DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

16 December 2015

2015 AGM – MANAGING DIRECTOR'S ADDRESS

Thank you Peter.

And good morning ladies and gentlemen. I am also pleased to welcome you here today and report on another successful year at DuluxGroup.

Operating result

A solid operating result was driven by strong profitable sales growth in our Dulux, Selleys and Yates businesses in markets that were positive overall.

In discussing key aspects of the result, I will exclude the non-recurring items, which relate to our supply chain investments.

As Peter mentioned, underlying net profit after tax increased 11.5%. Earnings before interest and tax, or EBIT, increased 4.7% on sales that also grew 4.7%, and operating cash flow increased by 9.1%.

Key drivers of the results

In terms of the key drivers of the results:

- Our EBIT growth was led by our Dulux Australia and New Zealand Paints & Coatings division, which is our largest and most profitable segment, accounting for approximately two thirds of our operating EBIT. This was another consistently strong result, with revenue and EBIT growth of around 6%, and EBIT margins for the year at 16.9%, in line with prior year.

- EBIT in our Selleys Consumer and Parchem Construction Products division declined 2% on flat sales. A very strong performance by our well established Selleys business was offset by a weaker performance in Parchem, which has been adversely impacted by weak infrastructure markets. Significant restructuring during the second half has put the business on a stronger footing, however it still faces very challenging market conditions.

- EBIT declined 6% in B&D Garage Doors and Openers. However, after a challenging first half, EBIT grew 8% in the second half, reversing much of the first half decline.

- Lincoln Sentry Cabinet & Architectural Hardware grew EBIT by 1.1% on strong sales growth. Margins were impacted by the weaker Australian dollar.

- Our ‘Other Businesses’ segment grew EBIT by 30.3%, driven by a very strong sales and EBIT performance from our Yates business, margin improvement in China and foreign exchange translation benefits from Papua New Guinea.

These results were achieved in markets that were generally positive, particularly in Australia and New Zealand, though market conditions were more difficult in Papua New Guinea and China.

Further detail on our financial results has been included within the operating and financial review section of our Annual Report.

Investing in the fundamentals

Profitable growth was once again underpinned by investment in our brands, innovation and customer service. It is part of our DNA to put our consumers and customers at the centre of everything we do. We combine this with strong discipline on maintaining overall margins.

This has seen us extend our market leadership positions over time - in an environment of ongoing changes in our retail channels and increased competition, often from large global competitors.

We launched a number of new product break-throughs this year. The most notable of these was our new Dulux Wash & Wear interior paints range under the banner “the best we’ve ever made”. Our Dulux paints business achieved a favourable market share outcome in relatively strong markets, with the launch providing good momentum at the end of the year.

You hopefully have seen the high profile ‘Mythbusters’ advertising we used to launch the product. As a former Dulux Chemist, I can vouch that the level of innovation and technology behind the new range is our most significant step-change in paint performance for two decades.

It reinforces Dulux’s long-held status as Australia’s leading paint brand. This year Dulux was voted Australia’s most trusted paint brand and second most trusted brand overall.

Strategic progress

We have made good progress against our near term strategic priorities during the year.

- We are confident that we have further strengthened our market-leading positions in Dulux, Selleys and Yates across Australia and New Zealand, with market share gains a key driver of revenue and profit growth. We have also increased our marketing investment across these businesses.

- We are continuing to reshape B&D, Parchem and Lincoln Sentry. These are all profitable businesses with good market positions and plenty of potential. We are investing in marketing, sales capability and systems to progressively transform each into sustainable, more profitable, market leaders.

- We are making good progress on a range of other growth initiatives, including our longer term options for China and Asia more broadly. Our acquisition of the Porter's Paints business earlier this year not only brings into our stable a leading interior design brand in Australia, but also provides a presence in many overseas markets that we would aim to grow over time.

- Finally, our two large supply chain projects are also progressing well. The detailed design work of our new paint factory here in Melbourne is now all but complete, and site works will commence imminently. This important project is on track to open in late 2017. The other project, our New South Wales distribution centre is also on track and will open in the middle of 2016.

Safety

Delivering strong financial results goes hand-in-hand with our steadfast commitment to safety at DuluxGroup. This is centred around four pillars: disaster prevention, fatality prevention, personal safety and sustainability, all underpinned by a safety leadership culture.

A key component of this program is ensuring that we have an active culture of risk identification. One way we do this is by what we call "hazard and near miss" reporting. In 2015 we saw a 12% increase in hazard and near miss reporting, which marks five years of continuous improvement. This is the foundation for ongoing prevention of disasters and fatalities.

Under the heading of personal safety, we have a long-standing focus on reducing the number and severity of injuries to our people. In 2015, our level of injuries unfortunately increased from the record low level achieved in 2014. Although our injury rate remains low by industry standards, we have already implemented improvement initiatives aimed at reversing the 2015 outcome.

Outlook for 2016

Our view on the 2016 market outlook is consistent with our position in November when we released our full year results.

The outlook in Australia and New Zealand, which represents the majority of our business, remains generally positive.

- Firstly, the existing home segment, which represents nearly two thirds of DuluxGroup revenue, is expected to continue to provide resilient, profitable growth.

  In Australia, this market consists of more than 9 million existing homes, at least 70% of which are over 20 years old.

- The outlook for new housing, which is approximately 15% of DuluxGroup revenue and where we typically participate closer to the completions stage, is expected to remain relatively buoyant, given the pipeline of projects.

- Commercial and infrastructure markets are expected to struggle, with particular weakness in the energy and resources infrastructure markets.

- As we stated at the full year result, the immediate market outlook for Parchem, which has historically been focused on energy and resources infrastructure markets, is challenging. However, given the exit rate benefits from the restructuring program by Parchem in 2015, the business remains focused on achieving profit growth this year, though this is likely to be skewed to the second half.

- We also reiterate that, following recent changes to our retail distribution strategy, we expect that earnings for our Dulux paints and coatings business in New Zealand will be broadly flat for F16, with an adverse outcome in the first half given the timing of the transition. We note that New Zealand makes up around 10% of the EBIT of the Paint & Coatings ANZ segment.

- In offshore markets, which account for about 7% of our revenue, the growth outlook is weaker in China, and the PNG market is struggling.

- Input costs are expected to remain relatively flat, though approximately 30 to 40% of our input costs have a link to foreign currencies, such as the US dollar. If there is a material weakening of the Australian dollar over the course of 2016, input costs may increase, though we will aim to mitigate.

- Corporate costs are expected to increase modestly over 2015 costs, driven by increased investment in various growth projects.

Given all of this, we retain our outlook that, subject to economic conditions and excluding non-recurring items, we expect overall net profit after tax in FY16 to be higher than the FY15 equivalent of $124.7m.

The Executive Team

We have welcomed two new members to our executive team, both of whom bring broad experience.

Steven Leighton has joined DuluxGroup as Executive General Manager of B&D Garage Doors and Openers. Steven has spent more than ten years with 20th Century Fox in various global leadership roles.

And Siobhan McHale has been appointed as Executive General Manager of DuluxGroup Human Resources and will commence early in the new year. Siobhan brings extensive experience, with a particular focus on organisational development, from Transfield and, before that, ANZ Bank.

Thank you

Our employees at all levels have made a significant contribution to another year of profitable growth at DuluxGroup and I would like to thank each of them for their efforts. They are a highly motivated and performance driven team, who continually show a strong sense of personal ownership in DuluxGroup's ongoing success.

I would like to thank our customers for their ongoing partnership with us.

I would also like to thank Peter Kirby and the rest of the DuluxGroup Board for its ongoing guidance during the year.

And, finally, I thank you, our shareholders for your continued support for DuluxGroup.

Thank you.

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