress against those objectives. A program of activity is in place across the business, managed by the Human Resources team and key senior managers, including training, communications and events tailored to DuluxGroup.

DuluxGroup's formal Diversity Policy can be found in the Governance section on the Company's website at www.duluxgroup.com.au.

### Measurable objectives

The measurable objectives with respect to gender are:

1. Increase the number of women in DuluxGroup
2. Increase the number of women in leadership positions in DuluxGroup; and
3. Build awareness of the business case for diversity.

The focus of our efforts to increase the percentage of female employees remains on the areas of Sales, Supply Chain and Trade Centres, where women are under-represented. Increasing the number of females in leadership is also a critical area of focus.

### Progress during 2014

During the 2014 financial year, DuluxGroup has progressed its diversity agenda through a number of key activities, including a detailed statistical analysis of the employee population and leadership pipeline. As part of the analysis, we conducted a comprehensive pay equity audit that revealed no material discrepancies overall. Other key activities have continued from previous years, including the provision of specific coaching for women returning to work following family leave and regular communications highlighting our own employees' diverse thinking, unique perspectives and approaches to everyday workplace situations.

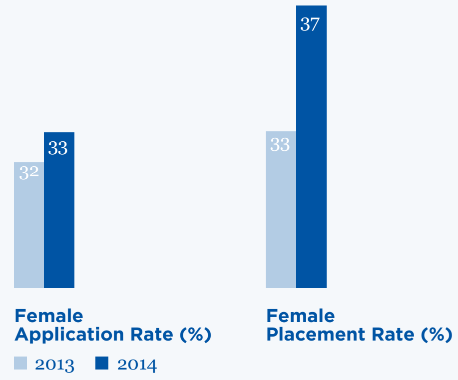
During 2014, we have also recruited a number of new employees with specific language skills and from different ethnic and cultural backgrounds to meet customer needs in specific areas. This has been especially effective in Dulux Trade Centres in both New Zealand and Australia where customers have responded well to this initiative.

Transition to retirement is another area of attention for DuluxGroup as many of our senior technical experts approach retirement age. The intention is to enable these long serving, highly knowledgeable employees to transition to retirement on their own terms while passing on their knowledge and skills to the next group of managers and employees.

### Attraction, selection and recruitment

Our focus on building a strong foundation for employing more women is beginning to show sustainable and positive results. We are attracting more female candidates than ever before to roles advertised for DuluxGroup. While growth has been incremental at this stage, we have established a solid base from which to accelerate this growth. DuluxGroup has positioned itself as a great place for women to work through a number of initiatives during 2014, including hosting a very well attended event for the National Association of Women in Operations (NAWO).

A key area of focus has been on increasing the number of women on short lists for management roles. This is having a strong impact with a high level of awareness among our recruiting managers of the benefit of having a broad choice of candidates. As a result, at least 69% of vacant Australian roles now have at least one woman on the short list and managers are now recruiting proportionally more women into DuluxGroup. The graph below illustrates the percentages of applicants and placements for 2013 and 2014 (Australia).




### Key appointments

Four new individuals joined the DuluxGroup Executive team during 2014, two females and two males. **Penny Lovett** was appointed to the role of Executive General Manager, Human Resources, and **Jennifer Tucker** was promoted to the role of Executive General Manager, Yates. **Martin Ward** re-joined DuluxGroup in the role of General Manager, Strategic Marketing, and was subsequently appointed to the new role of Executive General Manager, Consumer and Construction Products. **Richard Hansen** was promoted to Executive General Manager, Dulux New Zealand. **Julia Myers**, who was already on the Executive as General Manager of Dulux New Zealand, moved to the role of Executive General Manager, Selleys. All of these appointments were made following extensive search activities to ensure we were appointing the highest calibre individuals into these very important senior roles.

### Talent Management and retention

Our Talent Management processes highlight high potential women and we ensure the right development opportunities are offered, including mentoring, development programs and sponsorship.

### Communication and training

More than half of our management team has now undertaken focussed training on managing flexible work requests. We have also commenced a program of training for managers on 'unconscious bias'. These training programs are supported by our compulsory training on Appropriate Workplace Behaviour and the ongoing focus on Values & Behaviours, which all contribute to a positive culture where employees feel engaged and supported to do their best work.

Our Graduate and Leadership Development Programs feature specific modules on diversity, ensuring that the topic is being discussed and that managers at all levels are supporting a diverse and inclusive culture.

International Women's Day was celebrated on two sites in March 2014 for the first time. A combination of internal and external speakers presented to employees at Clayton and Padstow. The speakers focussed on career development and both events were very well attended and well received by female and male employees alike.

### External benchmarking

The DuluxGroup Diversity Council continues to benchmark our efforts against other organisations. DuluxGroup is a member of the Diversity Council of Australia (DCA), the National Association of Women in Operations (NAWO) and the Equal Employment Opportunity Trust (EEO Trust) in New Zealand. DuluxGroup complies with the Workplace Gender Equity Agency (WGEA) reporting requirements.

### Diversity statistics

| PERCENTAGE OF WOMEN | 2013 % | 2014 % |
|---|---|---|
| Board | 28.6 | 28.6 |
| DuluxGroup Executive | 10 | 25 |
| Leadership* | 13.8 | 17.4 |
| Organisation | 30** | 30 |

* Leadership has been redefined to reflect the DuluxGroup leadership team, which in 2014 represents the top 4% of employees.

** The 2013 annual report included an administrative error, reporting the percentage of women in the organisation as 33%. It was, in fact, 30%.

## 4. SAFETY AND SUSTAINABILITY

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

This is supported by our remuneration framework which links at least 10% of senior executive short term incentive award opportunities to the achievement of challenging safety and sustainability targets.

The Board has instituted a process whereby the directors receive a report on current safety and sustainability issues and performance in the group at each Board meeting. The Safety and Sustainability Committee is responsible for reviewing and monitoring environmental issues at Board level. The actions being undertaken by the Company to continuously improve its environmental and safety performance is further detailed on page 36 to 43 of this annual report.

## 5. RISK MANAGEMENT

### Integrity of reporting

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

In accordance with the Company's system of internal sign offs, both the Chief Executive Officer and Chief Financial Officer have provided assurances to the Board that, having made appropriate enquiries, they have formed the opinion that:

- the financial reports of the Group represent a true and fair view of the consolidated Group's financial position and performance and are in accordance with relevant accounting standards; and
- these statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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

Comprehensive practices have been adopted to monitor that:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- safety and sustainability standards and management systems achieve high standards of performance and compliance; and
- business transactions are properly authorised and executed.

The Company has a Risk Manager who is responsible for reviewing and recommending improvements to controls, processes and procedures used by the Company across its corporate and business activities. The Risk Manager is supported by an independent external firm of accountants in conducting a specific internal audit program.

The Company's financial statements are subject to an annual audit by an independent, professional auditor who also reviews the Company's half-yearly financial statements. DuluxGroup currently engages KPMG as its independent external auditor. In accordance with statutory requirements, the lead partner on the Company's audit is required to rotate at the completion of a five year term.

The Audit and Risk Committee is responsible for overseeing the audit process on behalf of the Board, making recommendations to the Board regarding the selection and appointment of the external auditor and the rotation of external audit engagement partners, as outlined in the Committee Charter.

### Risk identification and management

The Board has established policies for the oversight and management of material business risks and internal controls. The Audit and Risk Committee oversees the internal controls, policies and procedures which the Company uses to identify business risks and ensure compliance with relevant regulatory and legal requirements.

The design and implementation of the risk management and internal control systems to manage the Company's material business risks is the responsibility of management.

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

- material financial and non-financial business risks are systematically and formally identified and assessed by the Board, the Audit and Risk Committee and Group Executive on (at least) an annual basis;
- risk assessments are also performed for individual material projects, capital expenditure, products and country risks as required;
- internal controls are identified and, where appropriate, management plans are established for each significant identified risk outlining the mitigation strategy and tasks, and the management responsible for the action; and
- formal risk reporting is provided to the Board on an ongoing basis including information in relation to whether material business risks are being managed effectively – this includes information relating to risk profiles and progress against plans.

The Chief Executive Officer and Chief Financial Officer have provided assurances to the Board that the risk management and internal control systems have been designed and implemented to manage the Company's material business risks, and management has reported to the Board as to the effectiveness of the Company's and consolidated entity's management of its material business risks.

An independent external firm of accountants assists in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the risk management and internal control systems and periodically provides assistance and input when undertaking risk assessments.

## 6. ENGAGING WITH SHAREHOLDERS

DuluxGroup is committed to open, clear and timely communications with our shareholders so that they are able to exercise their rights in an informed manner. This year, the Company reviewed its Shareholder Communications Policy which sets out the Company's commitment to providing transparent communications with all stakeholders through a number of channels including the Company's:

- annual report;
- annual general meeting; and
- website.

DuluxGroup is committed to continually improving its online and electronic communications and improving the functionality of the website, and encourages shareholders to elect to receive shareholder reports and other communications electronically.

The Chairman met with a number of governance bodies and major investors during the year to discuss our governance and remuneration practices.

The Board was pleased with the overall sentiment from these meetings and has taken specific feedback into consideration.

The Company values the feedback provided by shareholders and other stakeholders, including potential investors, and recognises that it is important not only to provide relevant information as quickly and efficiently as possible, but to listen, understand and respond to the perspectives of those stakeholders. To promote this two way dialogue, shareholders are encouraged to participate at the annual general meeting and to communicate with DuluxGroup's share registry, Computershare, on shareholder-related matters.

## 7. DULUXGROUP GOVERNANCE POLICIES

The Board acknowledges the need for directors, executives, employees and contractors to observe the highest ethical standards of corporate and business behaviour.

DuluxGroup has adopted what the Board considers to be a 'best practice' framework, which includes the following policies, full details of which can be viewed in detail on the Company's website at www.duluxgroup.com.au. The policies are consistent with the recommendations set out in the ASX Principles:

- **Code of Conduct**, which sets out the standards of business conduct required of all employees and contractors of the Company. A Speak Up line has been established to enable employees to report (on an anonymous basis) breaches of the Code of Conduct. If a report is made, it is escalated as appropriate for investigation and action. A management committee monitors and reviews the effectiveness of the Speak Up line on a periodic basis. A report is also prepared for review by the Company's Remuneration and Nominations Committee on a quarterly basis.
- **Share Trading Policy**, which reinforces the requirements of the Corporations Act 2001 in relation to the prohibition against insider trading. Outside of the trading windows set out in the Policy and as determined by the Board from time to time, directors and senior executives must obtain consent to trade in DuluxGroup shares.
- **Continuous Disclosure**, which establishes detailed procedures for identifying and disclosing material and price sensitive information in accordance with the Corporations Act 2001 and the ASX Listing Rules. A formal program is in place whereby senior managers are provided training every two years to ensure appropriate awareness of how the continuous disclosure obligations apply to DuluxGroup, including consideration of materiality guidelines relevant to the Company. In addition, specific and targeted training is provided on a case by case basis as the need arises and advice is also cascaded to the broader organisation on a periodic basis.

# Financial Report

**CONTENTS**

The Directors of DuluxGroup Limited ('the Company') present the financial report for the Company and its controlled entities (collectively 'the consolidated entity' or 'the Group' or 'DuluxGroup') for the financial year ended 30 September 2014 and the auditor's report thereon.

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

- the Remuneration Report appearing on pages 64 to 87;
- the Operating and Financial Review on pages 12 to 35;
- details of the current Directors and the Company Secretary on pages 44 to 45; and
- Note 24 to the financial statements accompanying this Report.

**Directors**

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

Peter Kirby, Chairman

Patrick Houlihan, Managing Director and Chief Executive Officer

Stuart Boxer, Chief Financial Officer and Executive Director

Gaik Hean Chew

Garry Hounsell

Andrew Larke

Judith Swales

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

**Company Secretary**

Simon Black is the Company Secretary and General Counsel.

**Directors' meetings**

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

| Director | Scheduled Board Meetings[1] | | Audit and Risk Committee[1] | | Remuneration and Nominations Committee[1] | | Safety and Sustainability Committee[1] | | Special Board/ Committee Meetings [1] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Peter Kirby | 9 | 9 | 4 | 4 | 4 | 4 | - | - | 1 | 1 |
| Patrick Houlihan | 9 | 9 | - | - | - | - | 4 | 4 | 1 | 1 |
| Stuart Boxer | 9 | 9 | - | - | - | - | - | - | 6 | 6 |
| Gaik Hean Chew | 9 | 8[2] | - | - | 4 | 3[2] | 4 | 3[2] | 1 | 1 |
| Garry Hounsell | 9 | 9 | 4 | 4 | 4 | 4 | - | - | 6 | 6 |
| Andrew Larke | 9 | 9 | 4 | 4 | 4 | 4 | - | - | 6 | 6 |
| Judith Swales | 9 | 9 | 4 | 4 | - | - | 4 | 4 | 1 | 1 |

(1) Shows the number of meetings held and attended by each Director during the period the Director was a member of the Board or Committee. The Scheduled Board Meetings include the 2013 Annual General Meeting.

(2) Ms Chew did not attend the Board and Committee meetings held on 13 February 2014 due to Board approved leave of absence for personal reasons.

**Directors' interests in share capital**

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

| | Number of fully paid ordinary shares[(1)] | Number of shares held pursuant to the 2011 DuluxGroup Long Term Equity Incentive Plan Offer[(2)] | Number of shares held pursuant to the 2012 and 2013 DuluxGroup Long Term Equity Incentive Plan Offers[(3)] |
|---|---|---|---|
| Peter Kirby | 130,000 | - | - |
| Gaik Hean Chew | 106,966 | - | - |
| Garry Hounsell | 128,699 | - | - |
| Andrew Larke | 152,156 | - | - |
| Judith Swales | 40,000 | - | - |
| Patrick Houlihan | 526,207 | 708,743 | 1,065,779 |
| Stuart Boxer | 199,184 | 179,026 | 329,875 |

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

(2) Since the end of the reporting period, these shares have met the applicable performance condition and vested on 12 November 2014. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 28 November 2014 to 23 January 2015.

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

**Principal activities**

The principal activities of the consolidated entity in the course of the financial year were the manufacture, marketing, sale and distribution of premium branded paint, coatings, adhesives, garden care and other building products to the residential home improvement, commercial and infrastructure markets across Australia, New Zealand and Papua New Guinea, with niche positions in China and South East Asia.

**Business strategies, prospects and likely developments**

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

**Review and results of operations**

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

**Dividends paid in the year ended 30 September 2014**

In respect of the 2013 financial year, a fully franked final dividend of 9.5 cents per ordinary share was paid on 18 December 2013. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2014.

In respect of the 2014 financial year, a fully franked interim dividend of 10.0 cents per ordinary share was paid on 20 June 2014. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2014.

Since the end of the financial year, the Directors have determined a final dividend to be paid at the rate of 10.5 cents per share, details of which are set out in the section below entitled "Events subsequent to balance date".

**Changes in the state of affairs**

Particulars of significant changes in the state of affairs of the consolidated entity during the year ended 30 September 2014 are as follows:

- Total assets of $1,035.1 million increased by $2.3 million on the prior year.
- Year end net debt of $345.7 million decreased by $43.0 million on the prior year.
- Total equity attributable to the ordinary shareholders of DuluxGroup Limited of $289.7 million increased by $63.5 million on the prior year.

**Events subsequent to balance date**

On 31 October 2014, DuluxGroup extended Tranche A ($100,000,000) of its $400,000,000 unsecured multi-currency syndicated bank loan facility for three years from 8 November 2015 to 8 November 2018. At the same time, DuluxGroup favourably re-priced Tranche B ($150,000,000) and Tranche C ($150,000,000) of the same facility. The terms and conditions of the facility remain largely unchanged.

On 12 November 2014, the Directors determined that a final dividend of 10.5 cents per ordinary share will be paid in respect of the 2014 financial year. The dividend will be fully franked and payable on 17 December 2014. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2014 and will be recognised in the 2015 financial statements.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2014, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

**Environmental regulations**

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

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

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

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

**Indemnification of officers**

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

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

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

**Non-audit services and auditor's independence**

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

The Board is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

No officer of the Company was a partner or director of KPMG. A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is contained on page 88 and forms part of this Directors' Report.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided during the year are disclosed in Note 8 of the financial statements.

**Rounding**

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars, the Company being in a class specified in the ASIC Class Order 98/100 dated 10 July 1998.

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

Peter M. Kirby
Chairman

12 November 2014

# Directors’ Report
## Remuneration Report (Audited)

Dear Shareholder,

On behalf of the Board, I am pleased to introduce DuluxGroup’s 2014 Remuneration Report.

In the past 12 months, DuluxGroup has continued to perform strongly against our target outcomes and relative to our peers on a range of key performance measures. Group Net Profit After Tax (NPAT) excluding non-recurring items increased to $111.9 million in 2014 from $92.2 million in 2013 and performance against cash management targets was positive across the business.

Our focus on Safety has resulted in excellent improvement in safety performance for the period, with a 30 per cent reduction in serious near misses and a 15 per cent reduction in injuries across the Group. In the first full year of integration for the new business we have recorded a 48 per cent reduction in serious near misses and a 54 per cent reduction in injuries.

Internally, we have continued our focus on the improvement of our core functional support areas of supply chain, strategic marketing, information technology and human resources.

Strong performance across most of our key measures is reflected directly in the short term incentive payments for our Key Management Personnel (KMP), which range from 53 per cent to 84 per cent of their potential maximum.

In approving the Company’s remuneration framework, the Board has been conscious to align interests of shareholders and executives. The Board is satisfied that the remuneration framework remains effective at driving performance and creating long term shareholder value. Our focus on earnings growth is reflected in short term at risk remuneration (through a significant component of STI being linked to profit targets) and in long term at risk remuneration (via the earnings gateway that must be met before any shares vest under the Long Term Equity Incentive Plan).

The earnings gateway that applied to the 2011 Long Term Equity Incentive Plan (LTEIP) award was met, and accordingly shares allocated under that award vested. The relative total shareholder return performance condition (defined as the total return to shareholders over the period, taking into account share price growth and dividends paid) will be tested during the trading window following release of our 2014 financial results, which will determine the portion of loan forgiveness to apply. On an absolute basis, our share price has increased from $2.73 (opening price on 1 October 2011) to $5.56, as at 30 September 2014.

Recently we introduced a formal Clawback Policy which provides the Board with a broad discretion to forfeit or reduce incentive awards of executives in the event of a material misstatement of financial results or serious misconduct, including where the Company suffers material reputational damage. This is part of the Group’s ongoing management of risk and a continued focus on strong remuneration governance.

DuluxGroup continues to foster an ownership culture amongst our employees. Annual offers to eligible Australian and New Zealand employees under the Employee Share Investment Plan have resulted in approximately 70 per cent of eligible employees being shareholders in our Company. This is an increase of around 7 per cent on the previous year and we hope this will continue to encourage employees to think and act like business owners. Executives also continue to build their own personal shareholdings in the Group following the extension of the minimum shareholding requirements to senior managers last year.

I hope the 2014 Remuneration Report provides you with a clear overview of our remuneration policies and practices, and demonstrates the links between Company performance and remuneration outcomes. Last year our Remuneration Report received a vote in favour of 98 per cent at the Annual General Meeting (AGM). Whilst we have made some changes to our disclosure, in part as a response to the feedback you provided to us, the substance of the Group’s remuneration policy and approach remains unchanged from the one that received endorsement in 2013, and we do hope that you will again support it at our AGM in December.

We value your feedback and look forward to welcoming you to the 2014 AGM.

Yours faithfully

Peter M Kirby
Chairman

## Contents



## 1. INTRODUCTION

The Directors of DuluxGroup Limited ('the Company') present the Remuneration Report for the Company and its controlled entities (collectively 'the Group' or 'DuluxGroup') for the financial year ended 30 September 2014 prepared in accordance with the requirements of the *Corporations Act 2001* and its regulations.

The Report outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of DuluxGroup which comprises all Directors (Executive and Non-Executive) and those executives who have authority and responsibility for planning, directing and controlling the activities of the Group. In this report, 'Executives' refers to members of the Group Executive team identified as KMP.

The following table details the Group's KMP during the 2014 financial year.

*Table 1*

| Name | Role |
|---|---|
| **Non-Executive Directors** | |
| Peter Kirby | Non-executive Chairman |
| Gaik Hean Chew | Non-executive Director |
| Garry Hounsell | Non-executive Director |
| Andrew Larke | Non-executive Director |
| Judith Swales | Non-executive Director |
| **Executive Directors** | |
| Patrick Houlihan | Managing Director and Chief Executive Officer (CEO) |
| Stuart Boxer | Chief Financial Officer and Executive Director (CFO) |
| **Other KMP** | |
| Patrick Jones | Executive General Manager Dulux Paints Australia |
| Brad Hordern | Executive General Manager DuluxGroup Supply Chain |
| Mike Kirkman(1) | Executive General Manager Selleys Yates |
| Martin Ward(2) | Executive General Manager Consumer and Construction Products |

(1) Mr Kirkman ceased in the position on 31 March 2014.
(2) Mr Ward commenced in the position on 1 April 2014.

## 2. REMUNERATION STRATEGY

The remuneration strategy sets the direction for the remuneration framework and policies, and drives the design and application of executive remuneration programs across the Group. The Group's remuneration strategy is to:

- Encourage a strong focus on performance and support the delivery of outstanding returns to DuluxGroup shareholders.
- Attract, retain and motivate appropriately qualified and experienced individuals who will contribute to DuluxGroup's financial and operational performance.
- Motivate executives to deliver outstanding business results with both short and long term horizons.
- Align executive and stakeholder interests through share ownership.

The Board continually reviews the remuneration framework and associated programs, and is satisfied that they continue to effectively meet the Group's strategic objectives. No significant changes to the key elements of the remuneration framework were deemed necessary in 2014.

The diagram on the next page outlines the links between the components of remuneration for executives, the performance measures used to determine the outcomes and the strategic objectives of DuluxGroup these are designed to achieve.

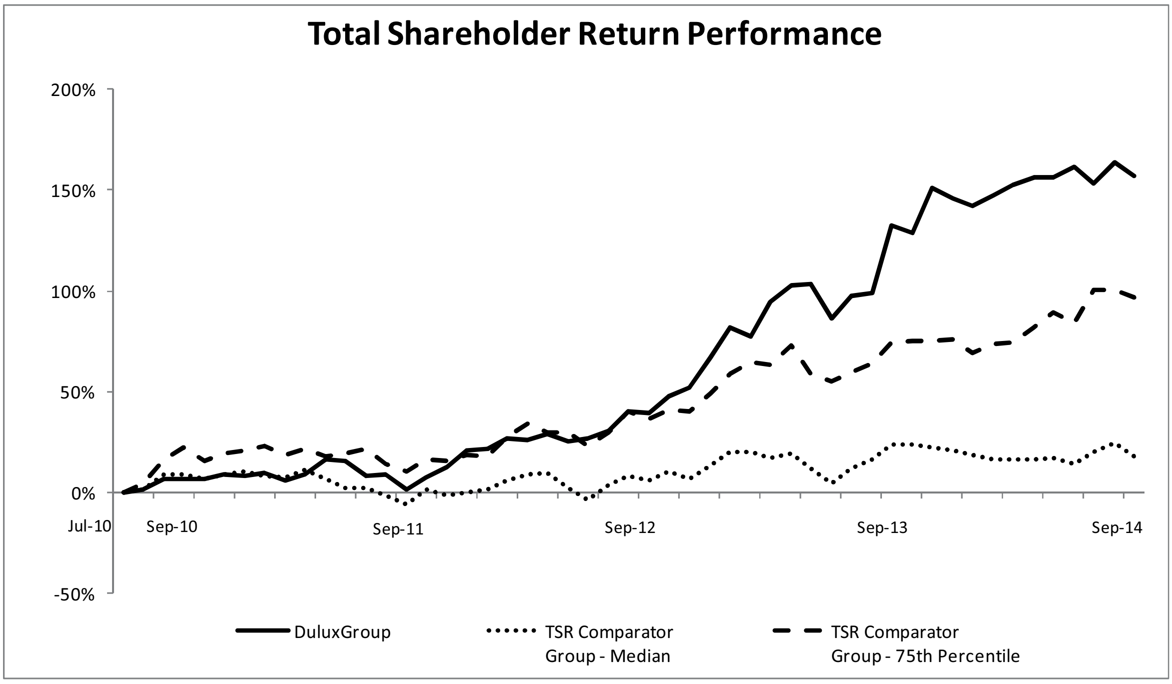
| Component | Performance measure | Strategic objective |
|---|---|---|
| **Fixed remuneration** | **Considerations:**<br>▪ Scope of individual's role<br>▪ Individual's level of knowledge, skills & expertise<br>▪ Individual performance<br>▪ Market benchmarking | ▪ Set to attract, retain and motivate the right talent to deliver on our strategy<br>▪ For executives who are new to their roles, the Company's aim is to set fixed remuneration at relatively modest levels compared to their peers and to progressively increase as they prove themselves in their roles (i.e. performance based) |
| + | | |
| **Short term incentive**<br><br>**(STI)**<br><br>**Delivered through cash** | **NPAT STI 'gateway' - minimum threshold performance level**<br><br>**Financial Measures (generally at least 70% of available STI)**<br>▪ Group NPAT<br>▪ Group EBIT<br>▪ Business / Region EBIT (where appropriate)<br>▪ Cash flow<br>▪ Trade working capital<br><br>**Safety & Sustainability Measures (generally a maximum of 10% of the available STI)**<br>▪ Includes a combination of lead improvement objectives for process safety, fatality prevention and sustainability, plus Recordable Case Rate targets<br><br>**Personal objectives (generally a maximum of 20% of the available STI)** aligned to the strategic objectives of the company | ▪ Minimum threshold NPAT ensures a minimum acceptable level of group profit before executives receive any STI reward<br>▪ Performance conditions designed to support the financial and strategic direction of the company (the achievement of which are intended to translate through to shareholder return)<br>▪ Large proportion subject to earnings targets - Group or business unit, depending on the role of the executive to ensure line of sight<br>▪ Other financial targets to ensure strong discipline maintained<br>▪ Outcomes reviewed by way of "agreed upon procedure" by independent auditors to maintain the integrity of the award<br>▪ Non-financial targets aligned to core values and key strategic and growth objectives |
| + | | |
| **Long term equity incentive plan**<br><br>**(LTEIP)**<br><br>**Delivered through DuluxGroup shares – allocated upfront, pursuant to company loan** | **'Gateway' EPS condition:**<br>The EPS gateway must be met before any shares will vest. This gateway is currently 4% compound annual EPS growth over the three year performance period.<br>Once shares vest, the loan needs to be repaid<br><br>**Total Shareholder Return (TSR) performance condition:**<br>▪ A portion of the loan may be forgiven at the end of the performance period, based on relative TSR performance against the comparator group. The portion of loan forgiven will increase as the company outperforms the peer group. No loan forgiveness applies if DuluxGroup's TSR is below the 51st percentile relative to the comparator group. Refer section 5.4 for further details | ▪ Allocation of shares upfront encourages executives to 'behave like shareholders' from grant date<br>▪ Designed to encourage executives to focus on the key performance drivers which underpin sustainable growth in shareholder value<br>▪ Key benefits to participants under the plan are:<br>  ▪ capital appreciation in DuluxGroup shares consistent with shareholder interest<br>  ▪ the value of after tax dividends applied towards repaying the loan thereby increasing equity over the loan period<br>  ▪ potential partial loan forgiveness (on a sliding scale to a maximum of 30%) if our TSR outperforms our comparator group<br>▪ EPS gateway provides a 'counterbalance' to the relative TSR performance condition, designed to ensure the quality of the share price growth is supported by company earnings performance, not just market buoyancy |
| = | | |
| **Total remuneration** | The total remuneration mix is designed to attract, retain and motivate appropriately qualified and experienced individuals, encourage a strong focus on performance, support the delivery of outstanding returns to DuluxGroup shareholders over the short and long term and to align executive and stakeholder interests through share ownership | |

# 3. COMPANY PERFORMANCE AND REMUNERATION OUTCOMES FOR 2014

## 3.1. Company performance

As described in section 2, the strategic aims applied in the design of the executive remuneration framework and policy focus specifically on aligning the outcomes of executive reward with shareholder outcomes, with at-risk components of executives' remuneration designed to drive and reward performance against the strategic objectives and Company results.

The Company has demonstrated strong performance since the demerger from Orica in 2010, both on an absolute basis and relative to other similarly sized companies. Over this period, the Company's share price has increased from $2.50 to $5.56 (as at 30 September 2014). The following graph presents comparative TSR performance for the Group since 2010, compared with TSR performance at the median and 75th percentile of those companies in the S&P/ASX 200 Index as at 12 July 2010 (the date of DuluxGroup's demerger from Orica Limited) that remained listed for the duration of the period (companies classified as mining, financial services, listed property trusts and overseas domiciled companies have been excluded as they are not considered by the Board to be relevant competitors for capital).




In line with the Group's focus on long term, stable performance, the Group's share price growth has exceeded the ASX200 index growth since the demerger. In addition, the company has maintained a dividend payout ratio of 70 per cent of NPAT excluding non-recurring items since demerger. Further details of how this performance is reflected in remuneration outcomes are presented in section 3.2.

The table below provides relevant Company performance information for the key financial measures over the last five years.

*Table 2*

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| NPAT attributable to ordinary shareholders of DuluxGroup Limited ($m) | 61.3 | 93.2 | 89.5 | 75.0(5) | 104.5 |
| NPAT before non-recurring items ($m)(1) | 71.5 | 77.6 | 79.6 | 92.2(5) | 111.9 |
| Diluted EPS (cents) | 16.9 | 25.7 | 24.3 | 20.1(5) | 27.5 |
| Diluted EPS before non-recurring items (cents) (1) | 19.7 | 21.2 | 21.6 | 24.7(5) | 29.4 |
| Dividends paid per share (cents) | - | 10.5 | 15.0 | 16.0 | 19.5 |
| Opening share price at 1 October ($) | 2.50(2) | 2.73 | 2.52 | 3.30 | 5.28 |
| Closing share price at 30 September ($) | 2.73 | 2.52 | 3.30 | 5.28 | 5.56 |
| TSR % – DuluxGroup(3) | 9.2% | -3.8% | 36.9% | 64.8% | 9.0% |
| Recordable case rate (RCR)(4) | 1.81 | 1.96 | 1.21/1.85 | 0.82/1.81 | 1.19/1.53 |

Definitions: NPAT – Net Profit After Tax, EPS – Earnings Per Share, TSR –Total Shareholder Return

(1) Earnings excluding non-recurring income and expenses are considered by the Board to be a better basis for comparison from period to period as well as more comparable with future performance. It is also the primary measure of earnings considered by management in operating the business and by the Board in determining dividends. Non-recurring items that were excluded were positive in 2011 ($15.6m) and 2012 ($9.9m), and negative in 2013 ($17.2m) and 2014 ($7.4m). Details of non-recurring items in respect of 2014 are set out in section 3.2.

(2) Opening listing share price on 12 July 2010 for DuluxGroup Limited shares following the demerger from Orica Limited.

(3) TSR percentage has been calculated as the change in the share price for the period, plus dividends paid, divided by the opening share price.

(4) The RCR is the number of injuries and illnesses resulting in lost time, restricted duties, or medical treatment per 200,000 hours worked (US OHSA system), which is equivalent to the hours worked by 100 people in a year. The RCR includes both DuluxGroup employees and contractors. 2014 RCR was 1.19 (2013 0.82) excluding the former Alesco businesses and Camelpaint business. It was 1.53 (2013 1.81) for the total Group including the Camelpaint and former Alesco businesses.

(5) 2013 comparative results have been restated as a result of a change in Accounting Standard AASB 119 Employee Benefits. Refer to note 1(e) of the financial statements for details.

## 3.2. Remuneration Outcomes

Strong Company performance across most of the key indicators is reflected in the 2014 remuneration outcomes for executives.

| **Fixed remuneration** | |
|---|---|
| 2014 outcomes | Having regard to both the Company's continued growth and strong performance during the year, and the market based on independent external advice, the Board resolved to increase fixed remuneration of the CEO and CFO by approximately 5.3 per cent and 4.2 per cent respectively from 1 January 2014.<br><br>Remuneration for other KMP was also reviewed with reference to individual and Group performance, and assessment of comparable market reward levels. The Company's approach is to set fixed remuneration at relatively modest levels compared to peers for new appointees and then progressively increase pay based on individual performance. Fixed remuneration increases for other KMP in 2014 ranged from 3.7 per cent to 5.0 per cent. |
| **Short term incentive** | |
| 2014 outcomes | The net profit gateway condition, which requires a minimum level of NPAT growth to be achieved before STI can be awarded, was exceeded in respect of the 2014 STI. This gateway was set at prior year's NPAT before non-recurring items (restated) which was $92.2 million. The 2014 NPAT before non-recurring items was $111.9 million. Non-recurring items excluded in 2014 include items that have both a positive and negative impact under the Company's incentive arrangements. These include Alesco integration costs ($3.7 million) and a non-cash impairment charge relating to the Group's investment in China ($9.2 million). The Board also determined to exclude the benefit of the reversal of an excess tax provision ($5.5 million). The Board considered each of these items and determined that management should not be penalised and/or receive an unfair benefit in relation to them, however notes that the gateway was met even before exclusion of these items.<br><br>As a result of strong performance during the year:<br>• NPAT and EBIT results were generally ahead of target and approaching stretch;<br>• Results for performance measures relating to cash management were between target and stretch at Group level;<br>• Safety performance for both lead and lag indicators was between target and stretch across the Group and in the heritage businesses, and between hurdle and target for the new businesses; and<br>• Personal performance objectives for Executives in 2014, which were focused on the delivery of key strategic growth and market based improvement, were rated between target and stretch.<br><br>Personal performance objectives for 2014 for the CEO were linked directly to strategic business objectives, and included:<br>• The realisation of Alesco synergy targets and the achievement of strategic milestones for the new business;<br>• Progress against various medium to long term growth initiatives; and<br>• Improvement in under-performing businesses.<br><br>STI awards for Executives vested in the range of 53 per cent to 84 per cent of their potential maximum.<br><br>Details of the STI awards for 2014 are outlined in section 5.3. |

| Long term incentive | |
|---|---|
| 2014 outcomes | **2010 LTEIP grant**<br>The LTEIP granted in December 2010 was tested for vesting as at 30 September 2013 and, as reported in the Company's 2013 remuneration report, vested based on exceeding the EPS gateway. As set out in last year's report, the Company's relative TSR performance for the same period was to be tested during the trading window after the release of the 2013 results, to determine the percentage of loans to be forgiven. Relative TSR was at the 93rd percentile of the comparator group and resulted in the maximum loan forgiveness for participants of 30 per cent. Absolute TSR for the period was 139 per cent. Following loan forgiveness, LTEIP scheme participants repaid loans totalling $5,723,000 to the Company in respect of the 2010 LTEIP. In accordance with the terms of the LTEIP, the Company paid fringe benefits tax of $2,375,000 on the portion of loans forgiven (which constitutes part of the overall remuneration benefit available to participants under LTEIP).<br>**2011 LTEIP grant**<br>The LTEIP granted in December 2011 was tested for vesting as at 30 September 2014.<br>For the purpose of the 2011 LTEIP, the baseline EPS was 21.2 cents per share, being the EPS on 2011 NPAT before non-recurring items. The EPS growth gateway, which was set at 4 per cent compound annual growth over the loan period, was tested and was exceeded. Accordingly the shares vested on 12 November 2014. DuluxGroup's compound annual EPS growth over the period, calculated using diluted EPS on a statutory basis was 9.1 per cent or using EPS excluding non-recurring items, was 11.5 per cent.<br>The Company's relative TSR against the comparator group will be tested by Ernst and Young during the trading window after the release of the 2014 results. The relative TSR performance will determine the percentage of loans to be forgiven and will be reported in the Company's 2015 remuneration report.<br>LTEIP scheme participants will be required to repay loans totalling $5,915,000 (before loan forgiveness) to the Company in respect of the 2011 LTEIP. |

# 4. REMUNERATION GOVERNANCE

## 4.1. Role of the Remuneration and Nominations Committee (RNC)

The Board RNC is responsible for ensuring that the Group's executive remuneration strategy aligns with the Company's short and longer term business objectives.

The Committee reviews and makes recommendations to the Board on the remuneration arrangements for the directors, the CEO and the Group executive team. Details of the composition and accountabilities of the RNC are set out on page 53.

To assist in performing its duties and making recommendations to the Board, the Committee seeks independent advice from external consultants on various remuneration related matters.

From time to time during the financial year ended 30 September 2014, the Company engaged independent remuneration consultants to provide insights on remuneration trends, regulatory updates, and market data in relation to the remuneration of Non-Executive Directors, the CEO and other Executives. No remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were obtained during the financial year ended 30 September 2014.

## 4.2. Clawback policy

The Board has always maintained broad discretion under the Company's incentive plans in relation to actions or events that may give rise to a 'clawback event'. The Group has recently adopted a formal Clawback Policy to further align the remuneration outcomes of participants with the longer term interests of the Group. The Policy applies to participants in the Group's LTEIP and applies to awards under both the LTEIP and STI plan. The policy will apply from the 2014 LTEIP grant and the 2015 STI award.

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

In exercising its discretion, the Board may consider: the individual participant's degree of responsibility, intention and recklessness; whether any laws, regulatory requirements, internal policies or practices were breached; and the impact on the Group's financial soundness.

Alternatively, where an award under the LTEIP or STI plan has not vested as a result of a material misstatement of financial results, the Board may reconsider the level of satisfaction of the applicable conditions and reinstate any award that may have lapsed to the extent that the Board determines appropriate in the circumstances.

## 4.3. Minimum shareholding policy

A core value of DuluxGroup is to '*run the business as your own'*.

The Board believes that the executive team should be exposed to share price fluctuations, further promoting the alignment of executive and shareholder interests. While the LTEIP achieves this in part (in that, over time, executives generally acquire a 'rolling' three years worth of shares under the LTEIP), the Board considers that executives should also maintain a direct holding.

Accordingly, minimum shareholding guidelines are in place to encourage all executives who participate in the Group's LTEIP to acquire a minimum direct shareholding over a period of five years from the later of 14 August 2013 (the date of adoption of the Policy) and their appointment. This level of shareholding is set at one times Fixed Annual Remuneration (FAR) for the CEO, CFO and Executive General Manager Dulux Paints Australia, and at lower levels of FAR for other LTEIP participants based on their level of seniority.

In order to promote alignment with shareholders for Non-Executive Directors, the Board has also adopted a policy which establishes a minimum shareholding for Non-Executive Directors equivalent to the value of one years' pre-tax Board and Committee fees for each member. Non-Executive Directors have three years from their appointment in which to establish this shareholding level.

A summary of Executives' and Non-Executive Directors' current shareholdings in DuluxGroup Limited as at 30 September 2014 is set out below.

*Table 3*

| | Number of shares | | | | | |
|---|---|---|---|---|---|---|
| | Opening Balance[(1)] | Granted under LTEIP during the year | Net movement due to other changes[(2)] | Closing Balance | Unrestricted shareholding as percentage of FAR[(3)] | Minimum unrestricted shareholding target as percentage of FAR |
| **Executive Directors** | | | | | | |
| Patrick Houlihan | 2,610,741 | 453,758 | (763,770) | 2,300,729 | 268% | 100% |
| Stuart Boxer | 744,720 | 175,280 | (211,915) | 708,085 | 177% | 100% |
| **Other KMP** | | | | | | |
| Patrick Jones | 433,072 | 146,067 | (35,569) | 543,570 | 114% | 100% |
| Brad Hordern | 349,003 | 79,850 | (37,531) | 391,322 | 153% | 40% |
| Mike Kirkman[(4)] | 124,867 | 79,850 | (190,627) | NA | NA | NA |
| Martin Ward[(5)] | NA | NA | NA | 58,906 | 12% | 40% |

| | Number of shares | | | | |
|---|---|---|---|---|---|
| | Opening Balance | Net movement due to other changes [(2)] | Closing Balance | Shareholding as percentage of annual base fees[(6)] | Shareholding target as percentage of annual base fees |
| **Non-Executive Directors** | | | | | |
| Peter Kirby (Chairman) | 130,000 | - | 130,000 | 184% | 100% |
| Gaik Hean Chew | 80,000 | 26,966 | 106,966 | 337% | 100% |
| Garry Hounsell | 124,101 | 4,598 | 128,699 | 383% | 100% |
| Andrew Larke | 152,156 | - | 152,156 | 493% | 100% |
| Judith Swales | 40,000 | - | 40,000 | 129% | 100% |

(1) The balances reported in this includes both shares allocated and restricted pursuant to the LTEIP (in the case of Executives) and shares held directly, indirectly or beneficially by each KMP or close members of their family or an entity over which the person or the family member has either direct or indirect control, joint control or significant influence as at 1 October 2013.

(2) 'Net movement' reports the impact of acquisition and disposal transactions (including, in respect of Executives, the sale of LTEIP shares to repay loans in accordance with the LTEIP rules).

(3) Unrestricted shareholding (which excludes shares held pursuant to LTEIP) calculated as a percentage of FAR as at 30 September 2014 assuming a share price of $5.56 being the closing share price on that date.

(4) Mr Kirkman ceased in the position on 31 March 2014. Accordingly, all shares held pursuant to the LTEIP were forfeited as at that date. As at the date of his departure his remaining shareholding was 14,090, after taking account of the LTEIP forfeiture.

(5) Mr Ward commenced in the position on 1 April 2014. These shares were acquired while in his prior role. There were no changes to his holding while in his current role.

(6) Shareholding calculated as a percentage of annual base board and committee fees as at 30 September 2014 assuming a share price of $5.56 being the closing share price on that date.

# 5. EXECUTIVE REMUNERATION – DRIVING A PERFORMANCE CULTURE

## 5.1. Policy and approach to setting remuneration – remuneration mix

The Board believes that remuneration packages of senior managers, including the Executives, should include both a *fixed* component and an *at-risk* or *performance-related* component (comprising both short term and long term incentives). The weighting of at-risk remuneration reflects the Board's commitment to performance-based reward. The table below summarises the remuneration mix policy for executives applicable for the financial year ended 30 September 2014.

*Table 4*

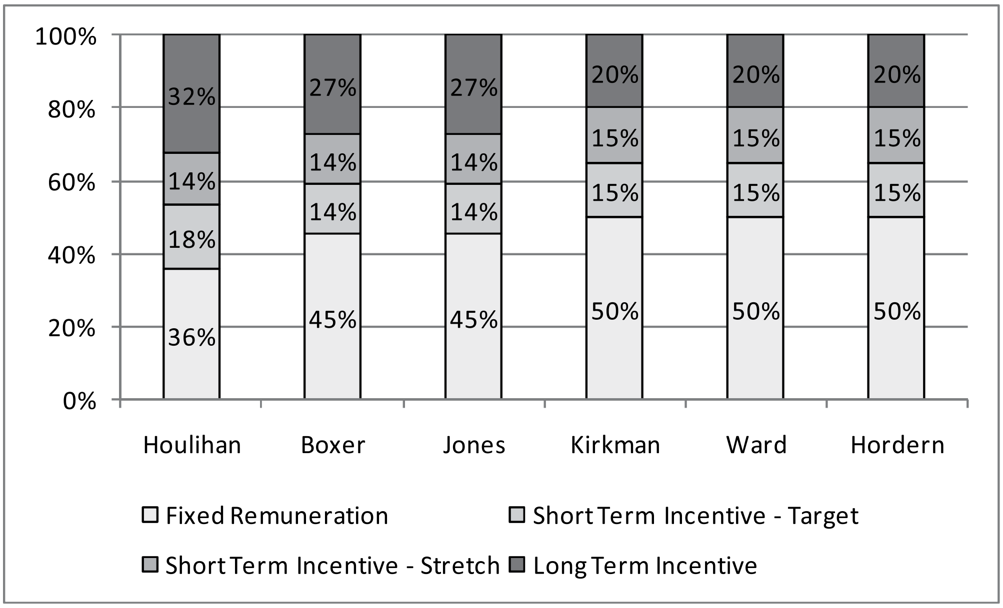
| | | % of Fixed Annual Remuneration | | |
|---|---|---|---|---|
| | | Short term incentive | | Long term incentive |
| **Name** | **Fixed annual remuneration (FAR) $** | **Assuming a 'Target' level of performance is achieved** | **Assuming a 'Stretch' level of performance is achieved** | |
| **Executive Directors** | | | | |
| Patrick Houlihan | 1,090,000 | 50% | 90% | 90% |
| Stuart Boxer | 625,000 | 30% | 60% | 60% |
| **Other KMP** | | | | |
| Patrick Jones | 525,000 | 30% | 60% | 60% |
| Brad Hordern | 430,000 | 30% | 60% | 40% |
| Mike Kirkman[(1)] | 425,000 | 30% | 60% | 40% |
| Martin Ward[(2)] | 430,000 | 30% | 60% | 40% |

(1) Mr Kirkman ceased in the position on 31 March 2014.

(2) Mr Ward commenced in the position on 1 April 2014.

No incentive is payable if the relevant hurdles, being a minimum acceptable level of performance, are not achieved.

The graph below shows the relative weighting of remuneration elements as a proportion of total potential remuneration for Executive KMP, for the financial year ended 30 September 2014.



## 5.2. Fixed remuneration

A key component of the Group's remuneration strategy is to attract, retain and motivate appropriately qualified and experienced individuals who will contribute to the Company's financial and operational performance.

All senior managers, including Executives, receive a fixed remuneration component, expressed as a total amount of salary and other benefits (including statutory superannuation contributions) that may be taken in an agreed form.

Fixed remuneration is reviewed annually and reflects the scope of an individual's role, their skills and expertise, individual and Group performance and market practice. For the purposes of setting market competitive remuneration, 'market' is considered to include both Australian Securities Exchange (ASX) listed companies of a comparable market capitalisation and our key industry competitors.

A review of fixed remuneration for executives was undertaken by the Board RNC in the 2014 financial year. In reviewing executive remuneration, the Board took into account Company performance, individual performance and competitiveness of the Company in relation to its comparator group (including having regard to the Company's increased market capitalisation).

Section 3.2 presents the changes in fixed remuneration for executives in the 2014 financial year.

## 5.3. At-risk remuneration – Short Term Incentive Plan (STI)

The DuluxGroup STI is the Company's at risk short term incentive component of the remuneration mix for senior managers, including Executives.

| | |
|---|---|
| **Form and purpose of the plan** | |
| What is the STI? | An annual cash incentive plan that involves linking a portion of senior managers' reward opportunity to specific performance conditions. All senior managers, including Executives, participate in the STI. |
| Why does the Board consider the STI an appropriate incentive? | The STI is designed to put a meaningful proportion of senior manager remuneration at-risk, to be delivered based on the achievement of targets linked to DuluxGroup's annual business objectives. |
| Does the STI comprise a deferred component? | The Board has resolved not to introduce a deferred component to the STI at this time.<br>In light of the immediate share ownership senior managers acquire through LTEIP, and the minimum shareholding guidelines, the Board considers that senior managers' reward outcomes are sufficiently aligned to those of our shareholders. |
| **Governance** | |
| How is performance against the performance conditions assessed? | All performance conditions under the STI are clearly defined and measurable.<br>The Board, on recommendation from the RNC, approves the targets and assesses the performance outcomes of the CEO.<br>The CEO sets the targets and assesses the performance of the CFO and other Executives taking into consideration the advice of the RNC. These are approved by the Board. |
| How are outcomes against the performance conditions approved? | The Board has adopted a rigorous process for assessing performance under the STI plan. Upon approving the extent to which STI performance conditions have been met, the Board asks KPMG to perform 'agreed upon procedures' over the STI entitlement computation of the Group Executive.<br>Under the STI plan, the Board has discretion to adjust STI outcomes up or down based on the achievement of results consistent with the Group's strategic priorities that enhance shareholder value and are delivered in line with Group values. |
| When are targets set and reviewed? | Targets are set at the beginning of each financial year, while performance against these targets is reviewed at the end of the financial year. Any payments are then made in December following the end of the financial year. |

| Gateway and performance conditions | |
|---|---|
| Is there an STI gateway and how is it determined? | Yes. The Board considers it important that, in general, the Company should achieve a minimum acceptable level of group profit before any payments are made under the STI plan, in reflection of returns to shareholders. No STI is awarded (upon achievement of either financial or non-financial metrics) if minimum performance across DuluxGroup does not achieve a threshold NPAT performance level.<br><br>The NPAT gateway for the STI is determined by the Board each year, with reference to a range of factors. While prior year NPAT is referred to as a starting point, economic conditions, industry trends and practices and other relevant circumstances are also factored in to the Board's decision.<br><br>For the purpose of the 2014 STI, the minimum performance level was set at the prior year NPAT before non-recurring items (restated) of $92.2M. |
| What are the STI performance conditions and why were they chosen? | The performance conditions for 2014 included both financial and non-financial targets.<br><br>Overall performance measures are chosen in order to align with the Group's annual budget, targets and longer term plan and therefore, reinforce and drive business strategy. Details of the 2014 performance conditions, and the strategic objectives that they support are set out on page 67.<br><br>In setting the hurdles for the STI plan (that is, the minimum level of performance required for any award to be payable), the RNC is conscious to ensure that all targets are measurable and provide a challenging but meaningful incentive to scheme participants.<br><br>The Board also considers it important that senior managers have a clear line of sight to the targets and are able to affect results through their actions. Accordingly, performance conditions and weightings are directly linked to individual executive's responsibilities.<br><br>The Board considers the 2014 performance measures to be appropriate as they are ultimately aligned with the Company's objectives of delivering profitable growth and improving shareholder return.<br><br>The Board believes that the largest component of an executive's STI payment should be affected by the financial performance of the Company, and accordingly generally at least 70 per cent of Executives' awards are subject to financial metrics. Performance measures are set at both a DuluxGroup level and a strategic business unit level, and weightings that apply in respect of the conditions depend on the executive's role and responsibilities (including whether they have Group or business unit level accountability). For the 2014 STI plan, the financial targets were determined based on target increases on the previous year.<br><br>Non-financial metrics are based on performance against some of our core values – including safety and sustainability, and making significant improvements in growth and productivity. In the event of a fatality, the Board retains complete discretion to adjust any STI incentive payment.<br><br>Non-financial metrics also include other individual measures such as the successful implementation of a specific Group or business unit strategy, or achievement of specific customer or consumer based objectives. A discussion of the CEO's non-financial metrics during 2014 is set out in section 3.2.<br><br>Detailed below is a breakdown of the structure of the STI performance conditions for eligible Executives in 2014. |

| Performance Conditions for STI | CEO | CFO | Executive General Manager Dulux Paints Australia | Executive General Manager Selleys Yates[1] | Executive General Manager Consumer and Construction Products[2] | Executive General Manager Supply Chain |
|---|---|---|---|---|---|---|
| **DuluxGroup Financial** | 70% | 70% | 15% | 15% | 15% | 60% |
| **Business Unit Financial** | 0% | 0% | 55% | 55% | 55% | 10% (PNG) |
| **Safety & Sustainability** | 10% | 10% | 10% | 10% | 10% | 20% |
| **Personal Objectives** | 20% | 20% | 20% | 20% | 20% | 10% |

(1) Mr Kirkman ceased in the position on 31 March 2014.

(2) Mr Ward commenced in the position from 1 April 2014.

| **Reward opportunity** | |
|---|---|
| What level of reward can be earned under the plan? | The STI opportunities able to be earned under the plan are expressed as a percentage of fixed annual remuneration. See section 5.1 for further detail. |
| **Cessation of employment, clawback or change of control** | |
| If an individual ceases employment during the year, will they receive a payment? | The individual will not be eligible for a payment if terminated due to misconduct or poor performance nor in general, if they resign.<br>In certain appropriate circumstances (such as redundancy), the Board may consider eligibility for a pro-rata payment. |
| Is there ability to claw back awards in appropriate circumstances? | See section 4.2 for details on the Company's formal Clawback Policy. |
| How would a change of control of the Group impact on STI entitlements? | The Board has absolute discretion in relation to STI entitlements on a change of control, which it would exercise in the best interests of shareholders. Unless the Board determines otherwise, the STI will be considered to have been met at target for the full performance year, notwithstanding the date of change of control. |

### 2014 outcomes

A detailed discussion of the 2014 STI outcomes is presented in section 3.2. The diagram below presents the range of achievements in 2014 for the performance measures in the STI plan and the average outcome for Executives.

| **Measures** | **Hurdle** | **Target** | **Stretch** |
|---|---|---|---|
| Financial (generally 70%) | | | |
| Safety & Sustainability (generally 10%) | | | |
| Personal (generally 20%) | | | |

As outlined in section 5.1, performance against each measure is zero if the hurdle is not reached and 100 per cent for the achievement of stretch performance.

The short term incentive payments shown in the table below reflect the performance achieved and amounts payable for Executives in the current financial year.

*Table 5*

| **For the financial year ended 30 September 2014** | 2014 STI award $(1) | STI payable at 'Stretch' $(2) | Actual STI as percentage of 'Stretch' | Percentage of 'Stretch' STI payment forfeited | Actual STI payment as a percentage of FAR(3) |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Patrick Houlihan | 807,145 | 981,000 | 82.3% | 17.7% | 74.1% |
| Stuart Boxer | 308,542 | 375,000 | 82.3% | 17.7% | 49.4% |
| **Other KMP** | | | | | |
| Patrick Jones | 265,230 | 315,000 | 84.2% | 15.8% | 50.5% |
| Brad Hordern | 200,667 | 258,000 | 77.8% | 22.2% | 46.7% |
| Martin Ward | 67,936 | 129,000 | 52.7% | 47.3% | 31.6% |

(1) STI constitutes a cash incentive earned during the 2014 financial year, which is expected to be paid in December 2014.

(2) The STI payable assuming a 'Stretch' level of performance has been calculated based on the FAR as at 30 September 2014.

(3) The actual STI payment as a percentage of FAR has been calculated based on the FAR as at 30 September 2014.

## 5.4. At-risk remuneration – Long Term Equity Incentive Plan (LTEIP)

The DuluxGroup LTEIP is the long term incentive component of remuneration for the Group's most senior managers (including Executives).

Under the LTEIP, eligible senior managers are provided with a non-recourse loan from DuluxGroup for the sole purpose of acquiring shares in the Company. The shares are granted upfront but are restricted and subject to a risk of forfeiture until the end of the vesting/performance period and while the loan remains outstanding. Any dividends paid on the shares are applied (on a notional after-tax basis) towards repaying the loan.

Subject to the achievement of an earnings gateway, part of the loan may be forgiven at the end of the loan period at a level based on the achievement of a relative TSR performance condition. Loan forgiveness only occurs where DuluxGroup TSR performance is above the median of the comparator group (in which case eligible senior managers become entitled to 10 per cent loan forgiveness), and the portion of the loan forgiven increases to a maximum of 30 per cent in conjunction with higher levels of relative TSR performance.

To gain access to the shares, the Executives must repay the outstanding loan following testing of the performance condition.

Details of how the LTEIP operates in respect of the grant made during the year are set out below.

| **Driving performance** | |
|---|---|
| How does the LTEIP drive performance? | The LTEIP facilitates immediate share ownership by senior managers, including Executives, and links a significant proportion of their 'at-risk' remuneration to DuluxGroup's ongoing share price and returns to shareholders over the performance period. It is designed to encourage senior managers to focus on the key performance drivers which underpin sustainable growth in shareholder value.<br>The Board believes the LTEIP, which has both an earnings gateway that must be achieved before any shares vest and a TSR performance condition which provides for a portion of the loan to be forgiven where DuluxGroup performs well against its market comparators, promotes behaviour that should achieve superior performance over the long term. |
| How does the plan align participant's interests with shareholders? | The immediate share ownership aligns participants' interests with those of shareholders from the outset.<br>Annual grants (subject to a three year performance period) combined with the minimum shareholding requirements mean that executives have a direct holding in the Company that is directly aligned with the outcomes delivered to shareholders. |
| How does a participant derive value from LTEIP? | Participants can derive value from LTEIP in three ways:<br>• through appreciation of DuluxGroup's share price over the loan period; and/or<br>• the value of after tax dividends applied in repaying the loan thereby increasing their equity over the loan period; and/or<br>• through potential loan forgiveness of a portion of the loan as a reward for superior performance against the Company's market comparators. |
| **Vesting and performance condition** | |
| What is the vesting / performance period? | The gateway and performance condition are tested once approximately three years after the grant is made. |
| What is the 'gateway'? | The Board has implemented a gateway level of minimum performance below which no benefit accrues. This gateway is a minimum level of acceptable growth in EPS for any of the LTEIP shares to vest.<br>The EPS gateway in respect of the offer made during the 2014 financial year is that compound annual growth over the three year period from 1 October 2013 must equal or exceed 4 per cent per annum. Where the EPS gateway is met, at the end of the performance period there is potentially value to senior managers if the value of the LTEIP shares is greater than the outstanding LTEIP loan balance that must be repaid. |
| Why does the Board consider the gateway appropriate? | While the Board considers share price growth to be the primary indicator of DuluxGroup's success at present, the EPS gateway is designed to ensure that the quality of share price growth is supported by Company performance, not market buoyancy alone.<br>For this reason, the Board considers that it is appropriate to set a minimum level of operating performance below which no benefit accrues, and that EPS growth is an appropriate measure for this purpose.<br>The Board considers that 4 per cent remains appropriate, noting that it is set as a minimum level of growth – the real benefit to senior managers is achieved through superior performance against the relative TSR condition. |

<table>
<tr><td>What is EPS and how is it calculated?</td><td>EPS growth measures the growth in earnings on a per share basis.<br>EPS is calculated by dividing DuluxGroup's NPAT by the weighted average number of ordinary shares on issue during the relevant period.<br>The Board has retained discretion to adjust EPS for individually material non-recurring items on a case by case basis when determining whether the EPS performance gateway condition has been met.</td></tr>
<tr><td>How is the relative TSR performance hurdle applied to the plan?</td><td>If the EPS gateway is met and the shares vest, a portion of the outstanding loan may be forgiven in order to reward superior performance.<br>The level of loan forgiveness (if any) depends on DuluxGroup's TSR performance against the comparator group.</td></tr>
<tr><td>How is the forgiveness amount determined?</td><td>There is no loan forgiveness amount if DuluxGroup's TSR is below the 51st percentile relative to the comparator group.<br>If DuluxGroup Limited's TSR is equal to the 51st percentile, participants become entitled to 10 per cent loan forgiveness which increases to a maximum of 30 per cent based on the Company's relative performance on the 'sliding scale' shown below.
<table>
<tr><th>Relative TSR ranking</th><th>Loan forgiveness – proportion of initial loan balance forgiven</th></tr>
<tr><td>Less than 51st percentile</td><td>0 %</td></tr>
<tr><td>51st percentile</td><td>10%</td></tr>
<tr><td>Between 51st percentile and 75th percentile</td><td>Percentage of loan forgiveness increases on a straight-line basis between 10% and 30%</td></tr>
<tr><td>75th percentile or above</td><td>30%</td></tr>
</table></td></tr>
<tr><td>What is TSR?</td><td>Broadly, TSR measures the increase in the Company's share price over the performance period, plus the value of dividends paid being treated as if they were reinvested in DuluxGroup shares.</td></tr>
<tr><td>Who is the relative TSR comparator group?</td><td>The comparator group comprises peer companies in the ASX 200 at the date of grant which remain listed throughout the performance period. The Board has approved the exclusion of companies that operate in very different markets (mining, financial services, listed property trusts and overseas domiciled companies) from the peer group. These approved exclusions from the comparator group enables the performance of DuluxGroup to be compared to those companies that most relevantly compete with DuluxGroup for capital, that is Australian industrial, retail, manufacturing and distribution businesses included in the ASX 200.</td></tr>
<tr><td>Is the performance condition re-tested?</td><td>No, the performance condition is only tested once at the end of the performance period.</td></tr>
<tr><td colspan="2">Nature of the loan</td></tr>
<tr><td>Is the loan 'interest free'?</td><td>The loan is 'interest-free' in that there is no annual interest charge to the senior manager on the loan. An interest component, however, is taken into account in determining the level of performance based debt forgiveness benefit that may be awarded to participants.</td></tr>
<tr><td>As the loans are non-recourse, do senior managers have to repay their loans?</td><td>To access the shares, senior managers must repay their loan. Following the end of the vesting period, assuming the earnings gateway is achieved, the senior manager can either repay the loan directly or sell some or all of their shares and apply the proceeds to repay the loan. Shares remain restricted until the loan is repaid.<br>If the value of the shares is less than the outstanding loan balance at the end of the performance period, or if the 'earnings gateway' is not achieved, the senior manager surrenders and forfeits the shares to the Company in full settlement of the loan balance and no benefit accrues to the senior manager. This is known as a 'non-recourse loan'.<br>In respect of the 2011 LTEIP grant, loans will become repayable by participants to the Company following testing of the relative TSR performance condition. As at the date of this report the value of these loans is $5,915,000. However the final value of the loans to be repaid will not be known until after the relative TSR has been tested and any resulting debt forgiveness has been calculated. This testing commences after the release of the 2014 results. This will be communicated at the AGM and full details will be set out in the Company's 2015 remuneration report.</td></tr>
<tr><td>Why is a non-recourse loan provided?</td><td>The Board has structured the remuneration policy for senior managers to include a significant proportion of 'at-risk' pay under the LTEIP. Accordingly, where the outstanding loan at the end of the performance period exceeds the value of the shares, or if the 'earnings gateway' is not achieved, the Board believes the loss of any remuneration value from the LTEIP in these circumstances is a sufficient penalty to the senior managers.</td></tr>
</table>

| Structure of awards (including how the loan operates) | |
|---|---|
| What are the participation levels for Executives? | The amount of the loan offered to each participant is based on the relevant long term incentive component target amount of their remuneration multiplied by an externally determined 'value' (calculated using an adjusted Black-Scholes option pricing valuation model).<br>Details of Executives' participation opportunities are set out in section 5.1. |
| How are shares acquired for allocation to Executive Directors under the LTEIP? | The Company has the flexibility under the LTEIP Rules to acquire shares on-market, issue new shares or reallocate forfeited shares to participants in the Plan.<br>For the offer to the CEO and the CFO under the LTEIP to be made in December 2014 (which is subject to shareholder approval at the 2014 AGM), the Company proposes to issue new shares in order to conserve cash. |
| **Cessation of employment or a change of control** | |
| What happens if a LTEIP participant ceases employment prior to vesting and repayment of the loan? | In general, all shares are forfeited and surrendered in full settlement of the loan if a participant ceases employment prior to the end of the performance period. The Board, however, has absolute discretion in appropriate circumstances to determine that some or all of a participant's LTEIP shares may vest, and that some or the entire loan forgiveness amount may be granted. The Board has not exercised their discretion to apply good leaver status to any departing Executives in the 2014 plan year. |
| Is there ability to 'claw back' in appropriate circumstances? | See section 4.2 for details on the Company's formal Clawback Policy. |
| How would a change of control of the Group impact on LTEIP entitlements? | The Board has absolute discretion in relation to LTEIP entitlements on a change of control, which it would exercise in the best interests of shareholders. If the Board does not exercise its discretion, the LTEIP rules provide that all shares vest and all loans become immediately repayable, with the outstanding loan balances reduced by the default level of debt forgiveness (which is currently set at 20 per cent). |
| **Hedging policy** | |
| Do any restrictions apply on LTEIP shares prior to vesting? | The Company has a policy that prohibits senior managers from entering into an arrangement to limit the risk attached to (i.e. hedging) LTEIP shares prior to vesting (i.e. prior to the relevant performance conditions being met) or while they continue to be subject to restrictions under the LTEIP.<br>DuluxGroup treats compliance with this policy as a serious issue and takes appropriate measures to ensure policy adherence. |

**Illustrative example of how LTEIP works**

The following example is based on an executive resident in Australia and assumes that:

- Initial share price at grant date is $5 and 15,000 shares are allocated (i.e. initial loan of $75,000).
- Total dividends paid of $2,400, less 46.5 per cent to cover the participants' individual tax obligations.
- Case A – EPS gateway achieved and relative TSR ranks at the 60th percentile (i.e. 17.5 per cent loan forgiveness), share price at the vesting date is $8.
- Case B – EPS gateway achieved but relative TSR ranks below the 51st percentile (i.e. no loan forgiveness), share price at vesting date is $6.
- Case C – EPS gateway not achieved and relative TSR ranks above the 75th percentile, share price at the vesting date is $8.

| | Case A<br>$ | Case B<br>$ | Case C<br>$ |
|---|---|---|---|
| Initial loan | 75,000 | 75,000 | 75,000 |
| Less net dividends applied to loan balance | (1,284) | (1,284) | (1,284) |
| Less loan forgiveness[1,2] | (13,125) | - | - |
| Outstanding loan balance | 60,591 | 73,716 | 73,716 |
| Value of shares awarded at vesting | 120,000 | 90,000 | N/A |
| Less outstanding loan balance | (60,591) | (73,716) | N/A |
| Value of LTEIP to the executive as at valuation date | 59,409 | 16,284 | N/A |

(1) This amount is determined net of interest charges.

(2) In addition the Company incurs fringe benefits tax on the loan forgiveness.

## 6. DETAILS OF EXECUTIVE REMUNERATION

Details of Executive remuneration are set out in the table below. For the first time since the Company listed on the Australian Securities Exchange (ASX) in July 2010, shares allocated under the 2010 LTEIP grant vested in the financial year ended 30 September 2014 and, following testing in November 2013, the achievement of relative Total Shareholder Return at the 93rd percentile over the performance period resulted in maximum loan forgiveness being awarded. In accordance with the terms of the Plan, the fringe benefits tax payable on the loan forgiveness in respect of the vested shares (which constitutes part of the overall remuneration benefit available to executives under LTEIP) was paid by the Company for all participants. For the eligible Executives, this benefit has been included in the "Other Benefits" column in the table below.

*Table 6*

| | | Short-term employee benefits | | | Post employment benefits | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| For the financial year ended 30 September 2014 | FY | FAR[1,2] $ | STI payment[3] $ | Other benefits[4] $ | Superannuation benefits[5] $ | Other long term benefits[6] $ | Total excluding share-based payment expense $ | Share based payment expense[7] $ | Total $ | % performance related remuneration[8,9] | % of remuneration consisting of options[10,11] |
| **Executive Directors** | | | | | | | | | | | |
| Patrick Houlihan | 2014 | 1,058,349 | 807,145 | 740,813 | 18,027 | 40,100 | 2,664,434 | 691,123 | 3,355,557 | 45% | 21% |
| | 2013 | 1,001,760 | 828,100 | 3,840 | 16,796 | 43,156 | 1,893,652 | 731,268 | 2,624,920 | 59% | 28% |
| Stuart Boxer | 2014 | 600,724 | 308,542 | 202,233 | 18,027 | 12,358 | 1,141,884 | 204,867 | 1,346,751 | 38% | 15% |
| | 2013 | 570,704 | 311,639 | 5,789 | 16,796 | 12,901 | 917,829 | 193,052 | 1,110,881 | 45% | 17% |
| **Other Executives** | | | | | | | | | | | |
| Patrick Jones | 2014 | 500,724 | 265,230 | 122,797 | 18,027 | 16,046 | 922,824 | 169,634 | 1,092,458 | 40% | 16% |
| | 2013 | 476,204 | 263,079 | 17,927 | 16,796 | 15,745 | 789,751 | 124,689 | 914,440 | 42% | 14% |
| Brad Hordern | 2014 | 406,974 | 200,667 | 103,240 | 18,027 | 9,306 | 738,214 | 106,847 | 845,061 | 36% | 13% |
| | 2013 | 389,454 | 192,629 | 47,880 | 16,796 | 7,877 | 654,636 | 97,972 | 752,608 | 39% | 13% |
| Mike Kirkman[12] | 2014 | 199,863 | - | 25,021 | 8,887 | 7,854 | 241,625 | 33,919 | 275,544 | 12% | 12% |
| | 2013 | 373,304 | 145,416 | 29,304 | 16,796 | 6,548 | 571,368 | 30,940 | 602,308 | 29% | 5% |
| Martin Ward[13] | 2014 | 205,860 | 67,936 | (5,936) | 9,140 | 3,612 | 280,612 | 14,434 | 295,046 | 28% | 5% |
| **Total Remuneration** | **2014** | **2,972,494** | **1,649,520** | **1,188,168** | **90,135** | **89,276** | **5,989,593** | **1,220,824** | **7,210,417** | | |
| | 2013 | 2,811,426 | 1,740,863 | 104,740 | 83,980 | 86,227 | 4,827,236 | 1,177,921 | 6,005,157 | | |

The footnotes referred to in this table are set out on the following page.

# Directors' Report
## Remuneration Report (Audited) (continued)

Footnotes to Table 6:

(1) Fixed remuneration includes any salary sacrifice arrangements implemented by the Executives, including additional superannuation contributions.

(2) Details in relation to fixed remuneration increases during the year are set out in Section 3.2.

(3) STI payment includes payments relating to 2014 performance accrued but not paid.

(4) These benefits include relocation costs, medical costs, movement in annual leave accrual, spousal travel, insurances and costs associated with services related to employment (inclusive of any applicable fringe benefits tax) in addition to the fringe benefits tax paid on debt forgiveness for the 2010 LTEIP grant.

(5) Executives receive a statutory superannuation contribution up to a threshold limit in line with the Australian Taxation Office (ATO) published maximum superannuation contribution base.

(6) This benefit includes the movement in long service leave accrual.

(7) This amount includes the value calculated under AASB 2 Share-based Payment. The share-based payment expense represents the charge incurred during the year in respect of current incentive allocations to Executives, being the July 2010, December 2011, December 2012 and December 2013 LTEIP grants. These accounting amounts are therefore not amounts actually received by Executives during the year. Whether Executives receive any value from the allocation of long term incentives in the future will depend on the performance of the Company's shares. The gateway and performance condition which determine whether or not long term incentives vest in the future and the value to be derived by participants is described in section 5.4.

(8) The percentages shown relate to accrued STI payments in 2014 and the value of the July 2010, December 2011, December 2012 and December 2013 LTEIP grants calculated under AASB 2 as a proportion of the Executive's total remuneration.

(9) After excluding the impact of the fringe benefits tax payable on the loan forgiveness associated with vesting of the 2010 LTEIP (being the first time since the Company listed on the ASX in July 2010 that shares allocated under the LTEIP have vested) from the eligible Executives' total remuneration, the adjusted '% performance related remuneration' are as follows: Mr Houlihan (58%), Mr Boxer (45%), Mr Jones (43%) and Mr Hordern (41%). These adjusted percentages have not been subject to audit.

(10) As explained in section 6.1, shares acquired under the LTEIP are treated as options for accounting purposes under the Australian Accounting Standards. The percentages shown relate to the value of the July 2010, December 2011, December 2012 and December 2013 LTEIP grants calculated under AASB 2 (and not the amounts actually received by Executives during the year) as a proportion of total remuneration.

(11) After excluding the impact of the fringe benefits tax payable on the loan forgiveness associated with vesting of the 2010 LTEIP (being the first time since the Company listed on the ASX in July 2010 that shares allocated under the LTEIP have vested) from the eligible Executives' total remuneration, the adjusted '% of remuneration consisting of options' are as follows: Mr Houlihan (27%), Mr Boxer (18%), Mr Jones (17%) and Mr Hordern (14%). These adjusted percentages have not been subject to audit.

(12) Mr Kirkman ceased being an Executive of DuluxGroup from 31 March 2014. The table includes his remuneration up until this date.

(13) Mr Ward became an Executive of DuluxGroup on 1 April 2014. The table includes his remuneration, including STI, from this date.

## 6.1. DuluxGroup equity instruments granted to Executives

Under the LTEIP, executives acquire shares in DuluxGroup Limited funded by a non-recourse loan from the Group as described in section 5.4. While shares are acquired under the plan for legal and taxation purposes, Australian Accounting Standards require the shares be treated as options for accounting purposes. As a result, the amounts receivable from Executives in relation to these loans are not recognised in the financial statements.

The number and value of notional options granted to DuluxGroup Executives under the LTEIP is set out below.

*Table 7*

| For the financial year ended 30 September 2014 | Number held at 1 October 2013[1,2] | Number granted during the year[2] | Number exercised during the year | Number lapsed during the year | Number held at 30 September 2014 | Number vested and exercisable at 30 September 2014[3] | Value of options at grant date issued during the year $[4] | Value of options included in compensation for the year $[5] |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Patrick Houlihan | 2,466,419 | 453,758 | (1,145,655) | - | 1,774,522 | 708,743 | 775,926 | 691,123 |
| Stuart Boxer | 651,494 | 175,280 | (317,873) | - | 508,901 | 179,026 | 299,729 | 204,867 |
| **Other KMP** | | | | | | | | |
| Patrick Jones | 418,749 | 146,067 | (128,536) | - | 436,280 | 157,543 | 249,775 | 169,634 |
| Brad Hordern | 332,957 | 79,850 | (140,026) | - | 272,781 | 81,904 | 136,544 | 106,847 |
| Mike Kirkman[6] | 111,027 | 79,850 | - | (190,877) | - | - | 136,544 | 33,919 |
| Martin Ward[7] | NA | NA | NA | NA | 49,906 | - | - | 14,434 |

(1) The combination of shares and the non-recourse loan provided to fund those shares constitutes an option under Australian Accounting Standards. These options vest over a period of approximately three years (three and a half years in relation to the 2010 grant made on demerger). Under the terms of the LTEIP, the loan must be repaid before the Executives can deal with the shares. Accordingly, the exercise period of these options is the loan repayment period, which commences following the testing of the performance condition typically in November after the annual results announcement and continues through to the end of the trading window in January of the following year. The options expire if the loan is not repaid within the repayment window.

(2) While shares are acquired under the plan for legal and taxation purposes, Australian Accounting Standards require that shares issued under employee incentive share plans in conjunction with non-recourse loans are accounted for as options. These shares are not subject to an exercise price. Refer to Table 8 of section 6.2 for details of non-recourse loans provided to eligible Executives for the sole purpose of acquiring shares in DuluxGroup Limited.

(3) Since the end of the reporting period, the shares granted on 2 December 2011 have met the applicable vesting condition and vested on 12 November 2014. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 28 November 2014 to 23 January 2015. The number of options that have vested and are not exercisable is NIL.

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

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

(6) Mr Kirkman ceased in the position on 31 March 2014. Accordingly, all notional options held pursuant to the LTEIP lapsed as at that date.

(7) Mr Ward commenced in the position on 1 April 2014. These notional options were granted while in his prior role. There were no changes to his holding while in his current role.

## 6.2. Loans to Executives under DuluxGroup long term incentive plans

*Table 8*

| For the financial year ended 30 September 2014 | Opening balance $ | Advances during the year $ | Loan forgiveness granted during the year $[1] | Repayments during the year $[2] | Closing balance $ | Interest free value $ | Highest indebtedness $ |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Patrick Houlihan | 6,897,761 | 2,423,068 | (883,300) | (1,968,735) | 6,468,794 | 522,138 | 6,772,404 |
| Stuart Boxer | 1,809,232 | 935,995 | (245,080) | (545,458) | 1,954,689 | 152,899 | 1,981,915 |
| **Other KMP** | | | | | | | |
| Patrick Jones | 1,224,795 | 779,998 | (99,102) | (240,791) | 1,664,900 | 125,090 | 1,688,241 |
| Brad Hordern | 962,428 | 426,399 | (107,960) | (245,218) | 1,035,649 | 83,800 | 1,371,904 |
| Mike Kirkman[3] | 406,048 | 426,399 | - | (832,447) | - | 25,229 | 828,547 |
| Martin Ward[4] | 266,498 | - | - | (2,670) | 263,828 | 10,494 | 266,498 |

(1) Constitutes loan forgiveness amounts under LTEIP in relation to the 2010 LTEIP grant.

(2) Constitutes repayment including after tax dividends paid on the shares applied against the loan, repayment of the loan on vesting of LTEIP and forfeiture of LTEIP options.

(3) Mr Kirkman ceased in the position on 31 March 2014. Accordingly all notional options held under LTEIP were forfeited as at that date in full satisfaction of the loan.

(4) Mr Ward commenced in the position on 1 April 2014. The table includes details of his LTEIP loan and related disclosures for the period following his appointment to 30 September 2014.

## 6.3. Share-based payment expenses

A share-based payment expense is recognised in the income statement over the vesting period. Repayments of share loans are recognised as share capital when the outstanding loan balance is repaid in full.

The share-based payment expense is measured at fair value at the grant date using an option valuation model. The valuation model used generates possible future share prices based on similar assumptions that underpin the Black-Scholes option pricing model. The assumptions underlying the options valuations are: (a) the exercise price of the option, (b) the life of the option, (c) the current price of the underlying securities, (d) the expected volatility of the share price, (e) the dividends expected on the shares, and (f) the risk-free interest rate for the life of the option.

*Table 9*

| Grant | Price of DuluxGroup Limited shares at valuation date | Expected volatility in share price | Dividends expected on shares | Risk free interest rate | Fair value per option at grant date$ |
|---|---|---|---|---|---|
| 2011 LTEIP grant (granted 2 December 2011) | $2.88 | 25.0% | NIL | 3.2% | 0.94 |
| 2012 LTEIP grant (granted 30 November 2012) | $3.50 | 22.5% | NIL | 2.6% | 0.99 |
| 2012 LTEIP grant (granted 28 June 2013) | $4.21 | 22.5% | NIL | 2.8% | 1.26 |
| 2013 LTEIP grant (granted 29 November 2013) | $5.45 | 22.5% | NIL | 3.0% | 1.71 |

## 7. EXECUTIVE SERVICE AGREEMENTS

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

*Table 10*

| Name | Term of agreement | Notice period by executive | Notice by Company and termination benefits[2] |
|---|---|---|---|
| **Executive Directors[1]** | | | |
| Patrick Houlihan | Open | 6 months | 12 months fixed annual remuneration |
| Stuart Boxer | Open | 6 months | 12 months fixed annual remuneration |
| **Other KMP** | | | |
| Patrick Jones | Open | 6 months | 12 months fixed annual remuneration |
| Brad Hordern | Open | 6 months | 12 months fixed annual remuneration |
| Martin Ward | Open | 6 months | 12 months fixed annual remuneration |

(1) Messrs Houlihan and Boxer may also terminate their agreement in the event of a ‘Fundamental Change’, which includes circumstances where there has been a substantial diminution of role and responsibility of the Executive, in which event they will be entitled to a payment equivalent to 12 months fixed annual remuneration.

(2) Maximum termination payment (inclusive of any payment in lieu of notice) if DuluxGroup terminates the Executive’s employment other than for cause.

Each of the Executives has agreed to restraints as part of their service agreements, which will apply upon cessation of their employment to protect the legitimate business interests of DuluxGroup. No separate amount is payable, over and above the contractual entitlements outlined above, in relation to these restraints.

# 8. NON-EXECUTIVE DIRECTORS' REMUNERATION

## 8.1. Policy and approach to setting fees

| | |
|---|---|
| Overview of policy | Non-Executive Directors receive a base fee in relation to their service as a director of the Board, and an additional fee for membership of or for chairing a committee.<br><br>The Chairman, taking into account the greater time commitment required, receives a higher fee but does not receive any additional payment for service on the respective committees.<br><br>In setting Non-Executive Directors' fees, the Board has formulated a remuneration policy based on external professional advice to pay fees that are competitive with comparable companies (those with a similar market capitalisation), at a level to attract and retain directors of the appropriate calibre and recognising the anticipated time commitments and responsibilities of directors.<br><br>In order to maintain independence and impartiality, Non-Executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Company performance. |
| Aggregate fees approved by shareholders | The Non-Executive Directors' fees (comprising base and committee fees inclusive of superannuation) have been set by the Board within the maximum aggregate amount of $1,500,000 per annum as approved by DuluxGroup's sole shareholder immediately prior to demerger in 2010.<br><br>At the AGM, the Board will seek shareholder approval to increase the Non-Executive Directors' fee pool by an amount of $150,000 to $1,650,000 per annum, the first time shareholders have been asked to approve an increase since 2010. The increase is being sought to provide the Company with the flexibility to recruit another Director (should the Board decide in the future) and to allow for any potential growth in remuneration in future years to reflect market competitiveness. |
| Alignment with shareholders | The Board has adopted a minimum shareholding policy that applies to Non-Executive Directors, details of which are set out in section 4.3. |
| Reviews | Non-Executive director fees are reviewed annually and set and approved by the Board based on independent advice received from external remuneration consultants from time to time.<br><br>A review of Non-Executive Director fees was undertaken in respect of the 2014 financial year. Within the shareholder approved maximum aggregate fee amount, the Board approved an increase of 3 per cent to the fees for Non-Executive Directors so as to ensure these fees remain competitive with comparable companies (utilising benchmark data provided by PwC), and reflect the calibre, time commitment and responsibilities of the Directors (particularly in the context of changes to the Company over time, including the acquisition of Alesco and the increase in market capitalisation). |
| Base fees and travel allowance | Following the review earlier this year, the Board approved the following base fees effective 1 January 2014 (inclusive of statutory superannuation): (see table below) |

| Base fees | | |
|---|---|---|
| Non-Executive Chairman [1] | $393,500 | |
| Non-Executive Director | $146,000 | |
| **Committee fees** | **Committee chair** | **Committee member** |
| Audit and Risk Committee | $29,150 | $14,050 |
| Remuneration and Nomination Committee | N/A [1] | $11,700 |
| Safety and Sustainability Committee | $18,750 | $11,700 |

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

The Directors do not receive any retirement allowances.

In addition, Non-Executive Directors are paid a travel allowance of $2,500 per return trip for international travel where the journey includes a one way international trip in excess of 6 hours.

## 8.2. Remuneration for 2014

Details of Non-Executive Director remuneration are set out in the following table:

*Table 11*

| Non-Executive Directors | Year | Directors Base Fees $ | Audit & Risk Committee $ | Safety & Sustainability Committee $ | Rem & Nom Committee $ | Superannuation[1] $ | Other Benefits[2] $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| Peter Kirby (Chairman) | 2014 | 380,699 | - | - | - | 9,013 | 2,500 | 392,212 |
| | 2013 | 363,569 | - | - | - | 12,026 | 2,500 | 378,095 |
| Gaik Hean Chew | 2014 | 132,269 | - | 16,981 | 10,600 | 14,887 | 105,000[3] | 279,737 |
| | 2013 | 127,747 | - | 16,376 | 10,235 | 13,989 | 105,000[3] | 273,347 |
| Garry Hounsell | 2014 | 132,269 | 26,404 | - | 10,600 | 16,408 | 22,500[4] | 208,181 |
| | 2013 | 129,887 | 25,928 | - | 10,407 | 12,078 | 2,500 | 180,800 |
| Andrew Larke | 2014 | 136,592 | 13,071 | - | 10,887 | 9,537 | 22,500[4] | 192,587 |
| | 2013 | 130,174 | - | - | - | 9,151 | 2,500 | 141,825 |
| Judith Swales | 2014 | 132,269 | 12,727 | 10,600 | - | 14,491 | 2,500 | 172,587 |
| | 2013 | 127,747 | 11,782 | 10,235 | - | 13,573 | 2,500 | 165,837 |
| **Total Non-Executive Directors** | **2014** | **914,098** | **52,202** | **27,581** | **32,087** | **64,336** | **155,000** | **1,245,304** |
| | 2013 | 879,124 | 37,710 | 26,611 | 20,642 | 60,817 | 115,000 | 1,139,904 |

(1) From January 2013 Directors' base and committee fees are inclusive of Superannuation contributions. Individual superannuation entitlements are dependent on Directors' individual arrangements and the timing of payment of Directors' fees.

(2) These benefits include travel allowances payable to Non-Executive Directors.

(3) This benefit represents Ms Chew's allowance for international travel totaling $17,500 (2013 $17,500), her fees of $43,750 (2013 $43,750) as a Director of DGL Camel International Limited (a subsidiary of the Company) and remuneration of $43,750 (2013 $43,750) in respect of an ongoing consulting services agreement to assist the Group in seeking strategic growth opportunities in Asia.

(4) This benefit to Messrs Larke and Hounsell represents an allowance for international travel of $2,500 (2013 $2,500) each and payments of $20,000 each during 2014 for the additional workload associated with being members of the special Board Committee formed in relation to the Company's US Private Placement issue. The amounts were payable following completion of the transaction.

# Auditor's Independence Declaration

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

To: the directors of DuluxGroup Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2014 there have been:

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

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

KPMG

Alison Kitchen
*Partner*

Melbourne

12 November 2014

# Consolidated Income Statement
## For the financial year ended 30 September:

| | Notes | 2014 $'000 | 2013 Restated[1] $'000 |
|---|---|---|---|
| Revenue | | **1,611,490** | 1,484,563 |
| Other income | 5 | **6,209** | 10,533 |
| **Expenses** | | | |
| Changes in inventories of finished goods and work in progress | | **(8,727)** | (4,611) |
| Raw materials and consumables used and finished goods purchased for resale | | **667,553** | 618,619 |
| Employee benefits expense | | **367,217** | 334,107 |
| Depreciation and amortisation expense | 6 | **35,181** | 32,303 |
| Purchased services | | **179,394** | 177,727 |
| Repairs and maintenance | | **11,961** | 11,452 |
| Lease payments - operating leases | | **48,510** | 46,175 |
| Outgoing freight | | **62,707** | 61,076 |
| Other expenses[2] | | **79,770** | 94,542 |
| Share of net profit of joint venture accounted for using the equity method | 13 | **(995)** | (1,181) |
| | | **1,442,571** | 1,370,209 |
| **Profit from operations** | | **175,128** | 124,887 |
| Finance income | | **601** | 366 |
| Finance expenses | 6 | **(26,783)** | (28,439) |
| **Net finance costs** | | **(26,182)** | (28,073) |
| **Profit before income tax expense** | | **148,946** | 96,814 |
| Income tax expense | 9 | **(46,124)** | (33,201) |
| **Profit for the financial year** | | **102,822** | 63,613 |

| | | | |
|---|---|---|---|
| **Attributable to:** | | | |
| Ordinary shareholders of DuluxGroup Limited | | **104,528** | 74,998 |
| Non-controlling interest in controlled entities | | **(1,706)** | (11,385) |
| **Profit for the financial year** | | **102,822** | 63,613 |

| | | cents | cents |
|---|---|---|---|
| **Earnings per share** | | | |
| Attributable to ordinary shareholders of DuluxGroup Limited: | | | |
| Basic earnings per share | 7 | **28.1** | 20.6 |
| Diluted earnings per share | 7 | **27.5** | 20.1 |

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

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).
(2) Other expenses largely comprises commissions, royalties, impairment losses and other fixed and variable costs.

# Consolidated Statement of Comprehensive Income
## For the financial year ended 30 September:

| | 2014 $'000 | 2013 Restated[1] $'000 |
|---|---|---|
| **Profit for the financial year** | **102,822** | 63,613 |
| | | |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to the income statement** | | |
| Effective portion of changes in fair value of cash flow hedges | **(1,523)**[2] | 97 |
| Foreign currency translation gain on foreign operations | **2,240** | 12,286 |
| Income tax on items that may be reclassified subsequently to the income statement | **457** | (29) |
| **Total items that may be reclassified subsequently to the income statement, net of tax** | **1,174** | 12,354 |
| | | |
| **Items that will not be reclassified to the income statement** | | |
| Actuarial (losses)/gains on defined benefit plan | **(6,139)** | 9,689 |
| Revaluation of other financial assets at fair value through other comprehensive income | **-** | (940) |
| Income tax on items that will not be reclassified to the income statement | **1,842** | (2,907) |
| **Total items that will not be reclassified to the income statement, net of tax** | **(4,297)** | 5,842 |
| **Other comprehensive income for the financial year, net of tax** | **(3,123)** | 18,196 |
| **Total comprehensive income for the financial year** | **99,699** | 81,809 |
| | | |
| **Attributable to:** | | |
| Ordinary shareholders of DuluxGroup Limited | **102,511** | 90,373 |
| Non-controlling interest in controlled entities | **(2,812)** | (8,564) |
| **Total comprehensive income for the financial year** | **99,699** | 81,809 |

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

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

(2) Includes, ($1,940,000) related to the hedges associated with the United States Private Placement (USPP), refer to Note 17.

# Consolidated Balance Sheet
## As at 30 September:

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **35,118** | 46,374 |
| Trade and other receivables | 10 | **232,969** | 226,666 |
| Inventories | 11 | **203,739** | 195,779 |
| Derivative financial assets | | **507** | 298 |
| Other assets | | **7,269** | 6,211 |
| **Total current assets** | | **479,602** | 475,328 |
| **Non-current assets** | | | |
| Trade and other receivables | 10 | **30** | 96 |
| Derivative financial assets | | **11,715** | - |
| Investment accounted for using the equity method | | **5,423** | 4,678 |
| Property, plant and equipment | 14 | **261,994** | 263,809 |
| Intangible assets | 15 | **224,916** | 235,758 |
| Deferred tax assets | 9 | **48,046** | 48,906 |
| Other assets | | **3,372** | 4,231 |
| **Total non-current assets** | | **555,496** | 557,478 |
| **Total assets** | | **1,035,098** | 1,032,806 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **251,282** | 248,401 |
| Interest-bearing liabilities | 17 | **14,765** | 15,707 |
| Derivative financial liabilities | | **-** | 2 |
| Current tax liabilities | | **10,657** | 14,915 |
| Provisions | 16 | **28,129** | 37,124 |
| **Total current liabilities** | | **304,833** | 316,149 |
| **Non-current liabilities** | | | |
| Trade and other payables | 12 | **292** | - |
| Interest-bearing liabilities | 17 | **366,092** | 419,372 |
| Deferred tax liabilities | 9 | **16,972** | 17,802 |
| Provisions | 16 | **40,780** | 40,249 |
| Defined benefit liability | 18 | **14,468** | 8,266 |
| **Total non-current liabilities** | | **438,604** | 485,689 |
| **Total liabilities** | | **743,437** | 801,838 |
| **Net assets** | | **291,661** | 230,968 |
| **Equity** | | | |
| Contributed equity | 20 | **228,489** | 193,383 |
| Reserves | 21 | **(91,397)** | (92,717) |
| Retained earnings[1] | | **152,638** | 125,559 |
| **Total equity attributable to ordinary shareholders of DuluxGroup Limited** | | **289,730** | 226,225 |
| **Non-controlling interest in controlled entities** | | **1,931** | 4,743 |
| **Total equity** | | **291,661** | 230,968 |

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

(1) The retained earnings of the consolidated entity includes the profits reserve of the parent entity, DuluxGroup Limited. For details of the parent entity's stand alone profits reserve, refer to Note 31.

# Consolidated Statement of Changes in Equity

## For the financial year ended 30 September 2014

| | Total equity attributable to ordinary shareholders of DuluxGroup Limited | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Contributed equity | | | | | | | | | |
| | Share capital $'000 | Treasury shares $'000 | Share-based payments reserve $'000 | Cash flow hedge reserve $'000 | Foreign currency translation reserve $'000 | Common control reserve $'000 | Retained earnings $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
| **Balance at 1 October 2013** | 201,099 | (7,716) | 7,514 | 1 | (2,530) | (97,702) | 125,559 | 226,225 | 4,743 | 230,968 |
| Profit for the financial year | - | - | - | - | - | - | 104,528 | 104,528 | (1,706) | 102,822 |
| Other comprehensive income, net of tax | - | - | - | (1,066) | 3,346 | - | (4,297) | (2,017) | (1,106) | (3,123) |
| **Total comprehensive income for the financial year** | **-** | **-** | **-** | **(1,066)** | **3,346** | **-** | **100,231** | **102,511** | **(2,812)** | **99,699** |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Shares issued under the DuluxGroup dividend reinvestment plan | 24,206 | - | - | - | - | - | - | 24,206 | - | 24,206 |
| Share-based payments | - | - | 3,449 | - | - | - | - | 3,449 | - | 3,449 |
| Shares vested under the LTEIP and ESIP | 10,809 | 91 | (4,409) | - | - | - | - | 6,491 | - | 6,491 |
| Dividends paid | - | - | - | - | - | - | (73,152) | (73,152) | - | (73,152) |
| **Balance at 30 September 2014** | **236,114** | **(7,625)** | **6,554** | **(1,065)** | **816** | **(97,702)** | **152,638** | **289,730** | **1,931** | **291,661** |

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

# Consolidated Statement of Changes in Equity
## For the financial year ended 30 September 2013

| | Total equity attributable to ordinary shareholders of DuluxGroup Limited | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Contributed equity | | | | | | | | | | |
| | Share Capital | Treasury shares | Share-based payments reserve | Cash flow hedge reserve | Foreign currency translation reserve | Common control reserve | Revaluation reserve - other financial assets | Retained earnings[(1)] | Total[(1)] | Non-controlling interest | Total equity[(1)] |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 October 2012** | 180,457 | (7,762) | 5,176 | (67) | (11,995) | (97,702) | (752) | 102,538 | 169,893 | 12,959 | 182,852 |
| Impact of change in accounting policy[(1)] | - | - | - | - | - | - | - | 1,749 | 1,749 | - | 1,749 |
| **Restated balance at 1 October 2012** | **180,457** | **(7,762)** | **5,176** | **(67)** | **(11,995)** | **(97,702)** | **(752)** | **104,287** | **171,642** | **12,959** | **184,601** |
| Profit for the financial year | - | - | - | - | - | - | - | 74,998 | 74,998 | (11,385) | 63,613 |
| Other comprehensive income, net of tax | - | - | - | 68 | 9,465 | - | (940) | 6,782 | 15,375 | 2,821 | 18,196 |
| **Total comprehensive income for the financial year** | **-** | **-** | **-** | **68** | **9,465** | **-** | **(940)** | **81,780** | **90,373** | **(8,564)** | **81,809** |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | | |
| Shares issued under the DuluxGroup dividend reinvestment plan | 20,584 | - | - | - | - | - | - | - | 20,584 | - | 20,584 |
| Share-based payments | - | - | 2,381 | - | - | - | - | - | 2,381 | - | 2,381 |
| Shares vested under ESIP | 58 | 46 | (43) | - | - | - | - | - | 61 | - | 61 |
| Transfer of reserve to retained earnings[(2)] | - | - | - | - | - | - | 1,692 | (1,692) | - | - | - |
| Finalisation of non-controlling interest on acquisition of a subsidiary[(3)] | - | - | - | - | - | - | - | - | - | 348 | 348 |
| Dividends paid | - | - | - | - | - | - | - | (58,816) | (58,816) | - | (58,816) |
| **Balance at 30 September 2013** | **201,099** | **(7,716)** | **7,514** | **1** | **(2,530)** | **(97,702)** | **-** | **125,559** | **226,225** | **4,743** | **230,968** |

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

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

(2) The revaluation of Alesco Corporation Limited (Alesco) shares previously held at fair value was transferred to retained earnings after the successful acquisition of Alesco and its controlled entities (collectively 'Alesco Group').

(3) During the year ended 30 September 2013 as part of the acquisition accounting process, the fair value of shares issued in DGL Camel International Limited were subsequently amended.

# Consolidated Statement of Cash Flows
## For the financial year ended 30 September:

| | Notes | **2014 $'000** | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **1,768,497** | 1,663,462 |
| Payments to suppliers and employees | | **(1,575,029)** | (1,492,657) |
| Interest received | | **601** | 366 |
| Interest paid | | **(25,912)** | (23,498) |
| Income taxes paid | | **(48,004)** | (30,559) |
| Insurance recoveries | | **-** | 1,040 |
| **Net cash inflow from operating activities** | 4 | **120,153** | 118,154 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(27,468)** | (25,805) |
| Payments for intangible assets | | **(3,084)** | (3,137) |
| Payments for purchase of businesses and controlled entities, net of cash acquired | | **(950)** | (145,369) |
| Proceeds from joint venture distributions | | **250** | 250 |
| Proceeds from disposal of business | | **10,776** | 2,967 |
| Proceeds from sale of property, plant and equipment | | **473** | 9,493 |
| Proceeds from price adjustment on purchase of controlled entities | | **710** | - |
| **Net cash outflow from investing activities** | | **(19,293)** | (161,601) |
| **Cash flows from financing activities** | | | |
| Proceeds from short term borrowings | | **8,306** | 38,127 |
| Repayments of short term borrowings | | **(9,824)** | (112,172) |
| Proceeds from long term borrowings | | **5,363,565** | 4,130,381 |
| Repayments of long term borrowings | | **(5,432,575)** | (3,957,872) |
| Proceeds from employee share plan repayments | | **6,830** | 998 |
| Dividends paid (net of shares issued as part of DuluxGroup's dividend reinvestment plan) | | **(48,946)** | (38,232) |
| **Net cash (outflow)/inflow from financing activities** | | **(112,644)** | 61,230 |
| **Net (decrease)/increase in cash held** | | **(11,784)** | 17,783 |
| **Cash at the beginning of the financial year** | | **46,374** | 28,508 |
| Effects of exchange rate changes on cash | | **528** | 83 |
| **Cash at the end of the financial year** | | **35,118** | 46,374 |

**Reconciliation of cash**

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | | |
|---|---|---|
| Cash at bank and on hand | **35,118** | 43,529 |
| Cash at bank - restricted[1] | **-** | 2,845 |
| | **35,118** | 46,374 |

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

(1) DuluxGroup operates a customer loyalty programme, which was managed on behalf of DuluxGroup by a third party. Under the terms of this arrangement, DuluxGroup was required to maintain sufficient funds in a programme specific bank account to honour in full the potential redemption value of rewards by customers. The ability to use this cash was contractually restricted and was therefore presented separately. During the year, management of this programme was transferred back to the DuluxGroup.

# Notes to the Consolidated Financial Statements
## For the financial year ended 30 September 2014

## 1 Accounting policies

The significant accounting policies adopted in preparing the consolidated financial statements of DuluxGroup Limited (the Company) and of its controlled entities (collectively 'the consolidated entity' or 'the Group' or 'DuluxGroup') are stated below to assist in a general understanding of this financial report. These policies have been consistently applied to all the years presented, unless otherwise stated.

**a) Basis of preparation**

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

The consolidated financial statements were approved by the Board of Directors on 12 November 2014 and are presented in Australian dollars, which is DuluxGroup Limited's functional and presentation currency.

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

**b) Comparatives**

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

**c) Consolidation**

The DuluxGroup consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its subsidiaries as defined in AASB 127 Consolidated and Separate Financial Statements.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances, transactions and unrealised profits arising within DuluxGroup are eliminated in full.

**d) Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred (including cash), the liabilities incurred and the equity interests issued by the DuluxGroup (if any). Acquisition related transaction costs are expensed as incurred.

Other than acquisitions under common control, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

On an acquisition-by-acquisition basis, DuluxGroup recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

For acquisitions occurring while under common control and for consolidation purposes, the assets and liabilities acquired continue to reflect the carrying values in the accounting records of the consolidated group prior to the business combination occurring.

**e) New Accounting Standards and Interpretations**

Except as described below, the accounting policies applied by DuluxGroup in these consolidated financial statements are the same as those applied by DuluxGroup Limited in its financial statements for the financial year ended 30 September 2013.

## 1 Accounting policies (continued)

**e) New Accounting Standards and Interpretations (continued)**

DuluxGroup has adopted the following new and amended accounting standards.

| Reference | Title | Application |
|---|---|---|
| AASB 10, AASB 2011-7 | Consolidated financial statements | 1 Oct 2013 |
| AASB 11 | Joint arrangements | 1 Oct 2013 |
| AASB 12 | Disclosure of interests in other entities | 1 Oct 2013 |
| AASB 127 | Separate financial statements | 1 Oct 2013 |
| AASB 128 | Investments in associates and joint ventures | 1 Oct 2013 |
| AASB 2011-4 | Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements | 1 Oct 2013 |
| AASB 119, AASB 2011-10 | Employee benefits | 1 Oct 2013 |
| AASB 2012-10 | Amendments to Australian accounting standards - transition guidance and other amendments | 1 Oct 2013 |
| AASB CF2013 -1 | Amendments to Australian Accounting Standards conceptual framework | 1 Oct 2013 |
| AASB 2013-9 | Part A: conceptual framework - amendments to Australian accounting standards conceptual framework, materiality and financial instruments | 1 Oct 2013 |
| AASB 2012-9 | Amendments to AASB 1048 arising from the withdrawal of Australian interpretation 1039 | 1 Oct 2013 |
| AASB 2012-11 | Amendments to Australian accounting standards - reduced disclosure requirements and other amendments | 1 Oct 2013 |
| AASB 2013-6 | Amendments to AASB 136 - Impairment of assets | 1 Oct 2013 |
| AASB 2014-1 | Amendments to Australian Accounting Standards | |
| | Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles | 1 Oct 2013 |
| | Part B: Defined benefit plans: employee contributions (amendments AASB 119) | 1 Oct 2013 |
| AASB 2014-3 | Amendments to Australian Accounting Standards - Accounting for acquisitions of interests in joint operations | 1 Oct 2013 |
| AASB 2014-4 | Amendments to Australian Accounting Standards - Clarification of acceptable methods of depreciation and amortisation | 1 Oct 2013 |

Other than outlined below, the adoption of these standards did not have a significant impact on the consolidated financial statements and has impacted disclosures only.

**AASB 119 Employee Benefits**
From 1 October 2013 the Group applied the revised AASB 119 Employee Benefits. Under this revised standard the defined benefit expense no longer includes the expected return on the plan's assets. This expected return is replaced by a net interest income or expense, calculated using a discount rate applied to the net defined benefit asset or liability. In addition, a gross rather than net of investment tax discount rate is used to determine the net defined benefit liability and service cost component of the defined benefit expense.

The transitional provisions of the revised standard require that it is adopted retrospectively. Accordingly adjustments to the net defined benefit liability have been recognised at the beginning of the earliest comparative period presented (1 October 2012) and the income statement and statement of comprehensive income have also been restated for the comparative period.

There is no impact on the balance sheet as at 30 September 2013 as the net defined benefit liability was already determined based on the gross discount rate at 30 September 2013.

The impact of these adjustments is summarised in the tables below. Line items that were not affected by the change are not disclosed. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

## 1 Accounting policies (continued)

**e) New Accounting Standards and Interpretations (continued)**

**AASB 119 Employee Benefits (continued)**

| | Reported 30 Sep 13 $'000 | Opening balance restatement 1 October 2012 $'000 | Impact of change $'000 | Restated 30 Sep 13 $'000 |
|---|---|---|---|---|
| **Consolidated Income Statement** | | | | |
| Employee benefits expense | 331,836 | - | 2,271 | 334,107 |
| Finance expenses | 27,956 | - | 483 | 28,439 |
| Income tax expense | 34,027 | - | (826) | 33,201 |
| **Profit for the financial year** | **65,541** | - | **(1,928)** | **63,613** |
| | | | | |
| **Consolidated statement of Comprehensive Income** | | | | |
| Items that will not be reclassified to the income statement | | | | |
| Actuarial gains on defined benefit plan | 9,433 | - | 256 | 9,689 |
| Income tax on items that will not be reclassified to the income statement | (2,830) | - | (77) | (2,907) |
| **Total comprehensive income for the financial year** | **83,558** | - | **(1,749)** | **81,809** |
| | | | | |
| **Consolidated Balance Sheet** | | | | |
| Deferred tax assets | 48,906 | (749) | 749 | 48,906 |
| Defined benefit liability | 8,266 | (2,498) | 2,498 | 8,266 |
| **Net assets** | **230,968** | **(1,749)** | **1,749** | **230,968** |
| Retained earnings | 125,559 | (1,749) | 1,749 | 125,559 |
| **Total equity** | **230,968** | **(1,749)** | **1,749** | **230,968** |

**Issued but not yet effective**

The following Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been adopted for this annual reporting period. These standards are not expected to have a material impact on the Group's financial position and performance, however increased disclosures will be required in the Group's financial statements.

| Reference | Title | Application |
|---|---|---|
| AASB 9 | Financial Instruments | 1 Jan 2017 |
| AASB 2013-9 | Amendments to Australian accounting standards Conceptual Framework, Materiality and Financial Instruments; Part B: Materiality and Part C: Financial Instruments | 1 Jan 2015 |
| AASB 2014-1 | Amendments to Australian Accounting Standards | |
| | Part C: Materiality | 1 Jul 2015 |
| | Part E: Financial instruments | 1 Jul 2015 |

**f) Revenue recognition**

*Revenue from sale of goods*
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and customer rebates. External sales are recognised when the significant risks and rewards of ownership are transferred to the purchaser, recovery of the consideration is probable, the possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

## 1 Accounting policies (continued)

**f) Revenue recognition (continued)**

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

*Other income*
Profits and losses from sale of businesses, controlled entities and other non-current assets are recognised when there is a signed unconditional contract of sale. Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Dividends are recognised in the income statement when declared. Royalty income is recognised on sale of licensed product to the final customer.

**g) Finance income and expenses**

*Finance income*
Finance income includes interest income on funds invested and recognised in the income statement. Interest income is recognised using the effective interest method.

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

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

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

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

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

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

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

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

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

Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis at rates calculated to allocate the cost less the estimated residual value over the estimated useful life of each asset to the consolidated entity. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least annually.

## 1 Accounting policies (continued)

**j) Property, plant and equipment and depreciation (continued)**

Estimated useful lives of each class of asset are as follows:

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

Assets under construction are not depreciated until ready for use.

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

**k) Intangible assets and amortisation**

*Identifiable intangibles*

Amounts paid for the acquisition of software are capitalised at the fair value of consideration paid.

Amounts paid for the acquisition of other identifiable intangible assets (except for software) are capitalised at the fair value of consideration paid determined by reference to independent valuations.

Subsequent expenditure on capitalised identifiable intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Identifiable intangible assets with a finite life are amortised on a straight-line basis over their expected useful life to the consolidated entity as follows:

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

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

*Unidentifiable intangibles*

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

**l) Impairment of other assets**

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

The recoverable amount of an asset is determined as the higher of fair value less costs of disposal and value in use.

The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the Cash-Generating Unit (CGU) to which the asset belongs.

A CGU is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets with each CGU being no larger than a reportable segment.

When determining fair value less costs of disposal, DuluxGroup takes into account information from recent market transactions of a similar nature. If no such transactions can be identified, an appropriate valuation model is used. These are corroborated by other available market based information.

In calculating recoverable amount using a valuation model, estimated future cash flows based on Board approved budgets, four year business plans and related strategic reviews are discounted to their present values using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or CGU. Cash flow projections beyond the four year period are extrapolated using estimated growth rates, which are not expected to exceed the long term average growth rates in the applicable markets.

Cash flows used for value in use calculations are estimated for the asset in its present condition and therefore do not include cash inflows or outflows that improve or enhance the asset's performance or that may arise from future restructuring.

The pre-tax discount rate used for a:

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

## 1 Accounting policies (continued)

**l) Impairment of other assets (continued)**
The pre-tax discount rates applied in the discounted cash flow models range between 10% and 16% (2013: 11% and 14%). The average sales revenue compound annual growth rates applied in the discounted cash flow models range between 0% and 9% (2013: 0% and 10%).

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

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

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

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

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

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

*Leased premises restoration*
DuluxGroup is required to restore certain leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to restore these premises to an acceptable condition. These costs have been capitalised as part of the cost of buildings and leasehold improvements.

Where this provision is reassessed in subsequent reporting periods, to the extent possible, an equal and offsetting adjustment is made to the corresponding asset balance. Where the reassessment results in a decrease to the provision which exceeds the carrying value of the corresponding asset, any excess is recognised in the income statement.

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

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

*Bonuses*
A liability is recognised for bonuses on the achievement of predetermined bonus targets and the benefit calculations are formally documented and determined before signing the financial report.

*Share-based payments*
Shares issued under the Long Term Equity Incentive Plan (LTEIP) in conjunction with non-recourse loans are accounted for as options.

The options are externally measured at fair value at the date of grant using an option valuation model. This valuation model generates possible future share prices based on similar assumptions that underpin relevant option pricing models and reflects the fair value (as at grant date) of options granted.

The fair value determined at the grant date of the award is expensed in the income statement on a straight-line basis over the relevant vesting period. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

## 1 Accounting policies (continued)

**o) Employee entitlements (continued)**

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

**p) Foreign currency**

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

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

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

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

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

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

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

**q) Financial instruments - classification**
DuluxGroup classifies its financial assets into the following measurement categories:

*(i) Financial assets and liabilities at amortised cost*
A financial asset is classified as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective being to collect the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost are classified as 'Trade and other receivables' in the balance sheet (refer Note 10).

All financial liabilities are measured at amortised cost unless held for trading or designated as at fair value through profit or loss.

Financial liabilities at amortised cost are classified as 'Trade and other payables' (refer Note 12) and 'Interest-bearing liabilities' (refer Note 17) in balance sheet.

*(ii) Financial assets at fair value through other comprehensive income*
A financial asset is classified as fair value through other comprehensive income only if both of the following criteria are met:

- the asset is not held for trading; and
- an irrevocable election is made to recognise changes in fair value through other comprehensive income rather than profit or loss.

Changes to fair values are presented in the revaluation cash flow hedge reserve in equity. On disposal, the reserve amount is transferred to retained earnings.

*(iii) Financial assets and liabilities at fair value through profit and loss*
A financial asset is classified as fair value through profit or loss if it is:

- held for trading; or
- designated to this classification on initial recognition.

## 1 Accounting policies (continued)

**q) Financial instruments – classification (continued)**

*(iii) Financial assets and liabilities at fair value through profit and loss (continued)*
Financial assets are designated at fair value through profit or loss if the DuluxGroup manages such investments and makes purchase and sale decisions based on their fair value in accordance with the DuluxGroup's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend income, are recognised in profit or loss.

Financial assets classified as held for trading comprise short term sovereign debt securities actively managed by DuluxGroup's treasury department to address short term liquidity needs.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

A financial liability is classified in this category if it is acquired principally for the purpose of selling in the short term (held for trading) or if it is so designated by management.

Assets and liabilities in this category are classified as current if they are expected to be realised within 12 months of the balance sheet date.

**r) Financial instruments - hedging**
DuluxGroup uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. DuluxGroup does not hold or issue financial instruments for trading purposes. However, financial instruments that do not qualify for hedge accounting, but remain economically effective, are accounted for as held for trading in accordance with the requirements of AASB 9 *Financial Instruments*.

*Cash flow hedges*
Cash flow hedges are used to hedge exposures relating to borrowings and ongoing business activities, where there is a highly probable sale, purchase or settlement commitment in foreign currencies.

Where a financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the financial instrument is recognised in equity.

When the forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

For cash flow hedges other than those covered by the preceding policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs.

If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Changes in the fair value of a derivative hedging instrument designated in a fair value hedge of the exposure to changes in fair value of a recognised asset, liability or unrecognised firm commitment, is recognised in profit and loss. The hedged item is also stated at fair value in respect of the risk being hedged, the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

*Hedge of monetary assets and liabilities*
When a financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

*Interest rate option contracts*
Interest rate options are stated at fair value and classified as cash flow hedges if they are used to transfer floating rate debt into fixed rate debt. The portion of the gain or loss on the options that is determined to be an effective hedge is recognised directly in equity, with the remainder recognised in the income statement. All options are matched directly against the appropriate loans and interest expense and as such are considered highly effective.

## 1 Accounting policies (continued)

**r) Financial instruments – hedging (continued)**

*Derivatives not designated in a hedging relationship*
Certain derivative instruments do not qualify for hedge accounting, despite being commercially valid economic hedges of the relevant risks. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

**s) Financial instruments – impairment**
For financial assets carried at amortised cost, the amount of any loss is measured as the extent to which the asset's carrying amount exceeds the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

**t) Contributed equity**
Ordinary shares in DuluxGroup Limited are classified as contributed equity.

When share capital recognised as contributed equity is repurchased by the Company or its controlled entities, the amount of the consideration paid, including directly attributable costs is recognised as a deduction from total equity.

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

DuluxGroup has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by DuluxGroup.

Where ordinary shares are issued to the trust for the purpose of the employee share schemes, this ordinary share capital is not recognised on consolidation. Where shares are purchased on-market by the trust for the purpose of the employee share schemes, the purchase is accounted for as a buy-back and the amount is deducted from contributed equity as treasury shares on consolidation.

**u) Rounding**
The amounts shown in the financial report have been rounded off, except where otherwise stated, to the nearest thousand dollars with the Group being in a class specified in the ASIC Class Order 98/100 dated 10 July 1998.

## 2 Critical accounting estimates and judgements

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

**a) Provisions against current assets**
In the course of normal trading activities, management uses its judgement in establishing the net realisable value of various elements of working capital – principally inventory and trade receivables. Provisions are established for obsolete or slow moving inventories and bad or doubtful receivables. Actual expenses in future periods may be different from the provisions established and any such differences would affect future earnings of the Group.

**b) Property, plant and equipment and definite life intangible assets**
The Group's property, plant and equipment and intangible assets, other than indefinite life intangible assets, are depreciated/amortised on a straight-line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives of assets at least annually. Any changes to useful economic lives affect prospective depreciation rates and asset carrying values.

The useful life of intangible assets are assessed to be either finite or indefinite. Brand names that have indefinite lives are not amortised. Management use judgement in determining whether an individual brand name will have a finite life or an indefinite life. Management make this determination on the basis of brand strength, expectations of continuing profitability and future business commitments to these brands. If a brand is assessed to have a finite life, management will use judgement in determining the useful life.

## 2 Critical accounting estimates and judgements (continued)

**c) Impairment of assets**

Consistent with the impairment accounting policy assets are impaired when their carrying value exceeds their recoverable amount. The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate CGU. The recoverable amount of those assets, or CGUs, is measured as the higher of their fair value less costs of disposal and value in use. Management necessarily applies its judgement in allocating assets that do not generate independent cash inflows to appropriate CGUs.

The determination of recoverable amount requires the estimation and discounting of future cashflows. The estimation of cashflows considers all information available at balance date which may deviate from actual developments. This includes, amongst other things, changes in discount rates, terminal value growth rates applied in perpetuity, expected sales revenue growth rates in the forecast period, and earnings varying from the assumptions and forecast data used.

Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may impact the carrying value of the respective assets.

Management also applies judgement when determining the recoverable amount using fair value less costs of disposal. This judgement is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market based information less incremental costs for disposing of the assets.

**d) Environmental**

The Group is subject to a variety of laws and regulations in the jurisdictions in which it operates or maintains properties. Provisions for expenses that may be incurred in complying with such laws and regulations are set aside if environmental inquiries or remediation measures are probable and the costs can be reliably estimated. For sites where there are uncertainties with respect to what DuluxGroup's remediation obligations might be or what remediation techniques might be approved and no reliable estimate can presently be made of regulatory and remediation costs, no amounts have been provided for. It is also assumed that the methods planned for environmental clean-up will be able to treat the issues within the expected time frame.

It is difficult to estimate the future costs of environmental remediation because of many uncertainties, particularly with regard to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Significant factors in estimating the costs include previous experiences in similar cases, expert opinions regarding environmental programs, current costs and new developments affecting costs, management's interpretation of current environmental laws and regulations, the number and financial position of third parties that may become obligated to participate in any remediation costs on the basis of joint liability, and the remediation methods which are likely to be deployed.

Given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts provided.

**e) Business acquisitions**

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity.

The determination as to the existence of control or significant influence over an entity necessarily requires management judgement to assess the Group's ability to govern the financial and operating activities of an investee. In making such an assessment, a range of factors are considered including voting rights in an investee and Board and management representation.

A business acquisition also requires judgement with respect to the determination of the fair value of purchase consideration given and the fair value of identifiable net assets and liabilities acquired. Many of these assets and liabilities either given up or acquired are not normally traded in active markets, and thus management judgement is required in determining their fair values. Management judgement is also required in ascertaining the assets and liabilities which should be recognised, in particular with respect to intangible assets such as brand names, customer relationships, patents and trademarks and contingent liabilities.

## 2 Critical accounting estimates and judgements (continued)

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

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

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

**g) Warranty**
DuluxGroup generally offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated future warranty claims include information on future parts and changes in labour costs.

## 3 Segment report

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

The consolidated entity's operating segments have been updated from those presented at 30 September 2013 to reflect the new organisational structure that came into effect from during the second half of the financial year ended 30 September 2014.

The consolidated entity's policy is to transfer products internally at negotiated commercial prices. Other income includes insurance recoveries, royalties, rental income, profit on sale of property, plant and equipment and businesses, and net foreign exchange gains.

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

| Defined reportable segments | Products/services |
|---|---|
| Paints and Coatings Australia & New Zealand (ANZ) | Manufacture and supply of paints and other surface coatings to the decorative market in Australia and New Zealand for both consumer and professional markets. |
| Consumer & Construction Products ANZ | Manufacture and distribution of home improvement products for both consumer and professional markets and manufacture and supply of construction chemicals, decorative concrete solutions and related equipment in Australia and New Zealand. |
| Garage Doors & Openers | Manufacture and supply of a range of garage doors for domestic and commercial use as well as commercial and residential automatic openers in Australia and New Zealand. |
| Cabinet & Architectural Hardware | Distributor of hardware and components to the cabinet making industry and window, door and glazing fabricators in Australia. |
| Other businesses | Yates garden care and home improvement products, China and South East Asia specialty coatings and adhesives businesses, Papua New Guinea coatings business. In 2013 the segment also included the Robinhood kitchen and laundry appliance business, which was divested during the year ended 30 September 2013. |

# Notes to the Consolidated Financial Statements
For the financial year ended 30 September 2014 (continued)

## 3 Segment report (continued)

| Reportable segments 2014 $'000 | Paints & Coatings ANZ | Consumer & Construction Products ANZ | Garage Doors & Openers | Cabinet & Architectural Hardware | Other businesses | Total reportable segments | Unallocated[1] | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External revenue | 817,649 | 257,469 | 169,775 | 159,499 | 207,098 | 1,611,490 | - | 1,611,490 |
| Inter-segment revenue | 3,949 | 8,440 | - | 74 | 582 | 13,045 | (13,045) | - |
| Total revenue | 821,598 | 265,909 | 169,775 | 159,573 | 207,680 | 1,624,535 | (13,045) | 1,611,490 |
| Other income | 546 | 3 | 15 | (20) | 3,359 | 3,903 | 2,306 | 6,209 |
| Total revenue and other income | 822,144 | 265,912 | 169,790 | 159,553 | 211,039 | 1,628,438 | (10,739) | 1,617,699 |
| **Results** | | | | | | | | |
| Profit/(loss) before net financing costs and income tax expense | 138,882 | 29,838 | 18,212 | 8,944 | 2,979 | 198,855 | (23,727) | 175,128 |
| **Profit/(loss) from operations** | 138,882 | 29,838 | 18,212 | 8,944 | 2,979 | 198,855 | (23,727) | 175,128 |
| Finance income | | | | | | | | 601 |
| Finance expense | | | | | | | | (26,783) |
| **Profit before income tax expense** | | | | | | | | 148,946 |
| Income tax expense | | | | | | | | (46,124) |
| **Profit for the financial year** | | | | | | | | 102,822 |
| Segment assets | 408,306 | 154,676 | 156,844 | 80,820 | 120,302 | 920,948 | 114,150 | 1,035,098 |
| Segment liabilities | 175,402 | 41,468 | 26,493 | 25,022 | 47,536 | 315,921 | 427,516 | 743,437 |
| Investment accounted for using the equity method | - | - | - | - | 5,423 | 5,423 | - | 5,423 |
| Acquisitions of property, plant and equipment and intangible assets | 20,423 | 2,034 | 3,608 | 1,329 | 3,488 | 30,882 | - | 30,882 |
| Impairment of intangibles | - | - | - | - | 9,228 | 9,228 | - | 9,228 |
| Impairment/(reversal of impairment) of inventories | 148 | (383) | (127) | (135) | 1,009 | 512 | - | 512 |
| Impairment/(reversal of impairment) of trade and other receivables | 1,151 | 259 | 178 | (162) | 1,314 | 2,740 | - | 2,740 |
| Depreciation expense | 15,871 | 3,417 | 2,900 | 1,107 | 2,867 | 26,162 | 1,526 | 27,688 |
| Amortisation expense | 1,772 | 559 | 3,384 | 1,353 | 417 | 7,485 | 8 | 7,493 |
| Non-cash expenses other than depreciation and amortisation: | | | | | | | | |
| Share-based payments | 872 | 151 | 208 | 53 | 49 | 1,333 | 2,116 | 3,449 |
| Share of net profit of joint venture accounted for using the equity method | - | - | - | - | 995 | 995 | - | 995 |

[1] Comprises centrally managed income, costs, assets and liabilities relating to properties, tax, treasury, DuluxGroup's defined benefit pension plan and integration costs ($5,345,000) associated with the Alesco acquisition and reversal of the provision for contingent liabilities from business acquisitions relating to the Option Convertible Note (OCN) tax matter ($5,917,000).

Revenue from one of DuluxGroup's customers was approximately 23% (2013: 23%) of the total DuluxGroup revenue during the year ended 30 September 2014. This customer operated primarily within the Paints and Coatings Australia and New Zealand and the Consumer and Construction Products segments.

## 3 Segment report (continued)

| Reportable segments<br>2013<br>$'000 | Paints & Coatings ANZ | Consumer & Construction Products ANZ | Garage Doors & Openers | Cabinet & Architectural Hardware | Other businesses | Total reportable segments | Unallocated [1] | Consolidated [2] |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External revenue | 771,726 | 233,326 | 130,365 | 117,559 | 231,587 | 1,484,563 | - | 1,484,563 |
| Inter-segment revenue | 2,489 | 9,901 | - | - | 726 | 13,116 | (13,116) | - |
| Total revenue | 774,215 | 243,227 | 130,365 | 117,559 | 232,313 | 1,497,679 | (13,116) | 1,484,563 |
| Other income | 499 | 134 | 463 | 333 | (833) | 596 | 9,937 | 10,533 |
| Total revenue and other income | 774,714 | 243,361 | 130,828 | 117,892 | 231,480 | 1,498,275 | (3,179) | 1,495,096 |
| **Results** | | | | | | | | |
| Profit/(loss) before net financing costs and income tax expense | 123,925 | 26,235 | 12,310 | 4,132 | (12,141) | 154,461 | (29,574) | 124,887 |
| **Profit/(loss) from operations** | 123,925 | 26,235 | 12,310 | 4,132 | (12,141) | 154,461 | (29,574) | 124,887 |
| Finance income | | | | | | | | 366 |
| Finance expense | | | | | | | | (28,439) |
| **Profit before income tax expense** | | | | | | | | 96,814 |
| Income tax expense | | | | | | | | (33,201) |
| **Profit for the financial year** | | | | | | | | 63,613 |
| Segment assets | 386,029 | 150,270 | 169,436 | 81,115 | 133,913 | 920,763 | 112,043 | 1,032,806 |
| Segment liabilities | 166,297 | 39,643 | 24,978 | 23,080 | 53,289 | 307,287 | 494,551 | 801,838 |
| Investment accounted for using the equity method | - | - | - | - | 4,678 | 4,678 | - | 4,678 |
| Acquisitions of property, plant and equipment and intangible assets | 19,761 | 1,560 | 2,105 | 1,772 | 3,700 | 28,898 | 18 | 28,916 |
| Impairment of property, plant and equipment | - | - | - | - | 140 | 140 | - | 140 |
| Impairment of intangibles | - | - | - | - | 18,500 | 18,500 | - | 18,500 |
| Impairment of inventories | 1,360 | 695 | 146 | 185 | 700 | 3,086 | - | 3,086 |
| Impairment/(reversal of impairment) of trade and other receivables | 1,856 | 212 | (89) | 317 | 535 | 2,831 | - | 2,831 |
| Depreciation expense | 15,861 | 3,065 | 2,781 | 720 | 3,461 | 25,888 | 672 | 26,560 |
| Amortisation expense | 813 | 576 | 2,725 | 1,047 | 571 | 5,732 | 11 | 5,743 |
| Non-cash expenses other than depreciation and amortisation: | | | | | | | | |
| Share-based payments | 892 | 142 | - | - | 106 | 1,140 | 1,241 | 2,381 |
| Share of net profit of joint venture accounted for using the equity method | - | - | - | - | 1,181 | 1,181 | - | 1,181 |

[1] Comprises centrally managed income, costs, assets and liabilities relating to properties (including a gain on disposal of the O'Connor site in Western Australia of $8,149,000), tax, treasury, defined benefit pension plan and transaction costs ($6,305,000) and integrations costs ($9,563,000) associated with the Alesco acquisition.

[2] The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

## 3 Segment report (continued)

### Geographical information

Revenue from external customers is attributed to geographic location based on the location of customers. The revenue from external customers by geographical location is as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Australia | **1,320,784** | 1,204,328 |
| New Zealand | **176,911** | 159,967 |
| Other countries | **113,795** | 120,268 |
| | **1,611,490** | 1,484,563 |

The location of non-current assets other than financial assets, investments accounted for using the equity method, and deferred tax assets at the end of the financial year is as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Australia | **436,785** | 438,948 |
| New Zealand | **43,632** | 44,124 |
| Other countries | **9,865** | 20,726 |
| | **490,282** | 503,798 |

## 4 Reconciliation of profit for the financial year to net cash inflow from operating activities

| | 2014<br>$'000 | 2013<br>Restated[1]<br>$'000 |
|---|---|---|
| Profit for the financial year | **102,822** | 63,613 |
| Depreciation and amortisation | **35,181** | 32,303 |
| Share-based payment expense | **3,449** | 2,381 |
| Share of joint ventures' net profit | **(995)** | (1,181) |
| (Gain)/loss on disposal of business | **(3,714)** | 1,118 |
| Impairment of inventories | **512** | 3,086 |
| Impairment of trade and other receivables | **2,740** | 2,831 |
| Net loss/(gain) on sales of property, plant and equipment | **854** | (8,191) |
| Unrealised foreign exchange loss | **(73)** | 153 |
| Amortisation of prepaid loan establishment fees | **2,203** | 1,627 |
| Impairment of property, plant and equipment | **-** | 140 |
| Impairment of intangibles | **9,228** | 18,500 |
| Changes in working capital and provisions excluding the effects of acquisitions and disposals of businesses and controlled entities | | |
| (Increase)/decrease in trade and other receivables | **(14,692)** | 10,577 |
| Increase in inventories | **(9,012)** | (8,207) |
| (Increase)/decrease in other assets | **(260)** | 516 |
| Increase in deferred taxes payable | **3,457** | 962 |
| Decrease in trade payables and provisions | **(6,210)** | (3,754) |
| (Decrease)/increase in current tax liabilities | **(5,337)** | 1,680 |
| **Net cash inflow from operating activities** | **120,153** | 118,154 |

[1] The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

## 5 Other income

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit on disposal of a business [1] | **3,714** | - |
| Royalty income | **747** | 807 |
| Rental income | **404** | 450 |
| Net profit on sale of property, plant and equipment [2] | **-** | 8,191 |
| Other | **1,344** | 1,085 |
| | **6,209** | 10,533 |

(1) For the year ended 30 September 2014 this includes profit from the Opel business disposal of $3,714,000 (before restructuring costs of $2,798,000 relating to the exit of the business).
(2) For the year ended 30 September 2013, this largely comprises a gain on disposal of the O'Connor site in Western Australia of $8,149,000.

## 6 Expenses

Profit before income tax includes the following specific expenses:

| | 2014 $'000 | 2013 Restated [1] $'000 |
|---|---|---|
| *Depreciation and amortisation* | | |
| Depreciation | **27,688** | 26,560 |
| Amortisation | **7,493** | 5,743 |
| Total depreciation and amortisation expense | **35,181** | 32,303 |
| *Finance expenses* | | |
| Interest and finance charges paid/payable for financial liabilities not at fair value through profit and loss | **25,040** | 27,065 |
| Provisions: unwinding of discount | **1,743** | 1,374 |
| | **26,783** | 28,439 |
| Net loss on sale of property, plant and equipment | **854** | - |
| Net foreign exchange losses | **337** | 114 |
| Loss on disposal of a business | **-** | 1,118 |
| Research and development expense | **18,411** | 17,764 |
| *Impairment* | | |
| Property, plant and equipment | **-** | 140 |
| Intangibles | **9,228** | 18,500 |
| Inventories | **512** | 3,086 |
| Trade receivables | **2,740** | 2,831 |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

## 7 Earnings per share (EPS)

| **As reported in the consolidated income statement** | **2014 Cents per share** | 2013 Restated [1] Cents per share |
|---|---|---|
| **Total attributable to ordinary shareholders of DuluxGroup Limited** | | |
| Basic earnings per share | **28.1** | 20.6 |
| Diluted earnings per share | **27.5** | 20.1 |
| | **$'000** | $'000 |
| **Earnings used in the calculation of basic and diluted earnings per share** | | |
| Profit for the financial year attributable to ordinary shareholders of DuluxGroup Limited | **104,528** | 74,998 |
| | **Number** | Number |
| **Weighted average number of ordinary shares outstanding used as the denominator:** | | |
| **Number for basic earnings per share** | **372,114,217** | 364,645,445 |
| Effect of the potential vesting of shares under the LTEIP and ESIP [2] | **8,621,717** | 9,317,040 |
| **Number for diluted earnings per share** | **380,735,934** | 373,962,485 |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).
(2) The calculation of the weighted average number of shares has been adjusted for the effect of these potential shares from the date of issue or the beginning of the financial year.

## 8 Auditors' remuneration

| | 2014 $ | 2013 $ |
|---|---|---|
| Total remuneration received, or due and receivable, by the auditors of the Company for: | | |
| Audit services - audit and review of financial reports | | |
| KPMG Australia | **742,900** | 764,700 |
| Overseas KPMG firms [1] | **427,632** | 427,333 |
| | **1,170,532** | 1,192,033 |
| Other services [2] | | |
| Other assurance services - KPMG Australia | **87,500** | 98,900 |
| Other assurance services - Overseas KPMG firms | **48,136** | 14,818 |
| | **135,636** | 113,718 |

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

(2) Other services primarily include assurance based engagements undertaken for compliance and internal governance purposes and tax compliance. The Audit and Risk Committee must approve any non-statutory services (other services) provided by KPMG. The protocols adopted by KPMG in relation to the provision of other services ensure their independence is not compromised. Other services provided by KPMG to the Group are subject to appropriate corporate governance procedures encompassing the selection of service providers and the setting of their remuneration.

## 9 Income tax

### a) Income tax expense recognised in the consolidated income statement

| | 2014 $'000 | 2013 Restated[1] $'000 |
|---|---|---|
| Current tax expense | **46,165** | 32,876 |
| Deferred tax expense | **3,259** | 924 |
| Over provision in prior years | **(3,300)** | (599) |
| **Total income tax expense in the consolidated income statement** | **46,124** | 33,201 |
| **Deferred tax expense/(benefit) included in income tax expense comprises:** | | |
| Decrease in deferred tax assets | **4,093** | 1,966 |
| Decrease in deferred tax liabilities | **(834)** | (1,042) |
| | **3,259** | 924 |
| **Reconciliation of prima facie tax expense to income tax expense** | | |
| Profit before income tax expense | **148,946** | 96,814 |
| Prima facie income tax expense calculated at 30% of profit before income tax expense | **44,684** | 29,044 |
| Tax effect of items which (decrease)/increase tax expense: | | |
| Foreign tax rate differential | **41** | 814 |
| Non-taxable income and profits, net of non-deductible expenditure | **(1,827)** | (4,033) |
| Share of net profit of joint venture accounted for using the equity method | **(299)** | (354) |
| Impairment of intangibles | **2,307** | 4,625 |
| Tax losses not recognised | **(97)** | 1,761 |
| Sundry items | **1,315** | 1,344 |
| **Income tax expense reported in the consolidated income statement** | **46,124** | 33,201 |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

## 9 Income tax (continued)

### b) Deferred tax assets

| | 2014 $'000 | 2013 Restated[1] $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Trade and other receivables | **860** | 1,140 |
| Inventories | **3,423** | 2,785 |
| Property, plant and equipment | **6,188** | 5,472 |
| Intangible assets | **4,778** | 5,116 |
| Trade and other payables | **7,809** | 8,105 |
| Provisions | **4,754** | 7,840 |
| Employee entitlements | **19,608** | 16,628 |
| Tax losses | **78** | 447 |
| Other | **548** | 1,373 |
| Deferred tax assets | **48,046** | 48,906 |
| Expected to be recovered within 12 months | **19,387** | 21,885 |
| Expected to be recovered after more than 12 months | **28,659** | 27,021 |
| | **48,046** | 48,906 |
| **Movements:** | | |
| Balance at 1 October | **48,906** | 35,437 |
| Additions through business acquisitions | **108** | - |
| Adjustment for prior year acquisitions | **655** | 18,470 |
| Reduction through business disposal | **-** | (532) |
| Charged to profit or loss | **(4,093)** | (1,966) |
| Credited/(charged) to other comprehensive income | **2,299** | (2,936) |
| Foreign currency exchange differences | **171** | 433 |
| **Balance at 30 September** | **48,046** | 48,906 |

[1] The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

### c) Deferred tax liabilities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Property, plant and equipment | **3,045** | 3,212 |
| Intangible assets | **13,416** | 14,260 |
| Trade and other payables | **63** | 69 |
| Other | **448** | 261 |
| **Deferred tax liabilities** | **16,972** | 17,802 |
| Expected to be settled within 12 months | **511** | 331 |
| Expected to be settled after more than 12 months | **16,461** | 17,471 |
| | **16,972** | 17,802 |
| **Movements:** | | |
| Balance at 1 October | **17,802** | 914 |
| Additions through business acquisitions | **198** | 17,530 |
| Adjustment for prior year acquisitions | **-** | 281 |
| Reduction through business disposal | **(244)** | - |
| Credited to profit or loss | **(834)** | (1,042) |
| Foreign currency exchange differences | **50** | 119 |
| **Balance at 30 September** | **16,972** | 17,802 |

## 9 Income tax (continued)

### d) Unrecognised deferred tax assets and liabilities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Tax losses not recognised in: | | |
| China[1] | **4,985** | 5,109 |
| Hong Kong | **116** | 107 |
| Singapore | **44** | 27 |
| | **5,145** | 5,243 |

[1] Expiration dates between 2014 and 2019 (2013 between 2013 and 2018).

A deferred tax liability of $652,000 (2013: deferred tax asset of $20,000) has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Company's subsidiaries. The deferred tax asset will only be realised in the event of disposal of the subsidiary and no such disposal is expected in the foreseeable future.

### e) Tax consolidation

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

### f) New Zealand Inland Revenue Department proceedings

On 14 February 2014, DuluxGroup announced that it had reached a settlement with the New Zealand Commissioner of Inland Revenue in relation to its OCN matter. The total provision, recognised as part of provisions for contingent liabilities from business acquisitions and current tax, immediately prior to the settlement was NZD $15,238,000. This total liability was recognised through acquisition accounting. As a result of this settlement, the total provision has been substantially utilised, with DuluxGroup making cash payments totalling NZD $8,931,000 (AUD $8,452,000) and recognising a reversal of provisions of NZD $6,307,000 (AUD $5,917,000) (recognised as part of other expenses in the consolidated income statement).

## 10 Trade and other receivables

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **231,918** | 224,954 |
| Less allowance for impairment | **(4,048)** | (3,079) |
| | **227,870** | 221,875 |
| Other receivables | **5,099** | 4,791 |
| | **232,969** | 226,666 |
| **Non-current** | | |
| Other receivables | **30** | 96 |

### a) Trade receivables

Current receivables is net of $24,694,000 (2013: $23,278,000) of rebates payable. DuluxGroup has the legal right to offset such balances as they are with the same customers and it is DuluxGroup's intention to net settle any outstanding balances.

### b) Trade receivables and allowance for impairment

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

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

## 10 Trade and other receivables (continued)

### b) Trade receivables and allowance for impairment (continued)

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

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

No material security is held over trade receivables.

There are no individually significant receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. Trade receivables have been aged according to their due date in the ageing analysis as set out below.

| | **2014 Gross $'000** | **2014 Allowance $'000** | 2013 Gross $'000 | 2013 Allowance $'000 |
|---|---|---|---|---|
| Not past due | **202,812** | **123** | 183,996 | 87 |
| Past due 0 - 30 days | **14,675** | **40** | 27,984 | 28 |
| Past due 31 - 60 days | **3,462** | **128** | 3,823 | 17 |
| Past due 61 - 90 days | **2,675** | **135** | 2,456 | 54 |
| Past due 91 - 120 days | **3,537** | **940** | 2,886 | 475 |
| Past 120 days | **4,757** | **2,682** | 3,809 | 2,418 |
| | **231,918** | **4,048** | 224,954 | 3,079 |

### c) Movement in allowance for impairment of trade receivables

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Balance at 1 October | **3,079** | 2,544 |
| Allowances made (net of written back) during the year | **2,740** | 2,831 |
| Allowances utilised during the year | **(1,849)** | (2,524) |
| Foreign currency exchange differences | **78** | 228 |
| **Balance at 30 September** | **4,048** | 3,079 |

## 11 Inventories

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Raw materials | **32,934** | 33,161 |
| Work in progress | **5,209** | 5,606 |
| Finished goods | **165,596** | 157,012 |
| | **203,739** | 195,779 |

The cost of goods sold recognised in the consolidated income statement for the financial year ended 30 September 2014 amounted to $906,916,000 (2013: $845,611,000).

## 12 Trade and other payables

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | **197,384** | 193,299 |
| Other payables | **53,898** | 55,102 |
| | **251,282** | 248,401 |
| **Non-current** | | |
| Other payables | **292** | - |
| | **292** | - |

### a) Significant terms and conditions

Trade payables are normally settled within 60 days from invoice date or within the agreed payment terms with the supplier.

## 13 Investments accounted for using the equity method

The consolidated entity has an interest in the following entity:

| Name of entity | Percentage of ownership interest held at end of the financial year 2014 % | 2013 % | Contribution to net profit 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|
| Pinegro Products Pty Ltd[1] | **50.0** | 50.0 | **995** | 1,181 |

[1] Acquired on 1 December 2009 and incorporated on 10 April 1979.

There were no commitments and contingent liabilities in the joint venture as at 30 September 2014 (2013: $NIL).

## 14 Property, plant and equipment

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Land** | | |
| At cost | **37,148** | 37,112 |
| **Buildings and leasehold improvements** | | |
| At cost | **91,207** | 90,186 |
| Less accumulated depreciation and impairment | **(32,569)** | (29,645) |
| | **58,638** | 60,541 |
| **Machinery, plant and equipment** | | |
| At cost | **346,333** | 327,551 |
| Less accumulated depreciation and impairment | **(180,125)** | (161,395) |
| | **166,208** | 166,156 |
| **Total net book value** | | |
| At cost | **474,688** | 454,849 |
| Less accumulated depreciation and impairment | **(212,694)** | (191,040) |
| **Total net book value of property, plant and equipment** | **261,994** | 263,809 |

### a) Assets under construction

Included in the above are assets under construction at 30 September 2014 of $11,877,000 (2013: $10,850,000).

### b) Reconciliations

Reconciliations of the net book values of property, plant and equipment are set out below:

| | Land $'000 | Buildings and leasehold improvements $'000 | Machinery, plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **2014** | | | | |
| Balance at 1 October 2013 | **37,112** | **60,541** | **166,156** | **263,809** |
| Additions | **-** | **739** | **27,033** | **27,772** |
| Adjustment for prior year acquisitions | **-** | **-** | **(1,124)** | **(1,124)** |
| Disposals | **-** | **(68)[1]** | **(1,317)** | **(1,385)** |
| Depreciation expense | **-** | **(2,674)** | **(25,014)** | **(27,688)** |
| Foreign currency exchange differences | **36** | **100** | **474** | **610** |
| **Balance at 30 September 2014** | **37,148** | **58,638** | **166,208** | **261,994** |
| 2013 | | | | |
| Balance at 1 October 2012 | 28,989 | 39,126 | 130,941 | 199,056 |
| Additions | - | 2,921 | 22,449 | 25,370 |
| Additions through business acquisitions | 8,270 | 20,230 | 34,420 | 62,920 |
| Disposals | (360) | (742)[1] | (226) | (1,328) |
| Reduction through business disposal | - | - | (464) | (464) |
| Depreciation expense | - | (2,590) | (23,970) | (26,560) |
| Impairment expense | - | - | (140) | (140) |
| Foreign currency exchange differences | 213 | 1,596 | 3,146 | 4,955 |
| Balance at 30 September 2013 | 37,112 | 60,541 | 166,156 | 263,809 |

[1] Includes an amount of $58,000 (2013: $26,000) relating to the reassessment of the leased properties restoration provision.

## 15 Intangibles

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Goodwill** | | |
| At cost | **130,838** | 138,404 |
| | **130,838** | 138,404 |
| **Patents, trademarks and rights** | | |
| At cost | **7,962** | 7,576 |
| Less accumulated amortisation | **(5,161)** | (4,433) |
| | **2,801** | 3,143 |
| **Brand names** | | |
| At cost | **62,282** | 64,130 |
| Less accumulated amortisation | **(787)** | (1,592) |
| | **61,495** | 62,538 |
| **Software** | | |
| At cost | **30,698** | 27,609 |
| Less accumulated amortisation | **(23,986)** | (20,915) |
| | **6,712** | 6,694 |
| **Customer contracts and relationships** | | |
| At cost | **29,300** | 27,800 |
| Less accumulated amortisation | **(6,230)** | (2,821) |
| | **23,070** | 24,979 |
| **Total net book value** | | |
| At cost | **261,080** | 265,519 |
| Less accumulated amortisation | **(36,164)** | (29,761) |
| **Total net book value of intangible assets** | **224,916** | 235,758 |

### a) Assets under development

Included in the above are software assets under development at 30 September 2014 of $68,000 (2013: $3,445,000).

### b) Reconciliations

Reconciliations of the net book values of intangible assets are set out below:

| | Goodwill $'000 | Patents, trademarks and rights $'000 | Brand names $'000 | Software $'000 | Customer Contracts $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| Balance at 1 October 2013 | **138,404** | **3,143** | **62,538** | **6,694** | **24,979** | **235,758** |
| Additions | **-** | **-** | **-** | **3,110** | **-** | **3,110** |
| Additions through business acquisitions | **716** | **386** | **-** | **-** | **-** | **1,102** |
| Adjustment for prior year acquisitions | **1,601** | **-** | **-** | **-** | **1,500** | **3,101** |
| Disposals | **(917)** | **-** | **(981)** | **(13)** | **-** | **(1,911)** |
| Amortisation expense | **-** | **(728)** | **(285)** | **(3,071)** | **(3,409)** | **(7,493)** |
| Impairment | **(9,228)** | **-** | **-** | **-** | **-** | **(9,228)** |
| Foreign currency exchange differences | **262** | **-** | **223** | **(8)** | **-** | **477** |
| **Balance at 30 September 2014** | **130,838** | **2,801** | **61,495** | **6,712** | **23,070** | **224,916** |
| 2013 | | | | | | |
| Balance at 1 October 2012 | 54,136 | 810 | 40,147 | 1,737 | - | 96,830 |
| Additions | - | - | - | 3,546 | - | 3,546 |
| Additions through business acquisitions | 100,134 | 2,700 | 20,800 | 3,512 | 27,800 | 154,946 |
| Adjustment for prior year acquisitions | (1,071) | - | 1,700 | - | - | 629 |
| Amortisation expense | - | (419) | (385) | (2,118) | (2,821) | (5,743) |
| Impairment | (18,500) | - | - | - | - | (18,500) |
| Foreign currency exchange differences | 3,705 | 52 | 276 | 17 | - | 4,050 |
| Balance at 30 September 2013 | 138,404 | 3,143 | 62,538 | 6,694 | 24,979 | 235,758 |

## 15 Intangibles (continued)

**c) Allocation of goodwill and intangible assets with indefinite useful lives**

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

| | Goodwill[1] | | Brand names | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Paints Australia | **21,777** | 8,063 | **23,500** | 23,500 |
| Consumer and Construction Products | **43,271** | 37,381 | **3,400** | 3,400 |
| Yates | **8,131** | 8,131 | **14,858** | 14,858 |
| China[2] | **-** | 9,882 | **-** | - |
| Garage Doors and Openers | **39,466** | 53,139 | **15,000** | 15,000 |
| Lincoln Sentry | **18,193** | 21,808 | **2,400** | 2,400 |
| | **130,838** | 138,404 | **59,158** | 59,158 |

(1) The acquisition accounting for the Alesco Group and associated allocation of goodwill to cash-generating units has now been finalised.
(2) Includes DuluxGroup's operations in China and Hong Kong.

**d) Impairment testing of goodwill and intangible assets with indefinite useful lives**

Other than for the China CGU as discussed below, impairment testing at 30 September 2014 did not result in impairment charges being recognised by DuluxGroup.

The calculation of recoverable amount for DuluxGroup impairment testing purposes is sensitive to changes in discount rates, terminal value growth rates applied in perpetuity, expected sales revenue growth rates in the forecast period, and earnings varying from the assumptions and forecast data used. As such, sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU. For all CGUs other than the China CGU, a reasonable possible change in these inputs would not cause the recoverable amount to be below the carrying amount.

For the China CGU, the recoverable amount has been determined based on its fair value less costs of disposal, and takes account of recent observable market based information. Following completion of the impairment testing on this basis, it was determined that the carrying amount of the China CGU was in excess of its recoverable amount.

The income statement includes an impairment loss pertaining to goodwill of $9,228,000 ($9,228,000 net of tax). The impairment loss is included in 'Other Expense' in the income statement and is disclosed as part of 'other businesses' in the segment note.

As a result of recognising the impairment charge, the carrying value of the China CGU is at its recoverable amount and there is no longer any goodwill pertaining to the China business. Any further decline in this recoverable amount will result in further impairment losses to be recognised in future financial years.

## 16 Provisions

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| **Current** | | |
| Employee entitlements | **21,629** | 20,511 |
| Environmental | **839** | 867 |
| Deferred income - customer loyalty programme | **2,018** | 1,023 |
| Leased properties | **821** | 593 |
| Warranty | **1,521** | 1,570 |
| Contingent liability from business acquisitions[1] | **695** | 8,025 |
| Other | **606** | 4,535 |
| | **28,129** | 37,124 |
| **Non-current** | | |
| Employee entitlements | **29,760** | 27,075 |
| Deferred income - customer loyalty programme | **1,244** | 1,517 |
| Leased properties | **9,776** | 11,657 |
| | **40,780** | 40,249 |

(1) For the year ended 30 September 2013, this includes an amount of NZD $7,688,000 (AUD $6,845,000) relating to the New Zealand Inland Revenue Department Proceedings, refer to Note 9(f).

## 16 Provisions (continued)

### a) Leased properties

The Group leases offices, warehouses, retail bulky goods and manufacturing sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. Payments made under leases with fixed rent escalation clauses are recognised in the income statement on a straight-line basis over the term of the lease contract. In certain circumstances DuluxGroup has an obligation to restore its leased premises to an acceptable condition at the end of the respective leases terms. A provision is recognised for any amounts arising from these requirements.

### b) Other

Other provision largely comprises amounts for committed internal reorganisations and sales returns.

### c) Reconciliations

Reconciliations of the carrying amounts of provisions, excluding employee entitlements, in the current financial year are set out below:

| Current and non-current | Environmental $'000 | Deferred income - customer loyalty programme $'000 | Leased properties $'000 | Warranty $'000 | Contingent liability from business acquisition $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 October 2013 | **867** | **2,540** | **12,250** | **1,570** | **8,025** | **4,535** | **29,787** |
| Adjustment for prior year acquisitions | **-** | **-** | **-** | **-** | **2,475** | **(32)** | **2,443** |
| Provisions made (net of amounts written back) during the year | **(3)** | **1,699** | **(255)** | **2,718** | **(5,917)** | **1,438** | **(320)** |
| Provisions utilised during the year | **(25)** | **(1,195)** | **(2,954)** | **(2,770)** | **(4,484)** | **(5,336)** | **(16,764)** |
| Unwind of discounting | **-** | **218** | **1,525** | **-** | **-** | **-** | **1,743** |
| Foreign currency exchange differences | **-** | **-** | **31** | **3** | **596** | **1** | **631** |
| **Balance at 30 September 2014** | **839** | **3,262** | **10,597** | **1,521** | **695** | **606** | **17,520** |

## 17 Interest-bearing liabilities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| **Unsecured** | | |
| Trade cards | **-** | 6,925 |
| Bank loan - AUD denominated | **6,000** | - |
| Bank loan - RMB denominated(1) | **8,175** | 7,213 |
| Bank loan - HKD denominated(2) | **590** | 1,569 |
| | **14,765** | 15,707 |
| **Non-current** | | |
| **Unsecured** | | |
| Bank loan - AUD denominated(3) | **152,598** | 419,372 |
| United States Private Placement (USPP)(4) | **213,494** | - |
| | **366,092** | 419,372 |

(1) The current Chinese Reminbi (RMB) unsecured bank loan amount comprises of RMB 44,106,000 (AUD $8,175,000) (2013: RMB 41,000,000 (AUD $7,213,000)) drawn under an overseas bank loan facility.

(2) The current Hong Kong Dollar (HKD) unsecured bank loan amount comprises of HKD 4,000,000 (AUD $590,000) (2013: HKD 11,300,000 (AUD $1,569,000) ) drawn under an overseas bank loan facility.

(3) The non-current AUD denominated unsecured bank loan amount comprises of $154,000,000 (2013: $423,000,000) drawn under the Group's syndicated bank loan facilities, net of unamortised prepaid establishment fees of $1,402,000 (2013: $3,628,000).

(4) The non-current private placement loan amount comprises the carrying amount of the loan assessed at 30 September 2014 of AUD $214,591,000 (2013: $NIL), net of unamortised prepaid establishment fees of $1,097,000 (2013: $NIL).

## 17 Interest-bearing liabilities (continued)

### a) Private placement

On 18 September 2014 DuluxGroup issued USPP notes with a face value of USD $149,500,000 and AUD $40,000,000 across four tranches, maturing in September 2021, September 2024 and September 2026. The proceeds (approximately AUD $201,065,000) were used to repay existing drawn debt.

The AUD/USD FX exposure on the USD $149,500,000 principal and on all future USD coupon payments was hedged using Cross Currency Interest Rate Swap Derivative Transactions (CCIRS), which converted the USD exposure back to AUD at inception, and at the same time swapped the fixed USD interest coupon payments back to AUD floating interest rates.
Interest on the AUD $40,000,000 direct funding component was swapped from fixed interest coupon payments to floating interest rates using Interest Rate Swap Derivatives Transactions (IRS).

The USPP debt transaction is designated for accounting purposes in a separate fair value and cash flow hedge relationship together with the associated CCIRS and IRS which provide an economic hedge of the USD exchange rate (on both the principal and interest payments), and converts the interest rate basis for the total borrowing from a fixed basis to floating.

### b) Assets pledged as security

While there were no assets pledged as security by DuluxGroup Limited and its controlled entities, entities have provided a guarantee in relation to the Group's syndicated bank loan facilities and other overseas bank facilities as outlined in Note 27.

### c) Defaults and breaches

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

## 18 Superannuation commitments

### a) Superannuation plans

DuluxGroup contributes to a number of superannuation plans that exist to provide benefits for employees and their dependants on retirement, disability or death. The superannuation plans cover company sponsored plans, other qualifying plans and multi-employer industry/union plans. DuluxGroup is required to contribute (to the extent required under Superannuation Guarantee legislation) to any choice fund nominated by employees, including Self-Managed Superannuation Funds.

*Company sponsored plans*

- The principal benefits are pensions or lump sum payments for members on resignation, retirement, disability or death. The benefits are provided on either a defined benefit basis or a defined contribution basis.
- Employee contribution rates are either fixed by the rules of the plans or selected by members from time to time from a specified range of rates. The employing entities contribute the balance of the cost required to fund the defined benefits or, in the case of defined contribution plans, the amounts required by the rules of the plan.
- The contributions made by the employing entities to defined contribution plans are in accordance with the requirements of the governing rules of such plans or are required under law.

*Government plans*

- Some controlled entities participate in government plans on behalf of certain employees, which provide pension benefits. There exists a legally enforceable obligation on employer entities to contribute as required by legislation.

*Industry plans*

- Some controlled entities participate in industry plans on behalf of certain employees.
- These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement, disability or death.
- The employer entities have a legally enforceable obligation to contribute a regular amount for each employee member of these plans.
- The employer entities have no other legal liability to contribute to the plans.

### b) Defined contribution pension plans

The consolidated entity contributes to several defined contribution pension plans on behalf of its employees. Contributions are taken to the income statement in the year in which the expense is incurred. The amount recognised as an expense for the financial year ended 30 September 2014 was $18,955,000 (2013: $19,140,000).

### c) Defined benefit pension plans

DuluxGroup (Australia) Pty Ltd is the sponsoring employer of the defined benefit post-employment section of The DuluxGroup Super Fund (the Fund) in Australia.

Funding for post-employment benefits is carried out in accordance with the requirements of the Trust Deed for the Fund and the advice of the Fund's actuarial adviser. The fund is closed to new members.

## 18 Superannuation commitments (continued)

**c) Defined benefit pension plans (continued)**

The amounts recognised in the balance sheet are determined as follows:

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Present value of the defined benefit obligations | **158,994** | 141,297 |
| Fair value of defined benefit plan assets | **(144,526)** | (133,031) |
| **Net defined benefit liability recognised in the balance sheet at the end of the financial year** | **14,468** | 8,266 |

The principal actuarial assumptions used to calculate the net defined benefit liability were a discount rate of 3.8% (2013: 4.7%), future salary increases of 3.8% (2013: 3.8%) and future inflation of 2.5% (2013: 2.8%). The movements in the net defined liability during the year are outlined below:

| | **2014 $'000** | 2013 Restated(1) $'000 |
|---|---|---|
| Opening balance | **8,266** | 18,371 |
| Actuarial losses/(gains)(2) | **6,139** | (9,689) |
| Current service cost(3) | **4,082** | 4,724 |
| Interest cost(3) | **289** | 483 |
| Employer contributions(4) | **(4,308)** | (5,623) |
| **Balance at 30 September** | **14,468** | 8,266 |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).
(2) Actuarial losses/(gains) are recorded in other comprehensive income.
(3) Current service cost and interest cost are recorded in the consolidated income statement as part of employee costs and finance costs respectively.
(4) Employer contributions are a cash payment and are recorded as part of payments to suppliers and employees in the cash flow statement.

DuluxGroup's external actuaries have forecast total employer contributions to the Fund of $4,824,000 for the financial year ending 30 September 2015.

The plan exposes DuluxGroup to a number of risks, asset volatility, changes in bond yields and inflation risks. Derivatives are not used to manage risk, instead investments are well diversified, such that failure of any single investment would not reasonably be expected to have a material impact on the overall level of assets. The process used to manage risk has not changed from previous periods.

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

| | **2014** | 2013 |
|---|---|---|
| Equity instruments | **42%** | 47% |
| Fixed interest securities | **18%** | 14% |
| Property | **14%** | 14% |
| Cash and other assets | **26%** | 25% |

## 19 Financial and capital management

**Capital management**

DuluxGroup's objectives when managing capital (net debt and total equity) are to safeguard the consolidated entity's ability to continue as a going concern and to ensure that the capital structure enhances, protects and balances financial flexibility against minimising the cost of capital.

In order to maintain the appropriate capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, utilise a dividend reinvestment plan, return capital to shareholders or issue new equity, in addition to incurring an appropriate mix of long and short term borrowings.

DuluxGroup monitors capital on the basis of various credit metrics, principally an interest cover ratio (earnings before interest, tax, depreciation and amortisation (EBITDA) divided by net financing costs) and Net Debt (interest-bearing liabilities less prepaid loan establishment fees, less trade cards, less cash and cash equivalents) to EBITDA. In addition, DuluxGroup monitors the accounting gearing ratio (which is calculated as net debt divided by net debt plus total equity).

## 19 Financial and capital management (continued)

**Capital management (continued)**

The key credit metrics and accounting gearing ratios calculated on a statutory basis and presented in accordance with the requirements of AASB 7 Financial Instruments: Disclosures are as follows:

| | **2014** | 2013 Restated[1] |
|---|---|---|
| | **$'000** | $'000 |
| Interest-bearing liabilities | **383,356** | 438,707 |
| Less: | | |
| Prepaid loan establishment fees | **2,499** | 3,628 |
| Trade cards | **-** | 6,925 |
| Cash and cash equivalents | **35,118** | 46,374 |
| Net debt | **345,739** | 381,780 |
| Earnings before interest, tax, depreciation and amortisation | **210,309** | 157,190 |
| **Net Debt to EBITDA (times)** | **1.6** | 2.4 |
| Earnings before interest, tax, depreciation and amortisation | **210,309** | 157,190 |
| Net finance costs[2] | **23,979** | 26,446 |
| **Interest cover ratio (times)** | **8.8** | 5.9 |
| Net debt[3] | **345,739** | 381,780 |
| Net debt plus total equity | **637,400** | 612,748 |
| **Accounting gearing ratio** | **54%** | 62% |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).
(2) Net finance costs exclude the amortisation of prepaid loan establishment fees of $2,203,000 (2013: $1,627,000).
(3) Refer calculation of net debt presented above for the Net Debt to EBITDA metric.

**Financial risk factors**

DuluxGroup has exposure to the following principle financial risks:

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

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

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

## 19 Financial and capital management (continued)

**Financial risk factors (continued)**

The consolidated entity held the following financial instruments as at 30 September:

| 2014 | Cash and cash equivalents $'000 | Financial assets at amortised cost $'000 | Financial Liabilities at amortised cost $'000 | Derivative instruments designated as hedges $'000 | Total carrying amount $'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash at bank and on hand | **35,118** | **-** | **-** | **-** | **35,118** |
| Trade and other receivables (current) | **-** | **232,969** | **-** | **-** | **232,969** |
| Trade and other receivables (non-current) | **-** | **30** | **-** | **-** | **30** |
| Derivative financial assets (current) | **-** | **-** | **-** | **507** | **507** |
| Derivative financial assets (non-current) | **-** | **-** | **-** | **11,715** | **11,715** |
| | **35,118** | **232,999** | **-** | **12,222**(1) | **280,339** |
| **Financial liabilities** | | | | | |
| Trade and other payables (current) | **-** | **-** | **251,282** | **-** | **251,282** |
| Trade and other payables (non-current) | **-** | **-** | **292** | **-** | **292** |
| Interest-bearing liabilities (current) | **-** | **-** | **14,765** | **-** | **14,765** |
| Interest-bearing liabilities (non-current) | **-** | **-** | **366,092** | **-** | **366,092** |
| | **-** | **-** | **632,431** | **-** | **632,431** |
| **2013** | | | | | |
| **Financial assets** | | | | | |
| Cash at bank and on hand | 43,529 | - | - | - | 43,529 |
| Cash at bank - restricted | 2,845 | - | - | - | 2,845 |
| Trade and other receivables (current) | - | 226,666 | - | - | 226,666 |
| Trade and other receivables (non-current) | - | 96 | - | - | 96 |
| Derivative financial assets (current) | - | - | - | 298 | 298 |
| | 46,374 | 226,762 | - | 298 | 273,434 |
| **Financial liabilities** | | | | | |
| Trade and other payables (current) | - | - | 248,401 | - | 248,401 |
| Derivative financial liabilities (current) | - | - | - | 2 | 2 |
| Interest-bearing liabilities (current) | - | - | 15,707 | - | 15,707 |
| Interest-bearing liabilities (non-current) | - | - | 419,372 | - | 419,372 |
| | - | - | 683,480 | 2 | 683,482 |

(1) Includes $11,586,000 related to the hedges associated with the USPP.

**Fair value estimation**

The Group's financial assets and liabilities are measured and recognised according to the fair value measurement hierarchy. The fair value measurement hierarchy consists of:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of trade and other receivables, trade and other payables and interest bearing liabilities approximates their carrying amount.

The carrying amount of the Group's USPP approximates its fair value. The fair value of the USPP is calculated at balance date using discounted future cash flows techniques, where estimated cash flows and discount rates are based on market data, in conjunction with restatement for the impact of foreign exchange.

## 19 Financial and capital management (continued)

**Fair value estimation (continued)**

The Group only holds Level 2 derivative financial instruments which are calculated as follows:

- The carrying value of derivatives approximates their fair values. Valuation techniques include, where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm's length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models.
- The fair value of forward exchange contracts are calculated by reference to forward exchange market rates for contracts within similar maturity profiles at the time of valuation.
- The fair values of interest rate options, foreign exchange option contracts and other financial liabilities measured at fair value are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of DuluxGroup's cost of borrowings.

**Interest rate risk management**

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

DuluxGroup is primarily exposed to interest rate risk on outstanding long term interest-bearing liabilities. Non-derivative financial assets are predominately short term liquid assets, such as cash at bank balances.

Interest rate risk on long term interest-bearing liabilities is managed by adjusting the ratio of fixed interest debt to variable interest debt. Under the Treasury Policy, a maximum of 90% of debt with a maturity of less than five years can be fixed and a maximum 50% of debt with a maturity of five years or greater can be fixed. DuluxGroup operated within this range during the current year.

As at 30 September 2014, DuluxGroup had fixed the interest rate applicable on AUD $150,000,000 of debt to August 2017, using interest rate swap transactions.

DuluxGroup's exposure to interest rate risk as at 30 September 2014, and the weighted average effective interest rates on financial assets and liabilities for the year ended 30 September 2014 are:

| | **2014 $'000** | **2014 % p.a.** | 2013 $'000 | 2013 % p.a. |
|---|---|---|---|---|
| Cash at bank and on hand | **35,118** | **1.5** [(1)] | 43,529 | 1.1 [(1)] |
| Cash at bank - restricted | **-** | **-** | 2,845 | 1.4 |
| Derivative financial assets | **12,222** | **-** | 298 | - |
| Total financial assets | **47,340** | | 46,672 | |
| Bank loans | **383,356** | **4.9** [(1)] | 431,782 | 5.3 [(1)] |
| Trade cards | **-** | **-** | 6,925 | 9.2 |
| Derivative financial liabilities | **-** | **-** | 2 | - |
| Total financial liabilities | **383,356** | | 438,709 | |
| Net financial liabilities | **336,016** | | 392,037 | |

(1) The weighted average effective interest rate on the bank loan excludes the amortisation of the prepaid establishment fee on the loan facility.

The table below shows the effect on profit and total equity after tax if interest rates at that date had been 10% higher or lower based on the relevant interest rate yield curve applicable to the underlying currency DuluxGroup's financial assets and liabilities are denominated in with all other variables held constant, taking into account all underlying exposures and related hedges and does not take account of the impact of any management action that might take place if these events occurred. A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term interest rates. The Directors cannot nor do not seek to predict movements in interest rates.

## 19 Financial and capital management (continued)

**Interest rate risk management (continued)**

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| **Increase/(decrease) in profit after income tax expense** | | |
| If interest rates were 10% higher, with all other variables held constant | **(668)** | (1,431) |
| If interest rates were 10% lower, with all other variables held constant | **668** | 1,431 |
| **Increase/(decrease) in total equity** | | |
| If interest rates were 10% higher, with all other variables held constant | **(695)** | (1,431) |
| If interest rates were 10% lower, with all other variables held constant | **695** | 1,431 |

**Foreign exchange risk management**

***a) Foreign exchange risk - transactional***

Transactional foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability or cash flow will fluctuate due to changes in foreign currency rates.

DuluxGroup is exposed to foreign exchange risk primarily due to purchases and sales being denominated, either directly or indirectly in currencies other than the functional currencies of the consolidated entity's subsidiaries. Major exposures are against the USD, NZD, RMB, HKD and EUR. With regard to purchases, hedging is undertaken to protect against unfavourable foreign currency movements, however there is flexibility as to when hedging is initiated and the instrument used to hedge the risk. In determining which instrument to use, consideration is given to the ability of DuluxGroup to participate in favourable movements in exchange rates. Approximately 20% to 30% of DuluxGroup's purchases are denominated in, or are indirectly linked to a foreign currency, primarily to the USD, RMB and the EUR.

Foreign exchange hedging is carried out or monitored centrally in accordance with the Treasury Policy. The derivative instruments used for hedging purchase exposures are forward exchange options and forward exchange contracts.

The Group's exposure to foreign currency risk including external balances and internal balances (eliminated on consolidation) at the reporting date was as follows (Australian dollar equivalents):

| | | | **2014** | | | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **USD '000** | **NZD '000** | **RMB '000** | **HKD '000** | **EUR '000** | USD '000 | NZD '000 | RMB '000 | HKD '000 | EUR '000 |
| Cash | **1,490** | **7,678** | **-** | **1,136** | **168** | 1,102 | 5,072 | - | 1,332 | 229 |
| Trade and other receivables | **2,551** | **10** | **-** | **-** | **-** | 5,001 | 817 | - | 773 | 34 |
| Trade and other payables | **(7,075)** | **(555)** | **(5,060)** | **(57)** | **(778)** | (8,087) | (1,155) | (2,640) | (57) | (1,056) |
| Interest-bearing liabilities | **(118)** | **(5,210)** | **-** | **-** | **-** | (469) | (228) | - | - | - |
| Net exposure | **(3,152)** | **1,923** | **(5,060)** | **1,079** | **(610)** | (2,453) | 4,506 | (2,640) | 2,048 | (793) |

The table below shows the reported exchange rates for the USD, NZD, RMB, HKD and EUR against the Australian Dollar (AUD) as at 30 September.

| | **2014** | 2013 |
|---|---|---|
| AUD/USD | **0.8739** | 0.9287 |
| AUD/NZD | **1.1229** | 1.1231 |
| AUD/RMB | **5.3953** | 5.6844 |
| AUD/HKD | **6.7829** | 7.2004 |
| AUD/EUR | **0.6889** | 0.6883 |

The table below shows, the effect on profit after income tax expense and total equity of retranslating cash, receivables, payables and interest-bearing liabilities denominated in USD, NZD, RMB, HKD and EUR into AUD, had the rates been 10% higher or lower than the relevant year end rate, with all other variables held constant, and taking into account all underlying exposures and related hedges. A sensitivity of 10% has been selected as this is considered reasonable taking in to account the current level of exchange rates and the volatility observed both on a historical basis and on market expectations for future movements. The Directors cannot nor do not seek to predict movements in exchange rates.

## 19 Financial and capital management (continued)

**Foreign exchange risk management (continued)**

***a) Foreign exchange risk – transactional (continued)***

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **-10%** | **+10%** | -10% | +10% |
| | **$'000** | **$'000** | $'000 | $'000 |
| **Increase/(decrease) in profit after income tax expense** | | | | |
| AUD/USD | **(245)** | **201** | (278) | 80 |
| AUD/NZD | **271** | **(222)** | 350 | (287) |
| AUD/RMB | **(394)** | **322** | (197) | 114 |
| AUD/HKD | **84** | **(69)** | 159 | (130) |
| AUD/EUR | **(47)** | **39** | 50 | (62) |
| **Increase/(decrease) in total equity** | | | | |
| AUD/USD | **(245)** | **201** | (278) | 80 |
| AUD/NZD | **271** | **(222)** | 350 | (287) |
| AUD/RMB | **(394)** | **322** | (197) | 114 |
| AUD/HKD | **84** | **(69)** | 159 | (130) |
| AUD/EUR | **(47)** | **39** | 50 | (62) |

In addition, DuluxGroup has a number of pricing arrangements with suppliers for purchases in EUR and USD that allow DuluxGroup to be invoiced in the AUD equivalent value of these purchases. As a result, although DuluxGroup does not have a balance sheet exposure for these arrangements at 30 September 2014, the fluctuations of the AUD/EUR and AUD/USD exchange rate will have an impact on the amount ultimately invoiced to DuluxGroup in AUD during the year.

***b) Foreign exchange risk – translational***

Foreign currency earnings translation risk arises primarily as a result of earnings in NZD, PGK and RMB being translated into AUD and from the geographical location of a number of other individually minor foreign currency earnings. The Treasury Policy allows hedging of this exposure in order to reduce the volatility of full year earnings resulting from changes in exchange rates. At 30 September 2014, the Group did not have any derivative instruments outstanding to hedge foreign currency earnings translation exposures (2013: NIL).

***c) Commodity price risk management***

DuluxGroup is exposed to commodity price risk from a number of commodities, including titanium dioxide, tin plate, hot rolled coil steel and some petroleum based inputs, for example latex and resin. The cost of these inputs is impacted by changes in commodity prices, foreign currency movements and industry specific factors. To the extent that any increases in these costs cannot be passed through to customers in a timely manner, DuluxGroup's profit after income tax and shareholder's equity could be impacted adversely. Owing to the short delivery lead times for these commodities, there is no significant exposure to price movements for the Group.

***d) Liquidity risk management***

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

- Maintaining an adequate level of undrawn committed facilities in various currencies that can be drawn upon at short notice;
- Retaining appropriate levels of cash and cash equivalent assets;
- To the extent practicable, the spreading of the maturity dates of long term debt facilities; and
- Monitoring expected liquidity requirements on an ongoing basis taking account of forecast business performance and critical assumptions such as input costs, sales price and volumes, exchange rates and capital expenditure.

## 19 Financial and capital management (continued)

**Foreign exchange risk management (continued)**

***d) Liquidity risk management (continued)***

Facilities available and the amounts drawn and undrawn as at 30 September 2014 are as follows:

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| **Unsecured bank overdraft facilities**(1) | | |
| Unsecured bank overdraft and overnight borrowing facilities available | **22,343** | 8,452 |
| Amount of facilities undrawn | **16,343** | 8,452 |
| **Committed standby and loan facilities** | | |
| Committed standby and loan facilities available(2,3) | **616,461** | 632,824 |
| Amount of facilities unused | **252,631** | 201,042 |

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

(2) As at the 30 September 2014, the repayment dates of the committed loan facilities range from 8 November 2015 to 18 September 2026 (2013: 30 April 2015 to 8 November 2017). Following changes made on 31 October 2014 to the maturity profile of the unsecured multi-currency syndicated bank loan facility, the repayment dates of the facilities range from 8 November 2016 to 19 September 2026.

(3) Includes AUD $400,000,000 (2013: $400,000,000) unsecured multi-currency syndicated bank loan facility, AUD syndicated bank loan facility of $NIL (2013: AUD $220,000,000) and $201,065,000 (2013: $NIL) USPP Bond. Includes the RMB 60,000,000 (AUD $11,121,000) (2013: RMB 50,000,000 (AUD $8,796,000)) unsecured bank loan facility established in China and two unsecured bank loan facilities established in Hong Kong for HKD 19,000,000 (AUD $2,801,000) (2013: HKD 19,000,000 (AUD $2,638,000)) and HKD 10,000,000 (AUD $1,474,000) (2013: HKD 10,000,000 (AUD $1,390,000)) respectively. DuluxGroup has a 51% share in all three of the loan facilities established in China and Hong Kong.

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

| **2014** | **Carrying amount $'000** | **Less than 1 year $'000** | **1 to 2 years $'000** | **2 to 5 years $'000** | **Over 5 years $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| *Financial liabilities* | | | | | | |
| Trade and other payables | **251,574** | **251,282** | **292** | **-** | **-** | **251,574** |
| Bank loan | **380,857** | **35,295** | **20,210** | **184,858** | **248,704** | **489,067** |
| | **632,431** | **286,577** | **20,502** | **184,858** | **248,704** | **740,641** |
| 2013 | | | | | | |
| *Financial liabilities* | | | | | | |
| Trade and other payables | 248,401 | 248,401 | - | - | - | 248,401 |
| Trade bills and trade cards | 6,925 | 6,925 | - | - | - | 6,925 |
| Bank loan | 428,154 | 33,471 | 41,903 | 421,293 | - | 496,667 |
| | 683,480 | 288,797 | 41,903 | 421,293 | - | 751,993 |

**Credit risk management**

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

DuluxGroup has policies in place to ensure that the supply of products and services are made to customers with appropriate credit history. Customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. DuluxGroup has some major customers who represent a significant proportion of its revenue. However, the customers' size, credit rating and long term history of full debt recovery are indicators of lower credit risk.

In regards to credit risk arising from derivative financial instruments and cash, this is the credit exposure to financial institutions that are counterparties to cash deposits and derivative financial contracts with a positive fair value (i.e. derivative financial assets) from DuluxGroup's perspective. To manage this risk, DuluxGroup restricts dealings to highly rated counterparties approved within its credit limit policy. The higher the credit rating of the counterparty, the higher DuluxGroup's allowable exposure is to that counterparty under the Treasury Policy. The consolidated entity does not hold any credit derivatives or collateral to offset its credit exposures. Given the high credit ratings of DuluxGroup's counterparties, the Company does not expect any counterparty to fail to meet its obligations with respect to any derivative financial assets as at 30 September 2014.

## 20 Contributed equity

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares | **236,114** | 201,099 |
| Less treasury shares | **(7,625)** | (7,716) |
| Ordinary shares of the consolidated entity | **228,489** | 193,383 |

Movements in contributed equity since 1 October 2013 were as follows:

| Details | Number of shares | 2014 $'000 |
|---|---|---|
| **Ordinary shares** | | |
| Balance at 1 October 2013 | 377,019,430 | 201,099 |
| Shares issued under the DuluxGroup dividend reinvestment plan (DRP)[1] | 4,565,323 | 24,206 |
| Shares issued under the ESIP and LTEIP | 1,919,189 | - |
| Shares vested under the ESIP[2] | - | 1,333 |
| Shares vested under the LTEIP[3] | - | 9,476 |
| **Balance at 30 September 2014** | **383,503,942** | **236,114** |
| Less treasury shares | 2,625,070 | 7,625 |
| **Total contributed equity** | **380,878,872** | **228,489** |

(1) The Company has established a DRP under which holders of ordinary shares may be able to elect to have all or part of their dividend entitlements satisfied by the issue of new fully paid ordinary shares or shares purchased on-market by DuluxGroup.

(2) Upon vesting of the 2010 ESIP or cessation of employment and settlement of amounts outstanding for ESIP shares, $1,333,000 has been recognised in contributed equity. Included in the amount recognised is $656,000 which was transferred from the share-based payment reserve to contributed equity.

(3) In accordance with the plan rules 3,705,682 shares vested under the 2010 LTEIP and proceeds of $5,723,000 were received as settlement, being the residual balance after applying dividends and debt foregiveness of $3,800,000. In addition, the share-based payment reserve amount of $3,753,000 was transferred from the share-based payment reserve to contributed equity.

### a) Shares issued to subsidiaries

DuluxGroup has formed a trust to administer the Group's employee share schemes. Dulux Group (Employee Share Plans) Pty Ltd, is the trustee for the plans. The trust is consolidated as the substance of the relationship is that the trust is controlled by DuluxGroup.

Shares held by the DuluxGroup Employee Share Plan Trust are either recognised as treasury shares if they were originally purchased on-market, or where new ordinary share capital is issued to the trust for the purpose of the employee share schemes, this ordinary share capital is not recognised in contributed equity on consolidation.
Movements in these shares since 1 October 2013 were as follows:

| | Number of shares | | |
|---|---|---|---|
| **Details** | **Issued to subsidiaries** | **Treasury** | **Total** |
| Balance at 1 October 2013 | 7,453,938 | 2,656,558 | 10,110,496 |
| Shares issued under the ESIP and LTEIP | 1,919,189 | - | 1,919,189 |
| Shares vested under the ESIP | (477,460) | (31,488) | (508,948) |
| Shares vested under the LTEIP | (3,705,682) | - | (3,705,682) |
| **Balance at 30 September 2014** | **5,189,985** | **2,625,070** | **7,815,055** |

In the event that all shares held by the trust vest in full with no debt forgiveness, the maximum outstanding proceeds expected to be received from employee share plan repayments is $25,328,000.

## 21 Reserves

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Reserves** | | |
| Share-based payments | **6,554** | 7,514 |
| Cash flow hedge | **(1,065)** | 1 |
| Foreign currency translation | **816** | (2,530) |
| Common control | **(97,702)** | (97,702) |
| | **(91,397)** | (92,717) |

## 21 Reserves (continued)

### a) Share-based payments reserve

The amount reported in the share-based payments reserve each year represents the share-based payments expense adjusted for amounts transferred to contributed equity on vesting of shares.

### b) Cash flow hedge reserve

The amount in the cash flow hedge reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (net of tax).

### c) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge DuluxGroup's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

### d) Common control reserve

DuluxGroup Limited has elected to account for business combinations under common control at carrying value. As permitted by Australian Accounting Standards, certain of its subsidiaries, primarily DuluxGroup (New Zealand) Pty Ltd elected to apply purchase accounting in its own accounting books and records. On consolidation, the effect of this policy difference on the pre-July 2010 demerger acquisition of the business assets and liabilities in New Zealand is reversed with the recognition of a common control reserve to the extent that the fair value of the business assets and liabilities exceeded their carrying value at the date of acquisition.

## 22 Dividends

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| **Dividends paid** | | |
| Final dividend for 2013 of 9.5 cents per share fully franked (2012: 8.0 cents per share fully franked) | **35,419** | 29,241 |
| Interim dividend for 2014 of 10.0 cents per share fully franked (2013: 8.0 cents per share fully franked) | **37,733** | 29,575 |
| | **73,152** | 58,816 |
| **Dividend franking account** | | |
| Franking credits available to shareholders for subsequent financial years based on a tax rate of 30% (2013: 30%) | **21,753** | 16,143 |

### a) Dividends declared after balance date

On 12 November 2014, the Directors declared a final dividend of 10.5 cents per ordinary share, fully franked and payable on 17 December 2014.

The financial effect of the final dividend has not been brought to account in the financial report for the financial year ended 30 September 2014 and will be recognised in the financial report for the financial year ending 30 September 2015.

The Company's DRP will operate with respect to the final dividend. The DRP pricing period will be the five trading days from 1 December 2014 to 5 December 2014 inclusive. A discount of 2.5% will be applied to the DRP price. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

## 23 Share-based payments

Total expenses arising from share-based payment transactions recognised during the financial year as part of employee benefit expense were as follows:

| | **2014 $** | 2013 $ |
|---|---|---|
| DuluxGroup Long Term Equity Incentive Plan(1) | **2,514,125** | 2,381,072 |
| DuluxGroup Employee Share Investment Plan | **934,575** | - |
| | **3,448,700** | 2,381,072 |

(1) In accordance with AASB 2, represents the expense incurred during the financial year in respect of current incentive allocations to executives. These amounts are therefore not amounts actually received by executives during the financial year. Whether an executive receives any value from the allocation of long term incentives in the future will depend on the performance of the Company's shares. The minimum potential future value of grants under LTEIP is $NIL (2013: $NIL).

## 23 Share-based payments (continued)

### a) DuluxGroup Long Term Equity Incentive Plan (LTEIP)

The LTEIP has been established to incentivise executives to generate shareholder wealth. Under the LTEIP, eligible executives are provided with an interest free, non-recourse loan from DuluxGroup for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attaching to their DuluxGroup ordinary shares from the date of allocation of those shares. Shares allocated under this plan in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements. A share-based payments expense is recognised in the income statement over the vesting period based on the fair value of the options. Settlement of share loans upon vesting are recognised as contributed equity. If the executive leaves DuluxGroup within the vesting period the shares allocated are returned to DuluxGroup, subject to discretion retained by the Directors.

Detailed remuneration disclosures, including the link between the LTEIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

The fair value at grant date for the purposes of AASB 2 is independently determined using an adjusted form of the Black-Scholes option pricing model. Standard option pricing inputs include underlying share price, exercise price, expected dividends, expected risk-free interest rates and expected share price volatility. An expected net dividend yield of nil has been adopted as participants will fully benefit from dividend receipts during the life of the investments. In addition, specific factors in relation to the likely achievement of performance hurdles and employment tenure have been taken into account. The Board has implemented a 'gateway' level of minimum performance for the DuluxGroup LTEIP below which no benefit accrues, being a Board determined compound annual EPS growth over the three year period calculated from the 30 September preceeding the grant date. The gateway for the unvested plans is 4%. This 'gateway' is a minimum level of acceptable performance for any of the LTEIP shares to vest.

The relative Total Shareholder Return (TSR) performance hurdle is used to determine the level of loan forgiveness under the DuluxGroup LTEIP (the forgiveness amount). There is no loan forgiveness amount if DuluxGroup's relative TSR is below the 51st percentile against a comparator group. If DuluxGroup's relative TSR is greater than or equal to the 51st percentile, a proportion of the initial loan balance (on a 'sliding scale' from 10% at the 51st percentile up to a maximum of 30% at or above the 75th percentile) is forgiven.

Details of shares issued under these plans are as follows:

| | | | | | | | Number of shares | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant date | Life of share options (years) | Expiry date | Grant date share price | Fair value at grant date | Risk free interest rate | Share price volatility | Shares start of year | Lapsed during year | Granted during year | Exercised during year | Balance end of year |
| **LTEIP plans** | | | | | | | | | | | |
| 12 Jul 10 | 3.5 | Jan 14 | $2.54 | $0.98 | 4.7% | 30.0% | 3,705,682 | - | - | (3,705,682) | - |
| 2 Dec 11 | 3.1 | Jan 15 | $2.88 | $0.94 | 3.2% | 25.0% | 2,556,604 | (344,703) | - | - | 2,211,901 |
| 30 Nov 12 | 3.1 | Jan 16 | $3.50 | $0.99 | 2.6% | 22.5% | 2,366,643 | (391,410) | - | - | 1,975,233 |
| 28 Jun 13 | 3.1 | Jan 16 | $4.21 | $1.26 | 2.8% | 22.5% | 330,210 | (43,763) | - | - | 286,447 |
| 29 Nov 13 | 3.1 | Jan 17 | $5.45 | $1.71 | 3.0% | 22.5% | - | (114,349) | 2,191,852 | - | 2,077,503 |

### b) DuluxGroup Employee Share Investment Plan (ESIP)

In December 2013, eligible Australian employees of the Group were invited to acquire DuluxGroup ordinary shares to the value of $500 (through salary sacrifice) with DuluxGroup matching this participation up to a further $500 (December 2012: $1,000 with no matching). Eligible employees in New Zealand were invited to acquire ordinary shares to the value of NZD $390 (through salary sacrifice) with DuluxGroup matching this participation up to a further NZD $390 (December 2012: NZD $780 with no matching). In accordance with AASB 2 the accounting expense to the Group for any matching is recognised in full at the time of the offer.

In June 2013, a special offer was made to eligible new and former Alesco employees of the Group in Australia to acquire DuluxGroup ordinary shares to the value of $1,000 or $500. Eligible new and former Alesco employees in New Zealand were invited to acquire ordinary shares to the value of NZD $780 or NZD $390.

The number of DuluxGroup shares allocated was based on the volume weighted average price at the time of allocation under the ESIP. The offer was only open to full time and permanent part time employees who had been continuously employed within the DuluxGroup business for a period of three months prior to the date of the offers and specifically excluded members of the senior management team and Directors.

## 23 Share-based payments (continued)

### b) DuluxGroup Employee Share Investment Plan (ESIP) (continued)

A share allocated to a participating employee under the ESIP has trade restrictions attached until the earlier of the end of three years after the date of allocation and the time when the participant ceases to be employed by DuluxGroup Limited or any of its controlled entities. At the end of the restriction period, the employee will be able to sell or otherwise deal with their DuluxGroup shares.

Details of restricted shares issued under these plans is as follows:

**ESIP plans**

| Allocation date | Number of shares unvested at 30 September 2014 |
|---|---|
| 20 Dec 11 | 358,523 |
| 19 Dec 12 | 247,650 |
| 28 Jun 13 | 58,848 |
| 20 Dec 13 | 326,368 |

## 24 Related party disclosures

### a) Parent entity

The ultimate parent entity within the Group is DuluxGroup Limited, which is domiciled and incorporated in Australia.

### b) Controlled entities

Interests in subsidiaries are set out in Note 27.

### c) Key Management Personnel compensation summary

In accordance with the requirements of AASB 124 Related Party Disclosures, the Key Management Personnel (KMP) include Non-Executive Directors and members of the Group Executive Team who have authority and responsibility for planning, directing and controlling the activities of DuluxGroup. 'Executives' refers to members of the Group Executive Team identified as KMP. A summary of KMP compensation is set out in the table below.

| | **2014** **$** | 2013 $ |
|---|---|---|
| Short term employee benefits | **6,991,150** | 5,736,116 |
| Other long term benefits | **89,276** | 86,227 |
| Post employment benefits | **154,471** | 144,797 |
| Share-based payments | **1,220,824** | 1,177,921 |
| Total | **8,455,721** | 7,145,061 |

Information regarding individual Director's and Executive's compensation and some equity instruments disclosure as required by Corporation Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

### d) Key Management Personnel transactions in shares and options

The total relevant interests of KMPs, including their related parties, in the share capital and options of the Company at 30 September are set out in the table below:

| **Interests held by KMP** | **2014 Number** | 2013 Number |
|---|---|---|
| Number of options for fully paid ordinary shares | **3,042,390** | 3,980,646 |
| Number of fully paid ordinary shares | **1,518,043** | 808,014 |

### e) Other transactions with Key Management Personnel

All transactions with KMPs are made on normal commercial terms and conditions and in the ordinary course of business. At 30 September 2014, consulting and subsidiary board fees of $43,750 (2013: $43,750) remain unpaid to Ms Chew. There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2014.

## 24 Related party disclosures (continued)

**f) Transactions with other related parties**

All transactions with other related parties are made on normal commercial terms and conditions and in the ordinary course of business. Transactions during the year with joint ventures were:

| | **2014 $** | 2013 $ |
|---|---|---|
| Sales of goods to joint ventures | **265,043** | 233,832 |
| Purchases of goods from joint ventures | **2,618,182** | 2,962,651 |
| Distributions received from joint ventures | **250,000** | 250,000 |

**g) Outstanding balances with other related parties**

The following balances are outstanding at the reporting date in relation to transactions with related parties other than KMP:

| | **2014 $** | 2013 $ |
|---|---|---|
| Current receivables from joint ventures | **17,897** | 34,863 |
| Current payables to joint ventures | **698,889** | 725,572 |

No provisions for doubtful debts have been raised against amounts receivable from other related parties.

In the normal course of business, the Group occasionally enters into transactions with various entities that have Directors in common with DuluxGroup. Transactions with these entities are made on commercial arm's-length terms and conditions. The relevant Directors do not participate in any decisions regarding these transactions.

## 25 Commitments

**a) Capital expenditure commitments**

Capital expenditure as at 30 September 2014 on property and plant and equipment contracted but not provided for and payable was $1,384,000 (2013: $1,034,000).

**b) Lease commitments – Non-cancellable operating leases**

The Group leases offices, warehouses, retail bulky goods and manufacturing sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. There are no restrictions placed upon the lessee by entering into these leases. Excess space is sub-let to third parties also under non-cancellable operating leases.

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| - No later than one year | **28,722** | 27,664 |
| - Later than one, no later than five years | **64,007** | 43,270 |
| - Later than five years | **17,093** | 11,025 |
| | **109,822** | 81,959 |

Not included in the above commitments are contingent rental payments which may arise as part of rental increases indexed to the Consumer Price Index (CPI) or the higher of a fixed rate or the CPI.

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases | **6,566** | 3,153 |

## 26 Contingent liabilities

The nature of DuluxGroup's consumer products business and its geographic diversity means that the Company receives a range of claims from various parties and is from time to time required to make its own assessment of obligations arising from legislation across the jurisdictions in which it operates. These claims, and actual or potential obligations, are evaluated on a case-by-case basis considering the information and evidence available as well as specialist advice as required to assess the appropriate outcome.

The outcome of currently pending and future litigation cannot be predicted with certainty. Accordingly, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could materially affect the financial position, results of operations or cash flows of the Group. Litigation and other judicial proceedings raise difficult legal issues and are subject to many complexities. Upon resolution of a legal matter, the Group may incur charges in excess of the presently established provisions and related insurance coverage. Where it is considered probable that a future obligation will result in a material outflow of resources, then this is accounted for accordingly by the Group.

## 27 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of DuluxGroup Limited and the following subsidiaries in accordance with the accounting policies.

| Name of entity | Country of incorporation /registration | Equity holding 2014 % | 2013 % |
|---|---|---|---|
| DuluxGroup (Investments) Pty Ltd(1,2) | Australia | **100** | 100 |
| DuluxGroup (Finance) Pty Ltd(1,2) | Australia | **100** | 100 |
| DuluxGroup (New Zealand) Pty Ltd(1,2) | Australia | **100** | 100 |
| DuluxGroup (Australia) Pty Ltd(1,2) | Australia | **100** | 100 |
| Dulux Holdings Pty Ltd(1,2) | Australia | **100** | 100 |
| DuluxGroup (Employee Share Plans) Pty Ltd(1) | Australia | **100** | 100 |
| DuluxGroup Employee Share Plan Trust | Australia | **100** | 100 |
| DuluxGroup (Nominees) Pty Ltd(1,2) | Australia | **100** | 100 |
| Alesco Corporation Limited (1,2) | Australia | **100** | 100 |
| Alesco Finance Pty Ltd(1,2) | Australia | **100** | 100 |
| Alesco Holdings Pty Ltd(1) | Australia | **100** | 100 |
| Alesco No. 2 Pty Ltd(1) | Australia | **100** | 100 |
| Alesco No. 1 Pty Ltd(1) | Australia | **100** | 100 |
| B&D Australia Pty Ltd(1,2) | Australia | **100** | 100 |
| Automatic Technology (Australia) Pty Ltd(1,2) | Australia | **100** | 100 |
| Parchem Construction Supplies Pty Ltd(1,2) | Australia | **100** | 100 |
| Robinhood Australia Pty Ltd(1) | Australia | **100** | 100 |
| Lincoln Sentry Group Pty Ltd(1,2) | Australia | **100** | 100 |
| Concrete Technologies Pty Ltd(1) | Australia | **100** | 100 |
| Pargone Pty Ltd(1) | Australia | **100** | 100 |
| ACN 009 130 858 Pty Ltd(1) | Australia | **100** | 100 |
| ACN 000 639 252 Pty Ltd(1) | Australia | **100** | 100 |
| Joinery Products Hardware Supplies Pty Ltd(1) | Australia | **100** | 100 |
| ATA Innovations Pty Ltd(1) | Australia | **100** | 100 |
| Alesco Management Share Plan Trust | Australia | **100** | 100 |
| DGL International (Shenzhen) Co Ltd(4) | China | **100** | 100 |
| DGL Camel Coatings (Shanghai) Limited(3) | China | **51** | 51 |
| DGL Camel Powder Coatings (Dongguan) Limited(3) | China | **51** | 51 |
| DGL Camel Coatings (Dongguan) Limited(3) | China | **51** | 51 |
| Countermast Technology (Dalian) Company Limited | China | **100** | 100 |

## 27 Subsidiaries (continued)

| Name of entity | Country of incorporation /registration | Equity holding 2014 % | 2013 % |
|---|---|---|---|
| DGL International (Hong Kong) Ltd | Hong Kong | **100** | 100 |
| DGL Camel International Limited(3) | Hong Kong | **51** | 51 |
| DGL Camel Powder Coatings Limited(3) | Hong Kong | **51** | 51 |
| DGL Camel (Hong Kong) Limited(3) | Hong Kong | **51** | 51 |
| DGL Camel (China) Limited(3) | Hong Kong | **51** | 51 |
| Countermast Limited | Hong Kong | **100** | 100 |
| DGL International (Malaysia) Sdn Bhd | Malaysia | **100** | 100 |
| Alesco New Zealand Limited | New Zealand | **100** | 100 |
| Alesco NZ Trustee Limited | New Zealand | **100** | 100 |
| B&D Doors (NZ) Limited(2) | New Zealand | **100** | 100 |
| Concrete Plus Limited(2) | New Zealand | **100** | 100 |
| Easy Iron Limited | New Zealand | **100** | 100 |
| Lincoln Sentry Limited | New Zealand | **100** | 100 |
| Robinhood Limited | New Zealand | **100** | 100 |
| Supertub Limited | New Zealand | **100** | 100 |
| Dulux Holdings (PNG) Ltd | Papua New Guinea | **100** | 100 |
| DGL Camel (Singapore) Pte Ltd(3) | Singapore | **51** | 51 |
| DuluxGroup (PNG) Pte Ltd(2) | Singapore | **100** | 100 |
| DGL International (Singapore) Pte Ltd | Singapore | **100** | 100 |
| DGL International (Vietnam) Limited Company | Vietnam | **100** | 100 |

(1) These controlled entities have each entered into a Deed of Cross Guarantee with DuluxGroup Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with the ASIC Class Order 98/1418.
(2) In addition to DuluxGroup Limited, the following controlled entities have provided a guarantee in relation to the Group's syndicated bank loan facilities and other overseas bank facilities.
(3) These entities form part of the DGL Camel International Group.
(4) Entity in the process of liquidation as at 30 September 2014.

## 28 Businesses acquired

**2014**

On 21 July 2014 Automatic Technology (Australia) Pty Ltd, a wholly owned subsidiary of DuluxGroup, acquired Smart Openers, a manufacturer and designer of garage door and gate openers. The assets recognised as a result of this acquisition are as follows:

| **2014** | Fair value $'000 |
|---|---|
| Consideration | |
| Cash | 950 |
| Deferred consideration | 360 |
| Total consideration | 1,310 |
| Net assets of business acquired | |
| Inventories | 100 |
| Intangibles | 386 |
| Deferred tax assets | 108 |
| Net identifiable assets acquired | 594 |
| Goodwill on acquisition(1) | 716 |

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

## 28 Businesses acquired (continued)

**2013**

The compulsory acquisition of the ordinary share capital of Alesco was completed on 29 January 2013. From an accounting perspective, the acquisition date is 12 December 2012, the date on which the offer was made unconditional and the ability to govern the financial and operating policies through securing Board and management control of Alesco Group was obtained. The results of the acquired businesses have been consolidated from the close of business on 11 December 2012. The acquisition accounting for this transaction has now been finalised. The assets and liabilities recognised as a result of this acquisition by the consolidated entity are as follows:

| 2013 | Book value $'000 | Fair value adjustment $'000 | Fair value total $'000 |
|---|---|---|---|
| Consideration | | | |
| Cash payments to ordinary shareholders of Alesco[1] | 145,940 | - | 145,940 |
| Investment in Alesco at fair value through other comprehensive income | 35,908 | - | 35,908 |
| Net cash acquired | (571) | - | (571) |
| Total consideration | 181,277 | - | 181,277 |
| Net assets of controlled entities acquired | | | |
| Trade and other receivables[2] | 82,714 | (841) | 81,873 |
| Inventories | 72,517 | (7,135) | 65,382 |
| Property, plant and equipment | 56,669 | 5,127 | 61,796 |
| Intangibles including purchased goodwill[3] | 333,194 | (276,882) | 56,312 |
| Other assets | 2,414 | (61) | 2,353 |
| Deferred tax assets | 13,839 | 5,286 | 19,125 |
| Trade and other payables | (68,781) | (2,492) | (71,273) |
| Interest-bearing liabilities | (75,001) | - | (75,001) |
| Leased properties provisions | (4,642) | (4,306) | (8,948) |
| Contingent liabilities | - | (9,951) | (9,951) |
| Current income tax provision | (4,486) | (1,824) | (6,310) |
| Other provisions | (1,931) | (2,254) | (4,185) |
| Provision for employee entitlements | (12,933) | (970) | (13,903) |
| Deferred tax liabilities | (2,803) | (14,925) | (17,728) |
| Net identifiable assets acquired | 390,770 | (311,228) | 79,542 |
| Goodwill on acquisition[4] | | | 101,735 |

(1) Cash payment to ordinary shareholders of Alesco for accounting purposes comprises $125,584,000 relating to the purchase of ordinary shares in Alesco and $20,356,000 in relation to payment of a special dividend.

(2) Includes an insurance receivable of NZD $700,000 (AUD $550,000) for recoveries from the Christchurch earthquake.

(3) Book value includes purchased goodwill of $230,125,000.

(4) None of the goodwill recognised is expected to be deductible for tax purposes.

Goodwill on the purchase of Alesco Group is attributable mainly to the skills and technical talent of the acquired businesses' work forces and the synergies expected to be achieved from integrating these businesses.

## 29 Businesses disposed

**2014**

On 18 December 2013, DuluxGroup entered into an agreement to dispose of the Opel business in China for RMB 55,453,000 (AUD $10,315,000), net of sales related taxes, to Nippon Paint (China) Co., Limited. This transaction was completed on 15 January 2014, with the sale proceeds received in full during the year ended 30 September 2014.

The income statement includes a profit on disposal before tax of $3,714,000 ($3,714,000 net of tax) after taking account of transaction costs of $317,000, and allocation of $917,000 for DuluxGroup's 51% share of the goodwill pertaining to the part of the China CGU disposed in this transaction. Goodwill attributable to the non-controlling interest's 49% share, has not been recognised as the merger of the Group's Hong Kong and China net assets with those of National Lacquer Paint and Products Co Ltd (NLPP) was accounted for on a proportional basis, meaning that only DuluxGroup's share of goodwill is recognised on the balance sheet. DuluxGroup's share of the profit is $1,445,000, with the balance of $2,269,000 attributable to non-controlling interest. The profit on disposal is included in 'Other income' in the income statement and is disclosed as part of 'Other businesses' in the segment report (refer Note 3).

In addition to DuluxGroup's 51% share of goodwill explained above, assets totalling $5,367,000 were disposed, including: trademarks and intellectual property rights attaching to the Opel brand name of $981,000; saleable inventory of $640,000; receivables of $3,746,000; as well as all customer lists and supplier contracts and the relevant know how and formulations for all products sold under the Opel brands.

## 29 Businesses disposed (continued)

**2014 (continued)**

As a consequence of the Opel business disposal, the Group has incurred further restructuring costs totalling $2,798,000 relating to the exit of this business. DuluxGroup's share of these costs is $1,427,000, with the balance of $1,371,000 attributable to non-controlling interest. These costs include amounts for relocation of manufacturing, lease surrender, redundancies, disposal of assets (including asset write offs for remaining raw materials and work in progress inventories, excess software licenses and fixed assets), and termination of supplier arrangements. These costs are included as part of other expenses and employee benefits expense in the consolidated income statement.

Accordingly, the net impact of this transaction inclusive of restructuring costs on net profit attributable to DuluxGroup shareholders was $18,000.

**2013**

On 29 August 2013, DuluxGroup entered into an agreement to dispose the Robinhood kitchen and laundry appliance business which was acquired through the Alesco acquisition, for $3,428,000. This transaction was completed on 16 September 2013. During the financial year ended 30 September 2013 DuluxGroup received proceeds of $2,967,000 (exclusive of GST), with the balance of $461,000 received during the year ended 30 September 2014.

## 30 Deed of cross guarantee

Entities which are party to a Deed of Cross Guarantee (Closed Group), entered into in accordance with ASIC Class Order 98/1418 are disclosed in Note 27. A consolidated income statement, consolidated statement of comprehensive income and consolidated balance sheet for the Closed Group are disclosed below.

**a) Consolidated income statement and retained earnings**

| | **2014 $'000** | 2013 Restated[(1)] $'000 |
|---|---|---|
| **Profit before income tax expense** | **130,886** | 89,498 |
| Income tax expense | **(40,719)** | (30,123) |
| **Profit for the financial year** | **90,167** | 59,375 |
| **Retained earnings** | | |
| Balance at 1 October | **113,373** | 107,724 |
| Profit for the financial year | **90,167** | 59,375 |
| Actuarial (losses)/gains on defined benefit plan (net of tax) | **(4,297)** | 6,782 |
| Transfers in from revaluation reserve - other financial assets | **-** | (1,692) |
| Dividends paid - ordinary shares | **(73,178)** | (58,816) |
| **Balance at 30 September** | **126,065** | 113,373 |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

**b) Consolidated statement of comprehensive income**

| | **2014 $'000** | 2013 Restated[(1)] $'000 |
|---|---|---|
| **Profit for the financial year** | **90,167** | 59,375 |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to the income statement** | | |
| Effective portion of changes in fair value of cash flow hedges | **(1,523)** | 97 |
| Foreign currency translation gain on foreign operations | **(271)** | 7,454 |
| Income tax on items that may be reclassified subsequently to the income statement | **457** | (29) |
| **Total items that may be reclassified subsequently to the income statement, net of tax** | **(1,337)** | 7,522 |
| **Items that will not be reclassified to the income statement** | | |
| Actuarial (losses)/gains on defined benefit plan | **(6,139)** | 9,689 |
| Revaluation of other financial assets at fair value through other comprehensive income | **-** | (940) |
| Income tax on items that will not be reclassified to the income statement | **1,842** | (2,907) |
| **Total items that will not be reclassified to the income statement, net of tax** | **(4,297)** | 5,842 |
| **Other comprehensive income for the financial year, net of tax** | **(5,634)** | 13,364 |
| **Total comprehensive income for the financial year** | **84,533** | 72,739 |

(1) The prior period has been restated as a result of a change in accounting standard AASB 119 Employee Benefits, refer to Note 1(e).

## 30 Deed of cross guarantee (continued)

### c) Consolidated balance sheet

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **20,372** | 29,493 |
| Trade and other receivables | **249,420** | 229,178 |
| Inventories | **181,668** | 174,993 |
| Derivative financial assets | **507** | 298 |
| Other assets | **6,544** | 5,324 |
| **Total current assets** | **458,511** | 439,286 |
| **Non-current assets** | | |
| Derivative financial assets | **11,715** | - |
| Investment in controlled entities | **52,260** | 65,125 |
| Investment accounted for using the equity method | **5,423** | 4,678 |
| Property, plant and equipment | **256,255** | 254,236 |
| Intangible assets | **217,662** | 220,424 |
| Deferred tax assets | **45,742** | 45,139 |
| Other assets | **3,372** | 4,231 |
| **Total non-current assets** | **592,429** | 593,833 |
| **Total assets** | **1,050,940** | 1,033,119 |
| **Current liabilities** | | |
| Trade and other payables | **239,704** | 221,231 |
| Interest-bearing liabilities | **5,332** | 7,481 |
| Derivative financial liabilities | **-** | 2 |
| Current tax liabilities | **9,103** | 7,825 |
| Provisions | **25,804** | 28,203 |
| **Total current liabilities** | **279,943** | 264,742 |
| **Non-current liabilities** | | |
| Trade and other payables | **292** | - |
| Interest-bearing liabilities | **366,092** | 419,372 |
| Deferred tax liabilities | **16,338** | 16,839 |
| Provisions | **39,739** | 38,935 |
| Defined benefit liability | **14,468** | 8,266 |
| **Total non-current liabilities** | **436,929** | 483,412 |
| **Total liabilities** | **716,872** | 748,154 |
| **Net assets** | **334,068** | 284,965 |
| **Equity** | | |
| Contributed equity | **259,910** | 223,702 |
| Reserves | **(51,907)** | (52,110) |
| Retained earnings | **126,065** | 113,373 |
| **Total equity** | **334,068** | 284,965 |

## 31 Parent entity financial information

### a) Summary financial information

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

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Current assets | **87,687** | 83,192 |
| Non-current assets | **229,273** | 229,260 |
| Total assets | **316,960** | 312,452 |
| Current liabilities | **395** | 871 |
| Non-current liabilities | **-** | 37,864 |
| Total liabilities | **395** | 38,735 |
| Net assets | **316,565** | 273,717 |
| **Equity** | | |
| Contributed equity | **259,910** | 223,702 |
| Profits reserve[(1)] | **47,248** | 30,000 |
| Other reserves | **5,542** | 6,503 |
| Retained earnings | **3,865** | 13,512 |
| | **316,565** | 273,717 |
| Profit before income tax expense[(2)] | **78,980** | 58,765 |
| Income tax benefit | **1,800** | 1,843 |
| **Profit for the financial year** | **80,780** | 60,608 |
| **Total comprehensive income of the parent entity** | **80,780** | 60,608 |

(1) Represents an appropriation of amounts from retained earnings for the payment of future dividends. On consolidation, this reserve is included as part of the consolidated retained earnings.

(2) Profit before income tax expense includes dividend income of $85,000,000 declared by DuluxGroup (New Zealand) Pty Ltd during the financial year ended 30 September 2014 (2013: $65,000,000).

### b) Guarantees

Details of guarantees entered into by the parent entity in relation to external banking facilities as at 30 September 2014 are set out in Note 27. In addition, the parent entity is a party to the deed of cross guarantee.

### c) Capital commitments

There were no capital commitments entered into by the parent entity as at 30 September 2014 (2013: $NIL).

### d) Contingent liabilities

Refer to Note 26 for information relating to contingent liabilities of the parent entity.

## 32 Events subsequent to balance date

On 31 October 2014, DuluxGroup extended Tranche A ($100,000,000) of its $400,000,000 unsecured multi-currency syndicated bank loan facility for three years from 8 November 2015 to 8 November 2018. At the same time, DuluxGroup favourably re-priced Tranche B ($150,000,000) and Tranche C ($150,000,000) of the same facility. The terms and conditions of the facility remain largely unchanged.

On 12 November 2014, the Directors determined that a final dividend of 10.5 cents per ordinary share will be paid in respect of the 2014 financial year. The dividend will be fully franked and payable on 17 December 2014. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2014 and will be recognised in the 2015 financial statements.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2014, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

# Directors’ Declaration
## For the financial year ended 30 September 2014

In the directors’ opinion:

(a) the financial statements and notes, and the remuneration report in the Directors’ report, set out on pages 60 to 138, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company’s and consolidated entity's financial position as at 30 September 2014 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in Note 30; and

(d) the financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* for the financial year ended 30 September 2014.

This declaration is made in accordance with a resolution of the directors.

Peter M. Kirby
Chairman

**Melbourne**
**12 November 2014**

**Independent auditor's report to the members of DuluxGroup Limited**

**Report on the financial report**

We have audited the accompanying financial report of DuluxGroup Limited ("the Company"), which comprises the consolidated balance sheet as at 30 September 2014, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1 a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 September 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1 a).

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 September 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of DuluxGroup Limited for the year ended 30 September 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Alison Kitchen
*Partner*

Melbourne

12 November 2014

# Shareholder Statistics

As at 27 October 2014

## Distribution of ordinary shareholders and shareholdings

| RANGE | TOTAL HOLDERS | UNITS | % OF ISSUED CAPITAL |
|---|---|---|---|
| 1 - 1,000 | 18,169 | 9,108,667 | 2.38 |
| 1,001 - 5,000 | 15,095 | 34,102,092 | 8.89 |
| 5,001 - 10,000 | 2,712 | 19,382,823 | 5.05 |
| 10,001 - 100,000 | 1,527 | 32,201,984 | 8.40 |
| 100,001 or more | 87 | 288,708,376 | 75.28 |
| **Rounding** | | | **0.00** |
| **Total** | **37,590** | **383,503,942** | **100.00** |

Included in the above total are 727 shareholders holding less than a marketable parcel of 94 shares.

The holdings of the 20 largest holders of fully paid ordinary shares represent 71.40% of that class of shares.

## Twenty largest ordinary fully paid shareholders

| RANK | NAME | UNITS | % OF UNITS |
|---|---|---|---|
| 1. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 81,919,876 | 21.36 |
| 2. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 72,805,023 | 18.98 |
| 3. | NATIONAL NOMINEES LIMITED | 40,091,089 | 10.45 |
| 4. | CITICORP NOMINEES PTY LIMITED | 27,455,970 | 7.16 |
| 5. | BNP PARIBAS NOMS PTY LTD <DRP> | 13,486,095 | 3.52 |
| 6. | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 11,756,955 | 3.07 |
| 7. | AMP LIFE LIMITED | 5,494,109 | 1.43 |
| 8. | ARGO INVESTMENTS LIMITED | 3,810,939 | 0.99 |
| 9. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C> | 2,760,714 | 0.72 |
| 10. | AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED | 2,556,058 | 0.67 |
| 11. | MR PATRICK HOULIHAN | 2,300,729 | 0.60 |
| 12. | UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 1,790,066 | 0.47 |
| 13. | BOND STREET CUSTODIANS LIMITED <MPPMIM – V16636 A/C> | 1,451,878 | 0.38 |
| 14. | SHARE DIRECT NOMINEES PTY LTD <10026 A/C> | 1,257,000 | 0.33 |
| 15. | AVANTEOS INVESTMENTS LIMITED <2477966 DNR A/C> | 1,099,398 | 0.29 |
| 16. | SANDHURST TRUSTEES LTD <HARPER BERNAYS LTD A/C> | 868,930 | 0.23 |
| 17. | BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 844,904 | 0.22 |
| 18. | GWYNVILL INVESTMENTS PTY LTD | 711,574 | 0.19 |
| 19. | NATIONAL NOMINEES PTY LTD <DB A/C> | 705,825 | 0.18 |
| 20. | MR STUART BOXER | 647,585 | 0.17 |
| **TOTAL** | | **273,814,717** | **71.40** |

## Register of substantial shareholders

The names of substantial shareholders in the Company, and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholder notices to the Company on the respective dates are as follows:

| DATE | NAME | SHARES | % OF TOTAL |
|---|---|---|---|
| 10 October 2014 | BT INVESTMENT MANAGEMENT LIMITED | 20,514,568 | 5.35 |
| 6 August 2014 | COMMONWEALTH BANK OF AUSTRALIA AND SUBSIDIARIES | 26,262,044 | 6.84 |

## Voting rights

Voting rights as governed by the Constitution of the Company provide that each ordinary shareholder present in person or by proxy at a meeting shall have:

(a) on a show of hands, one vote only; and

(b) on a poll, one vote for every fully paid ordinary share held.

# Five Year Financial Statistics

| A$M | NOTES | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Sales revenue (reported)** | **1** | **1,611.5** | **1,484.6** | **1,067.8** | **996.4** | **963.9** |
| EBITDA (reported) | 1 | 210.3 | 157.2 | 155.5 | 159.2 | 156.0 |
| EBITDA (excluding non-recurring items) | 2 | 218.9 | 186.2 | 148.6 | 154.6 | 156.0 |
| **EBIT (reported)** | **1** | **175.1** | **124.9** | **132.2** | **139.2** | **123.5** |
| EBIT (excluding non-recurring items) | 2 | 183.8 | 153.9 | 125.3 | 134.7 | 123.5 |
| **NPAT (reported)** | **1** | **104.5** | **75.0** | **89.5** | **93.3** | **71.5** |
| NPAT (excluding non-recurring items) | 2 | 111.9 | 92.2 | 79.6 | 77.6 | 68.7 |
| Non-recurring items (post-tax) | | (7.4) | (17.2) | 9.9 | 15.7 | 2.8 |
| EBIT margin (excluding non-recurring items) | | 11.4% | 10.4% | 11.7% | 13.5% | 12.8% |
| Diluted EPS (reported) (cents) | | 27.5 | 20.1 | 24.3 | 25.7 | 19.7 |
| Diluted EPS (excluding non-recurring items) (cents) | | 29.4 | 24.6 | 21.6 | 21.4 | 18.9 |
| Dividends per share – fully franked (cents) | | 20.5 | 17.5 | 15.5 | 15.0 | 3.0 |
| Dividend payout ratio (%) | | 70.2% | 71.6% | 71.9% | 71.0% | 70.0% |
| Interest cover (times) | | 7.0 | 5.5 | 5.8 | 5.8 | 5.6 |
| Effective interest rate (%) | 8 | 4.9% | 5.3% | 6.4% | 8.4% | 8.3% |
| Effective tax rate (excluding non-recurring items) (%) | | 30.1% | 29.2% | 28.2% | 30.5% | 29.5% |
| **Balance Sheet** | | | | | | |
| Trade working capital | | 234.2 | 224.4 | 132.5 | 132.1 | 113.2 |
| Non trade working capital | 3 | (121.8) | (125.4) | (83.9) | (82.5) | (88.0) |
| Property, plant & equipment | | 262.0 | 263.8 | 199.1 | 196.4 | 153.9 |
| Intangible assets | | 224.9 | 235.8 | 96.8 | 87.0 | 89.0 |
| Net other assets/(liabilities) | | 38.1 | 21.2 | 68.7 | 27.6 | 21.7 |
| **Capital employed** | | **637.4** | **619.7** | **413.2** | **360.6** | **289.8** |
| Net debt | | (345.7) | (388.7) | (230.3) | (222.1) | (204.9) |
| **Net Assets/Total Shareholders' Equity** | | **291.7** | **231.0** | **182.9** | **138.5** | **85.0** |
| **Shareholders' equity attributable to DLX shareholders** | | **289.7** | **226.2** | **169.9** | **138.5** | **85.0** |
| Rolling trade working capital (%) | | 15.1% | 15.0% | 13.3% | 12.1% | 12.0% |
| Net debt/equity (%) | | 1.2 | 1.7 | 1.3 | 1.6 | 2.4 |
| Net debt/EBITDA | 4 | 1.53 | 1.98 | 1.55 | 1.44 | 1.31 |
| Return on capital employed (%) | | 28.8% | 24.8% | 30.3% | 37.3% | 42.6% |
| Return on equity, attributable to DLX shareholders (excluding non-recurring items) (%) | | 38.6% | 40.7% | 46.8% | 56.0% | 80.8% |
| **Cash flow** | | | | | | |
| **Reported net operating cash flow** | **5** | **120.2** | **118.2** | **116.5** | **86.1** | **n/a** |
| Net operating cash flow (excluding non-recurring items) | | 143.5 | 133.8 | 101.7 | 95.5 | n/a |
| Minor capital expenditure | 6 | (30.6) | (28.8) | (23.7) | (31.1) | (17.3) |
| Major capital expenditure | 7 | – | (0.2) | (3.8) | (31.0) | (16.3) |
| Acquisitions/divestments | | 11.0 | (132.9) | (39.7) | (4.3) | – |
| Cash conversion (excluding non-recurring items) (%) | | 84% | 85% | 86% | 78% | 92% |

Notes:
Numbers in this table are subject to rounding.

1. Items shown as 'reported' are equivalent to statutory amounts disclosed in Annual Reports, except for 2010 (pro forma provided, due to the impact of the demerger from Orica on structure).
2. Items shown as 'excluding non-recurring items' are equivalent to statutory amounts disclosed in Annual Reports, adjusted for non-recurring items.
3. Non trade working capital consists of non-trade debtors, non-trade creditors and total provisions, as disclosed in the Balance Sheet commentary in Profit Reports.
4. Net Debt/EBITDA is calculated by taking closing net debt (adjusted to include the asset balance relating to the cross currency interest rate swap established to hedge the USD currency and interest rate exposures relating to the US Private Placement debt), as a percentage of the most recent twelve months of EBITDA before non-recurring items. For 2013, this has been calculated on a pro forma basis (i.e. taking twelve months EBITDA from the Alesco businesses).
5. As 2010 was prepared on a pro forma basis, operating cash flow excluded interest and taxation payments, therefore net operating cash flow was not prepared.
6. Minor capital expenditure is capital expenditure on projects that are less than A$5m.
7. Major capital expenditure is capital expenditure on projects that are greater than A$5m.
8. Effective interest rate is the effective interest rate on bank loans and the US Private Placement bond.

# Shareholder Information

## Stock Exchange Listing

DuluxGroup's shares are listed on the Australian Securities Exchange (ASX) and are traded under the code DLX.

## DuluxGroup Share Registry

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford, Victoria 3067, Australia

Telephone (within Australia): 1300 090 835
Telephone (international): 61 3 9415 4183
Facsimile: 61 3 9473 2500
Website: **www.computershare.com**

## Tax and Dividend Payments

For Australian registered shareholders who have not quoted their Tax File Number (TFN) or Australian Business Number (ABN), the company is obliged to deduct tax at the top marginal rate plus Medicare levy from unfranked and/or partially franked dividends. If you have not already quoted your TFN/ABN, you may do so by contacting our Share Registry (see above for contact details).

## Dividend Payments

Your dividends will be paid in Australian dollars by cheque mailed to the address recorded on the share register, unless you have elected to be paid by direct credit or are a full participant in the Dividend Reinvestment Plan (DRP). If you have not elected to be paid by direct credit or fully participate in the DRP, why not have us bank your dividend payments for you so you can have immediate access to your dividend payment? Your dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia.

Dividends paid by direct credit appear in your account as cleared funds, thus allowing you to access them on payment date. You may elect to receive your dividends by way of direct credit by going to our Share Registry's website www.investorcentre.com.

## Dividend Reinvestment Plan (DRP)

The DRP enables DuluxGroup's fully paid ordinary shareholders (having a registered address or being resident in Australia or New Zealand) to reinvest all or part of their dividends in additional DuluxGroup fully paid ordinary shares. Applications are available by going to our Share Registry website www.investorcentre.com.

## Consolidation of Multiple Holdings

If you have multiple issuer sponsored holdings that you wish to consolidate into a single account, please notify the Share Registry in writing, quoting your full registered names and Securityholder Reference Number (SRN) for these accounts and nominating the account to which the holdings are to be consolidated.

## Change of Name and/or Address

For issuer sponsored holdings: please notify the Share Registry in writing if you change your name and/or address (please supply details of your new/previous name, your new/previous address and your SRN), or change the details online by going to our Share Registry website www.investorcentre.com.

For CHESS holdings: please notify your sponsor (usually your broker) in writing if you change your name and/or address.

## Share Enquiries

Shareholders seeking information about their shareholding or dividends should contact the DuluxGroup's Share Registry, Computershare Investor Services Pty Limited. Contact details are above. Callers can obtain information on their investments with DuluxGroup by calling the Investor Line on 1300 090 835 (international 61 3 9415 4183). Before you call, make sure you have your SRN or Holder Identification Number (HIN) handy. You can do so much more online via the internet by visiting our Share Registry website **www.investorcentre.com**.

You can access a wide variety of holding information and make some changes online or download forms including:

- Check your current and previous holding balances
- Choose your preferred annual report option
- Update your address details (Issuer Sponsored holdings)
- Update your bank details
- Confirm whether you have lodged your TFN or ABN or exemption
- Register your TFN/ABN/exemption
- Check transaction and dividend history
- Enter your email address
- Check share prices and graphs
- Download a variety of instruction forms
- Subscribe to email announcements

You can access this information via a security login using your SRN or HIN as well as your surname (or company name) and postcode/Country code (must be the postcode/Country code recorded for that holding).

# Shareholder Timetable*

## DuluxGroup Communications

DuluxGroup's website www.duluxgroup.com.au offers shareholders details of the latest share price, announcements to the ASX, investor and analyst presentations, webcasts and the Chairman's and Managing Director's AGM addresses. The website also provides further information about the company and offers insights into DuluxGroup's businesses.

DuluxGroup's printed communications include the Annual Report, however, we can now provide all communications electronically including dividend statements, notices of meeting and proxy forms. Electronic transmission enhances shareholder communication, results in significant cost savings for the Company and is more environmentally friendly. Shareholders wishing to receive all communications electronically should visit the Share Registry website www.investorcentre.com to register their preference.

Shareholders may elect to receive a copy of the Annual Report or notification by email when the Annual Report is available online at www.duluxgroup.com.au. If you do not make an Annual Report election you will not receive a copy of the Annual Report. If you wish to change your Annual Report election, you may do so at any time, please go to www.investorcentre.com or contact our Share Registry.

Copies of reports are available on request.

Telephone: +613 9263 5678
Facsimile: +613 9263 5030
Email: company.info@duluxgroup.com.au

## Auditors

KPMG

## DuluxGroup Limited

ABN 42 133 404 065

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1956 Dandenong Road
Clayton, Victoria 3168
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## Investor Relations

Telephone: +613 9263 5678
Email: company.info@duluxgroup.com.au

| | |
|---|---|
| **31 March 2015** | **DuluxGroup 2015 Half Year End** |
| 11 May 2015 | Announcement of Half Year Financial Results |
| **30 September 2015** | **DuluxGroup 2015 Year End** |
| 11 November 2015 | Announcement of Full Year Financial Results |
| **22 December 2015** | **Annual General Meeting 2015** |

* Timing of events is subject to change

CREATED BY DESIGNATE

DuluxGroup